

Internal Audit Function

Item 5.1 of the Manual on Corporate Governance provides for an Internal Audit Department which shall primarily ensure that the internal audit system and the activities designed by the Corporation are put in place within the organization of the Corporation.

Board Resolution No. 07-35 (2007) provides Board-PSALM Management structure where the Internal Audit Department shall report directly to the Board Audit Committee. Functions of Internal Audit are as follows:

1. Financial Operations Audit Division

- Prepares, submits and implements audit plans, programs and procedures relative to financial operations audit
- Examines the accuracy, integrity and reliability of financial transactions, records, documents and reports which serve as the basis in the preparation of the financial statements of the corporation
- Reviews Management's compliance with accounting, auditing, budgeting and financial reporting standards, policies and principles as prescribed by proper authorities
- Performs audit activities on certain major and critical financial accounts and transactions concerning revenues, cash, investments, liabilities, universal charge, assumed/condoned rural electric cooperative loans, operating and capital expenditures, among others
- Undertakes other special engagement activities relative to financial operations audits and non-audit activities

2. Management Performance Audit Division

- Prepares, submits and implements audit plans, programs and procedures relative to management performance audit
- Evaluates the performance of all organizational units as well as the adequacy of predetermined criteria and standards contained in the corporation's duly approved performance evaluation system and their respective operating budgets
- Appraises risks management, governance, control processes, systems and procedures established by the corporation towards the achievement of its corporate goals and objectives
- Reviews Management's compliance with relevant laws, rules, regulations, policies, guidelines and procedures
- Undertakes other special engagement activities relative to management performance and operations audit and non-audit activities

Per Board Resolution No. 07-35 (2007), the recommendations for the selection, appointment and removal of the Internal Auditor Department personnel shall be a function of the Board Audit Committee. ###