

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

Internal Controls are integral part of the company's financial and business policies and procedures. Internal controls consists of all the measures taken by the company for the purpose of: (1) protecting its resources against waste, fraud, and inefficiency; (2) ensuring accuracy and reliability in accounting and operating data; (3) securing compliance with the policies of the organization; and (4) evaluating the level of performance in all organizational units of the organization. Internal controls are ways of the company to implement good business practices.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

The Board of Directors has reviewed and considered that the internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements are effective and adequate.

(c) Period covered by the review;

April 1, 2014 to March 31, 2015.

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system;

Review of internal controls are done regularly, it is embedded in the business operations of the company. When a need for attention arises the management brings it up to the board meetings for discussions and evaluations for timely solutions as possible.

Generally, the determination of the effectiveness of the internal control is really based on the board of directors' judgment resulting from an assessment of the these five components: (1) Control Environment, which provides discipline and structure; (2) Risk Assessment and its impact on internal controls; (3) Control activities, which are the policies and procedures that help ensure management that directives are carried out; (4) Information and communication, which are in a form and time frame that will enable people to carry out their responsibilities and (5) Monitoring, a process that assess the quality of the system's performance over time.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable. The company conducted a review during the year.

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/ Auditing Firm	Reporting process
It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.	<ul style="list-style-type: none"> • Organization’s governance • Risk Management • Management controls over: efficiency/effectiveness of operations (including safeguarding of assets) • The reliability of financial and management reporting • Compliance with laws and regulations 	In-house Internal Audit Function	Ma. Rolina S. Servitillo	The Internal audit process is composed of planning, fieldwork, and reporting. Fieldwork results are compiled, presented and discussed with the management. A final summary report then goes to Senior Management and the Audit Committee for review.

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Yes. The audit committee is responsible for the appointment and performance of internal auditor, likewise appointment and/or removal of the internal auditor or the accounting/auditing firm or corporation to which the internal audit function is outsourced requires the approval of the audit committee.

(c) Discuss the internal auditor’s reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The work of internal auditor is reviewed and approved by the audit committee. The audit committee ensures that the internal auditors have free and full access to all company records, properties and personnel relevant to and required by its function and that the internal audit committee shall be free from interference in determining its scope, performing its work and communicating its results.

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

There has been no resignation/s or re-assignment of the internal audit staff. The company does not employ internal audit staff from third party auditing firm.

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

Progress Against Plans	Conforms to expected progress
Issues⁶	Issues have been resolved satisfactorily
Findings⁷	No material findings
Examination Trends	Conduct appropriate audit procedures on a regular basis

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 2) Preparation of an audit plan inclusive of a timeline and milestones;
- 3) Conduct of examination based on the plan;
- 4) Evaluation of the progress in the implementation of the plan;
- 5) Documentation of issues and findings as a result of the examination;
- 6) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
- 7) Conduct of the foregoing procedures on a regular basis.

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

Policies & Procedures	Implementation
All cash and check receipts are deposited to the bank the same day before cut-off time and the following day after the cut-off time. Deposits to bank accounts are verified the following banking day. Cash counts are being done from time to time. Reconciliation of bank accounts	Full compliance
Payments to the suppliers or for services rendered to the company are paid by check or petty cash vouchers supported by invoices, etc. and duly approved by authorized senior officer.	Full compliance
Credit accommodations and limits are established, verified by authorized officers.	Full compliance

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

⁶ "Issues" are compliance matters that arise from adopting different interpretations.

⁷ "Findings" are those with concrete basis under the company's policies and rules.

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
Reports only to the audit chairman or members of the audit committee. Report of external auditor is approved by the audit committee and board of directors.	Credit accommodations on tuition fees are approved by the President and/or Treasurer.	The company has no dealings with investment banks.	No dealing with rating agencies.

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The Chairman and the President of Centro Escolar University attest to the company's full compliance with the SEC Code of Corporate Governance. The Board of Directors, Management and Employees of the company have been given proper instruction on their respective duties as mandated by the Code and internal mechanisms are in place to ensure that compliance.