

AZALEA LEISURE AND RESIDENCES CORPORATION

INTERNAL AUDIT CHARTER

1. Purpose

The Internal Audit Charter defines the purpose, authority, and responsibility of the Internal Audit function within **AZALEA LEISURE AND RESIDENCES CORPORATION doing business under the name and style of Azalea Vacation Club** (“the Club”). It establishes the framework for the Internal Audit’s role in providing independent, objective assurance and consulting services designed to add value and improve the Club’s operations.

2. Mission

The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

3. Authority

The Internal Audit function is authorized to:

- Have full, free, and unrestricted access to all functions, records, physical properties, systems, and personnel relevant to any function under review;
- Allocate resources, set frequencies, determine scopes of work, and apply techniques required to accomplish audit objectives; and,
- Obtain the necessary assistance from personnel across all departments and units, as well as specialized services from within or outside the Club, as needed.

The Internal Audit function has no direct authority over activities audited and shall remain free of influence from management or other stakeholders to maintain its objectivity and independence.

4. Independence and Objectivity

The Internal Audit function will remain independent of all operational functions. The Head of Internal Audit (Chief Audit Executive or Internal Audit Manager) will report functionally to the Board of Directors (through the Audit Committee) and administratively to the General Manager or President.

Internal auditors will maintain objectivity by avoiding any conflicts of interest or involvement in operational decision-making processes.

5. Scope of Work

The scope of internal auditing includes, but is not limited to:

- Evaluating the effectiveness and adequacy of internal controls, governance, and risk management processes;
- Reviewing the reliability and integrity of financial and operational information;
- Ensuring compliance with applicable laws, regulations, club policies, and procedures, including those of the Philippines (e.g., BIR regulations, SEC rules, and DOLE standards);
- Assessing the safeguarding of assets and verifying their existence;
- Reviewing operations to determine whether they are being conducted efficiently and effectively;
- Conducting special investigations, fraud examinations, or whistleblower-related audits as directed by the Audit Committee or management; and,
- Advising management on control improvements, process redesign, and risk mitigation strategies.

6. Responsibilities

The Internal Audit function is responsible for:

- Providing an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in: (1) promoting the right values and ethics; (2) ensuring effective performance management and accounting in the organization; (3) communicating risk and control information; and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
- Performing regular and special audit as contained in the annual audit plan and/or based on the Club's risk assessment;
- Performing consulting and advisory services related to governance and control as appropriate for the Club;
- Performing compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
- Reviewing, auditing, and assessing the efficiency and effectiveness of the internal control system of all areas of the Club;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- Evaluating specific operations at the request of the Board or Management, as appropriate; and,
- Monitoring and evaluating governance processes.

7. Reporting

- The Head of Internal Audit shall report significant issues related to the processes for controlling the activities of the Club, including potential improvements, to the Audit Committee and senior management.

- Periodic reporting on the status of the audit plan, significant audit findings, and management's actions will be made to the Audit Committee.
- Any suspicion of fraud or misconduct shall be reported promptly to the Audit Committee or Board.

8. Quality Assurance and Improvement

The Internal Audit function will maintain a quality assurance and improvement program that covers all aspects of internal audit activity, including periodic internal and external assessments.

9. Enterprise Risk Management (ERM) Framework

This ERM Framework provides a structured approach to identifying, assessing, managing, and monitoring risks that may impact the strategic and operational objectives of the vacation club and shall apply to all business units, properties, services, and stakeholders across all locations in the Philippines where the vacation club operates.

A. Governance and Oversight

1. Board of Directors

- Establish risk appetite and tolerance levels.
- Oversee implementation and effectiveness of the ERM framework.
- Review and approve risk reports.

2. Risk Management Committee

- Chaired by the Chief Risk Officer (CRO) or equivalent.
- Monitors risk exposures and coordinates risk mitigation strategies.
- Meets quarterly or more frequently as required.

3. Risk Owners

- Department heads are accountable for identifying and managing risks in their respective areas (e.g., Operations, Finance, Legal, IT, Guest Services).

4. Internal Audit

- Provides independent assurance on the effectiveness of risk controls and processes.

B. Risk Management Process

1. Risk Identification

Identify internal and external risks that may affect:

- Guest safety and satisfaction
- Business continuity
- Regulatory compliance

- Reputation
- Financial performance

The Key Risk Categories are as follows:

- Strategic Risks (e.g., market shifts, competition)
- Operational Risks (e.g., service delivery, employee conduct)
- Financial Risks (e.g., liquidity, FX volatility)
- Legal and Regulatory Risks (e.g., DOT, SEC, BIR compliance)
- Environmental & Climate Risks (e.g., typhoons, rising sea levels)
- Technological Risks (e.g., data breaches, system outages)
- Health and Safety Risks (e.g., pandemics, food safety)

2. Risk Assessment

Each risk is assessed based on:

- Impact: High, Medium, Low
- Likelihood: Frequent, Occasional, Rare
- Use a Risk Matrix to prioritize risk levels.

3. Risk Mitigation

Develop controls and action plans for top-priority risks:

- Avoidance
- Reduction
- Sharing/Transfer (e.g., insurance)
- Acceptance (with monitoring)

4. Risk Monitoring and Reporting

- Regular updates through dashboards and scorecards.
- Key Risk Indicators (KRIs) and metrics defined for each risk category.
- Annual risk reviews and incident reports submitted to the board.

C. Risk Appetite and Tolerance

Define acceptable levels of risk in key areas:

- Customer Complaints: Zero tolerance for safety issues.
- Financial Exposure: Tolerable within 5% of annual budget variance.
- Compliance Violations: Zero tolerance for regulatory breaches.
- Service Downtime: Not to exceed 2% annually.

D. Integration with Strategic Planning

ERM is embedded in:

- Strategic planning and budgeting processes
- New project development (e.g., opening a new resort)

- Vendor and partner selection
- Technology investments

E. Communication and Training

- Regular ERM training for staff and management.
- Risk awareness campaigns.
- Reporting channels for risk incidents and whistleblowing.

F. Crisis and Business Continuity Management

A Business Continuity and Disaster Recovery Plan must be in place, covering:

- Evacuation protocols
- Backup systems
- Communication plans for guests and staff
- Coordination with local authorities (e.g., LGUs, DOH, DILG)

G. Review and Improvement

- ERM Framework reviewed annually.
- Lessons learned from incidents and audits integrated into process improvements.
- Stakeholder feedback considered in ERM strategy refinement.

H. Tools and Systems

- Risk Register (centralized)
- Incident Management System
- Compliance Management Software
- Guest Feedback Analysis Tools

10. Appendix

A. Sample Risk Matrix

(To come up with 5x5 matrix showing likelihood vs. impact)

B. Sample Risk Register Template

Risk	Category	Owner	Likelihood	Impact	Mitigation Strategy	Status
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C. Key Risk Indicators (KRIs)

Examples:

- % occupancy decline vs seasonal average
- of guest complaints per 1,000 guests
- of unresolved compliance findings

10. Review of the Charter

This charter shall be reviewed annually and updated as necessary to reflect changes in the Club's operations, governance, or regulatory requirements in the Philippines. Any amendments must be approved by the Audit Committee and the Board of Directors.

Approved by:

Audit Committee Chair: Cherry T. Rocha

Date: 30 July 2024

Chairman, Board of Directors: Lony R. Capellan

Date: 30 July 2024