



## **National Power Corporation**

### **NP BOARD REVIEW AND COMMENT ON THE ADEQUACY OF NPC'S MATERIAL CONTROLS (INCLUDING OPERATIONAL, FINANCIAL & COMPLIANCE CONTROLS) AND RISK MANAGEMENT SYSTEMS**

The National Power Board (the "Board") has the responsibility for the National Power Corporation's (NPC) system of internal control and for reviewing its effectiveness. The system is designed to manage and minimize, if not totally eliminate, the risk of failure to achieve the NPC's goals and objectives.

With the NPC's thrust of mitigating/minimizing the risks associated with its operations to achieve its goals and objectives through the internal control and risk management systems, the Board can provide only a reasonable and not an absolute assurance against the occurrence of any material misstatement or loss of management and financial information and records or against financial losses or fraud.

To assess the adequacy and effectiveness of the NPC's internal control and risk management systems, a process of control self-assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. This process is facilitated by the Internal Audit, reporting to the Board Audit Committee, with the objective of providing an independent and objective assurance and consulting activity designed to add value to the operation and validity of the system of internal controls. Internal audit independently reviews the control procedures and processes implemented by Management.

The Board Audit Committee oversees, monitors and evaluates the adequacy and effectiveness of the NPC's internal controls system. It engages and provides oversight of the NPC's internal auditors, and coordinates with the Commission on Audit (COA). It reviews and approves the internal audit plan and ensures that Management is taking appropriate actions in a timely manner in addressing control issues and compliance with administrative and regulatory agencies. Where areas for improvement in the system are identified, the Board considers the recommendations made by the Board Audit Committee.

The National Power Board Audit Committee had four (4) meetings in 2017. Pursuant to its mandate, it performed the following:

- Evaluated the effectiveness of the internal controls system of NPC

- Reviewed and assessed Management's processes of monitoring compliance with laws, rules and regulations through the Internal Audit Department
- Approved the 2017 Internal Audit Work Plan
- Discussed the audit results reported by the Internal Auditor
- Issued policy directives resulting from Internal Audit reports
- Monitored Management's actions to address audit findings/observations
- Assessed Internal Audit's performance

In particular, the NP Board Audit Committee, through the Internal Audit Department, reviewed and evaluated the internal controls of the following areas in selected groups/offices:

- Fuel System
- Utility Plant Operations
- Implementation of Power Supply Agreement
- Cash Management System
- Construction Work-in-Progress
- Non-Fuel Materials and Supplies
- Procurement System
- Asset Disposal System

After judicious review and evaluation, the NP Board Audit Committee finds that the system of internal controls established by the National Power Board and Management remain adequate.

The Board confirms that the Risk Management Committee has an ongoing process of performing oversight risk management functions specifically in the areas of managing credit, market, liquidity, operational, legal, reputational and other risks of the NPC. It also has a crisis management function which includes receiving periodic information on risk exposures and risk management activities from the Management. The NPC Risk Management Manual lays down the corporation's system of risk management and allows the proper perspectives and methods of identifying, evaluating, managing and handling risks that have bearing in the effective and efficient operations within and outside the corporation.

The Board, through the Risk Management Committee, has reviewed the process for identifying and evaluating the significant risks affecting the NPC's operations and the policies and procedures by which these risks are managed and the effectiveness of the system of internal control pursuant to the NPC's mandate of electrification of missionary areas. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including power service delivery, power outages and regulatory requirements, among others.

The Committee reports based on its review of risks inherent in the NPC's operation and the system of control necessary to manage such risks. The Committee presents its findings, provides quarterly reporting and updating the Board on key Management issues as well as ad hoc reporting and evaluation on investment proposals.

In addition, all committees of the Board can be called upon to perform their specific functions in relation to the management of risks.

The Board ensures that the above systems are regularly reviewed throughout the year, taking into account changes in the regulatory and business environment to ensure the adequacy and integrity of the systems of internal controls and risk management.