

**MREIT, INC.**

# **SYSTEM AUDIT GUIDELINES**

**Approved by the Board of Directors of MREIT, INC.  
19 May 2021**

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## 1. Objective

To provide reasonable assurance that internal controls are in compliance with ISO standards and company requirements by conducting a systematic and independent examination of business processes.

## 2. Scope

The activities covered are review of the Quality Management System (QMS) and review of special requests from the management.

## 3. Audit Plan

- 3.1. The company's QMS and the audit universe as set by management shall be covered within a 2-year cycle, considering the following:
  - a. Impact to strategic plan and corporate objectives;
  - b. Adequacy of risk management and control processes;
  - c. Results of previous audit;
  - d. Changes in organizational structure or processes; and
  - e. Adequate coverage of all processes.
- 3.2. Areas identified by management as priority engagements or with special instructions shall automatically be included during the year, plus the defined mandatory/rotational engagements.
- 3.3. An audit plan shall be prepared annually and updated, as necessary, to cover emerging risks, control and governance failure and changes in management priorities and context of the organization.
- 3.4. Considerations shall be scored following **Schedule A (Planning Considerations)**.
- 3.5. The assessment of adequacy of risk and control processes shall be documented in the Risk Assessment and Planning Considerations Scoring (RAPCS) while considering the work of Opportunity and Risk Management Group (ORM). Results of test of controls based on previous audits, if available, shall also be considered to come up with audit's own residual risk.
- 3.6. Areas will be classified as high, medium, or low risk areas based on the combined scores of the considerations and shall be audited following the criteria set in Schedule A.

- 3.7 The Annual Audit Plan shall define the following:
- a. Overall Objective
  - b. Overall Criteria
  - c. Scope and Engagement Objectives
  - d. Schedule and Target Completion
  - e. Audit Client (Department Head/Group Head)
  - f. Auditor/Audit Team (Supervisor and Members)
  - g. Resource Needs

3.8 The audit team shall be selected based on their competency on the area to be audited following the guidelines on selection of auditors as documented in this manual. It shall be conducted by qualified and trained auditors.

3.9 The audit plan and any changes thereto must be approved by the Audit Department Head.

3.10 The audit schedule and risk mitigation plan shall be attached to the Audit Plan and shall likewise be approved.

3.11 The audit plan shall be monitored and shall be evaluated quarterly to ensure that audit activities are carried out as planned and correction, if any, is implemented.

**Schedule A: Planning Considerations**

CONSIDERATION	3	2	1
Impact to strategic plan and corporate objectives	Process has direct impact to corporate objective	Sub-Process with impact to corporate objective	No direct impact to corporate objective
Adequacy of risk management and control processes	Residual risk is high or no record to measure effectiveness of control processes to address risk or no risk management in place	Residual risk is moderate or controls to address risk are not effective, based on review of ORM	Residual risk is low or controls or actions to address risk are effective, based on review of ORM or
Results of previous audit	With NC or with more than 2 observations, with pending issue for 2 consecutive post audits	With observations or opportunities for improvement	No adverse audit findings
Changes in organizational structure or processes	With change in a major process or key personnel	With minor change only in the process	No changes
Adequate coverage of all processes	Previous audit is more than 4 years	Previous audit is more than 2 years	Audited in the previous cycle
High	12-15	<i>Schedule first year of the cycle</i>	
Medium	9-11	<i>Schedule at least once in the cycle</i>	
Low	5-8	<i>Monitor if there are changes that will warrant audit</i>	

#### 4. Engagement Planning

- 4.1. Each scope (engagement) identified in the audit plan shall have a supervisor who will be accountable in carrying out the audit activities and assigning tasks among its members.
- 4.2. An engagement letter (or EXECMEMO) shall be prepared before the conduct of audit, addressed to the department head/s of the business process/area under review, and sent through e-mail. The division head and audit committee shall also be copy furnished.
- 4.3. This must be electronically signed by the audit team members, department head, and the division head before release and distribution to the audit client.
- 4.4. A walkthrough shall be conducted, if necessary, and the results documented. The auditor who prepared the documentation must also be specified. Auditors may ask audit clients to e-sign a copy of the documentation as confirmation that the captured process is correct.
- 4.5. Test of controls shall be conducted and documented for controls which auditors plan to rely on during the audit. This is to assess the effectiveness of controls in place, if any, to support sample size selection during substantive testing.
- 4.6. A work program guide (WPG) shall be prepared to document the specific procedures to complete the defined audit scope and overall and specific engagement objectives defined in the annual audit plan.
- 4.7. The lead auditor shall be responsible in preparing the WPG, which shall include the procedures, type of test, results, work paper reference, testing plan, and resource allocation.
- 4.8. The type of test, whether test of control or substantive test, must be clearly identified and defined. This will be carried over in the working paper for reference.
- 4.9. The testing plan shall indicate method to be used, period covered, the population of data where sample will be taken, size of the sample, and the acceptable deviation, if any.
- 4.10. The manager and the department head shall approve the WPG to ensure that objectives and scope of the engagement, and planned results are aligned to the audit plan.



- 4.11. An audit engagement plan (AEP) shall be prepared defining the business process covered, criteria, scope (or any exceptions), audit objectives, the schedule, and roles and responsibilities of the audit client and the auditors. It shall be signed by the team leader, manager, department head, and division head and for confirmation of the audit client during the opening meeting.
- 4.12. An opening meeting shall be conducted with the audit client to discuss the results of walkthrough, risks identified, the contents of the AEP, and the needed documents. It shall also be a venue to create rapport with the audit client and to encourage cooperation and collaboration.
- 4.13. Any changes to the engagement timetable shall also be agreed with the audit client and must be documented in the audit engagement plan.

## **5. Performing the Engagement**

- 5.1. The audit must be conducted based on the WPG to ensure that:
  - a. Defined audit criteria and scope are covered;
  - b. Performance of the engagement is systematic and will achieve planned results;
  - c. Audit observations and findings are adequately supported.
- 5.2. Auditors shall identify, analyze and evaluate data, and collect evidence to accomplish the engagement objectives.
- 5.3. When identifying and collecting audit evidence, the auditors shall ensure that it is sufficient, reliable, relevant, and useful to the engagement objectives, whether for test of controls or substantive tests.
- 5.4. Identifying information may include physical examination, inspection of documents, confirmations, inquiries, observations, re-performance, or re-calculations.
- 5.5. The standard working paper template shall be used for documenting the results of audit, which is divided into sub-sections: test description, criteria, results, summary, and findings. The standard format and tick marks shall be used for clarity in documentation and efficiency in review.

- 5.6. The supervisor shall mark successful completion of the planned tests and procedures in the working paper and link results to the WPG or schedules/ analysis, if any.
- 5.7. Supervisors and managers shall indicate their review notes in the working paper. The evidence of auditors' completion of the reviewers' inquiries and verifications must be retained for traceability. The revisions/corrections, if any, shall be documented in the review columns/section of the working paper.
- 5.8. The WP will be finalized as a separate sheet (overwriting original to reflect agreed revisions and corrections, if any) only after all verifications by the reviewers are closed/cleared. The final WP should be in final form and ready for discussion or presentation to audit clients when needed.
- 5.9. Audit evidence and results shall be documented and maintained collectively as working papers, which shall include but are not limited to – engagement letters, engagement plan, work program guides, minutes of meeting, the results of walkthrough such as flowcharts, organizational charts, questionnaires, checklist, reports, records, summaries, analyses and schedules and the reviewed and approved working paper for each audit test or audit objective.
- 5.10. The working paper files shall be classified into planning, performing, reporting, and evaluation work papers.
- 5.11. All working papers shall be uploaded to Google Drive. A folder shall be maintained to file softcopies of the following, at the minimum:
  - a. Executive Memo;
  - b. Audit Engagement Plan;
  - c. Approved work program guide;
  - d. Attendance sheets during meetings;
  - e. Documents provided by audit clients;
  - f. Copy of the signed AFF; and
  - g. All other documents with signature of either auditors or audit clients.
- 5.12. Results and initial or potential findings shall be discussed with the audit client for further verification and finalization of reportable findings.
- 5.13. If management decides to accept risks identified, the same shall be documented.

## 6. Communication and Reporting

- 6.1. Audit findings shall be classified as good points, opportunities for improvement (OFI), observations (OBS), or non-conformities (NC).
- 6.2. The findings shall be classified according to the Guidelines on Classifying Audit Findings. Generally, findings are described as follows:
  - a. Good Points – significant results, control strengths, and commendable practices of audit clients
  - b. Opportunities for Improvement – practice of audit clients which complies with set criteria, requirements, policies and procedures, but possible improvements are identified for efficiency
  - c. Observation – with control or policy lapses, but process still meets corporate objectives; or non-conformance to a criteria, requirement, policy and procedure which does not lead to product/service failure or to non-achievement of corporate objectives
  - d. Non-Conformity – non-conformance to set criteria, requirements, policies and procedures which leads to product/service failure and non-achievement of corporate objectives
- 6.3. After considering the set criteria, the team must still exercise professional judgment in classifying the findings, considering the impact to corporate objectives.
- 6.4. The finding statement composed of the criteria and condition shall be documented in the Audit Finding Form (AFF). The AFF shall be signed by the auditors and manager in-charge.
- 6.5. An initial discussion shall be set with audit clients to present the findings. This would be a venue for the auditors to discuss the results and seek audit clients' acceptance of the statements. Concurrently, audit clients would be able to clarify and explain their side and may agree with or counter the findings. If the audit clients agreed with all the findings during the initial discussion, the AFF shall be served immediately after the meeting.
- 6.6. In cases when audit clients oppose the findings, the auditors shall reassess if a finding must be reclassified or lifted, or if new findings must be raised based on the initial discussion and if the audit clients are able to provide additional evidence.



Within three (3) days from initial discussion, AFF shall be revised, if needed, and signed by the auditors and manager-in-charge.

- 6.7. Final discussion shall be set to present the changes made to the AFF. If the audit clients accept the findings, the AFF shall be served immediately after the meeting.
- 6.8. A root-cause analysis (RCA) shall be facilitated by the audit team to help management identify the underlying causes of raised findings. The RCA shall be facilitated by the audit team using the problem-solving tools, fishbone diagram and 5 WHYS. This shall be required for non-conformities, but optional for observations.
- 6.9. When applicable, the auditors may already facilitate management's identification of the root cause of findings during initial or final discussion.
- 6.10. Management action plans shall be required for observations and non-conformities. The audit client should also provide the target implementation date of these action plans. This will be the basis of the post audit schedule.
- 6.11. For opportunities for improvement, it will be left to the discretion of the audit client to take further action.
- 6.12. For non-conformities, a corrective action report (CAR) shall be required from the audit client to also document the root cause, action plans by management and any exposure to relevant management. This shall be attached to the AFF.
- 6.13. The action plans should be assessed as adequate (addresses the finding) before agreement with audit client is reached/accepting proposed action plan.
- 6.14. If audit client does not give an appropriate action plan, audit team may give recommendations on how the issue can be addressed for management's consideration. Ultimately, the management is accountable and responsible in effecting controls over the process.
- 6.15. If management does not give response to the AFF in a timely manner (i.e. two weeks of constant follow-up), the Summary of Internal Audit Findings shall be released indicating "no management action plans received despite follow-ups". This shall be sent to audit clients and to appropriate higher management.

- 6.16. A closing meeting shall be conducted after the AFF and CARs, when applicable, have been submitted by the audit client. The management's action plan and commitment date of implementation shall be emphasized, and that immediate action should be made without undue delay.
- 6.17. During the closing meeting, the audit client shall also be reminded that a post audit will be scheduled to review completion of action plans.
- 6.18. If no further clarifications arise from the closing meeting and action plans have been sufficiently addressed by the audit client, there shall be a sign off of the AFF. This shall indicate completion of the engagement.
- 6.19. For the information of the division heads and any relevant management, a report containing the scope, good points and summary of audit findings will be issued with the complete set of signed AFFs. The summary shall follow this format:

AFF No.	Type of Finding	Summary of Finding	Management's Action Plan/s	Implementation Date
SYS AFF-YY-XXX	Non-conformance/Observation/Opportunity for Improvement	More concise statement of finding	Agreed action plan - Personnel, Designation	Specific date

- 6.20. AFF monitoring will be maintained to list all issued findings.
- 6.21. Monitoring of closure of AFFs and further reporting thereto shall be covered in the guidelines for post audit.

**7. Supervision, Review, and Monitoring**

- 7.1. The audit team shall be assigned a minimum of two (2) auditors. A supervisor and lead auditor shall be identified.
- 7.2. Team leaders shall be responsible in implementing the audit activities, while supervisors shall ensure that planned schedule and results are met.
- 7.3. Supervisors shall initially review the working papers and shall be accountable for the accuracy and completeness of the information and

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audit evidence. The managers shall review the work of the supervisor and may also review work of the auditors in detail, depending on the issue raised.

- 7.4. Managers will be accountable in the reporting of issues and completion of the engagement.
- 7.5. All working papers should contain evidence of review by supervisor and will be approved by the manager prior to finalization of AFF and summary of findings.
- 7.6. There shall be a regular meeting with the manager twice a month (or as needed) to ensure that engagement is on track.
- 7.7. System audit monitoring is maintained by the managers to oversee progress of all planned engagements for the year.
- 7.8. The following documents shall be reviewed and approved by the department head prior to release/ use:
  - a. Engagement letter
  - b. Engagement plan
  - c. Work program guide
  - d. Audit Finding Form
  - e. Summary of Audit Findings
- 7.9. All other documents, results of analysis, checklists, etc. will be approved by the manager.
- 7.10. To ensure continual improvement of the audit process, an engagement debriefing shall be conducted after the release of the audit report to discuss results of evaluation.
- 7.11. The audit engagement evaluation (AEE) shall rate audit teams in terms of planning, performance, findings and recommendation, and reporting. Passing rate is 3 (Meets Expectations).
- 7.12. Action plans set as a result of the evaluation shall be monitored by the managers.

## 8. Documentation

- 8.1. Unless explicitly required by management to be in hardcopy or when documents are evidence for potential fraud or critical issues, all

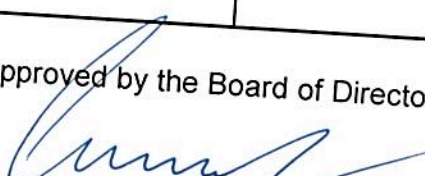


working papers shall be kept in softcopies, with e-signatures as necessary.

8.2. All working papers shall be uploaded to Google Drive, following these guidelines:

Audit Process	Document	Format/ Process
Annual Planning	Risk Assessment and Planning Consideration Scoring (RAPCS)	Upload to Google Drive; editing restricted to audit managers and up
	Annual Audit Plan	
	Risk Mitigation Plan	
Engagement Planning	Executive Memo	PDF/ soft copy; secure e-signed copy from audit client
	Work Program Guide (WPG)	Excel, e-signed by audit team; Summarize objectives and e-mail to SSA for approval
	Audit Engagement Plan	Excel, for approval up to SSA E-signed PDF, send to audit clients for 'conforme' thru email
Performing	Source documents	Electronic/ scanned copy (unless evidence for a critical issue/ potential fraud, in this case, hard copy/original)
	Reports	PDF/ soft copy
	Working Papers	Upload to Google Drive in the required organization of files
Reporting	Audit Finding Form (AFF)	PDF copy to be sent to audit clients
		Audit client to input response and affix e-signature
		Audit to release fully accomplished AFF in PDF
	Corrective Action Report (CAR)	PDF, audit client to accomplish soft copy, return with e-signature
Reporting	Summary of Internal Audit Findings	Copy to-Audit and QMC representative
		Summary in the face of email, with formal report in PDF (copy may be printed only when necessary or requested by audit client)
Evaluation	Audit Engagement Evaluation (AEE)	Excel, individual evaluation PDF, final copy of summary, to be e-signed by the team

Approved by the Board of Directors on 19 May 2021.

  
**KEVIN ANDREW L. TAN**  
 President and Chief Executive Officer