

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

The PSALM Board (the “Board”) has the primary responsibility over the systems of internal control and risk management of the Power Sector Assets and Liabilities Management Corporation (“PSALM”), and for reviewing their effectiveness. To effectively address the risks affecting the corporation, PSALM has established an Enterprise Risk Management (ERM) System to aid the corporation in fulfilling its mandates. The establishment of an ERM System also aims to ensure good governance practices at the strategic and operational levels and compliance with the requirements of oversight agencies. The strategic level ERM covers all risks associated to fulfilling PSALM’s corporate objectives and mandates as indicated in the agency’s corporate plan and performance scorecard. On the other hand, the operational level ERM covers all risks associated with the fulfillment of all business process objectives contributing to the attainment of corporate objectives

The Board Review Committee (BRC) serves and functions as the Risk Management Committee of the PSALM Board. In 2019, the Management reported the developments in the implementation of the ERM System to the BRC, highlighting top strategic risks and opportunities in relation to PSALM’s mandates. To assist the BRC/Board in the review and evaluation of risks, the Management is likewise required to submit the accompanying ERM Forms relative to agenda items that need Board’s approval. This ERM Form identifies the risk exposure and indicates the impact analysis conducted as well as the corresponding proposed treatment to address such impact. The Board confirms that this procedure was implemented during the year and thereby facilitated its decision-making process.

As an integral part of the internal control system of PSALM, the Internal Audit Department (IAD) independently reviews the control procedures and processes implemented by the Management. It reports directly to the Board Audit Committee (“AuditCom”) which provides oversight to IAD. As such, the AuditCom oversees, monitors and evaluates the adequacy and effectiveness of the PSALM’s internal control system through the IAD. 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 PSALM Board Audit Committee had four (4) meetings in 2019. Pursuant to its mandate, it performed the following:

- Evaluated the effectiveness of the internal controls system of PSALM
- Reviewed and assessed Management's processes of monitoring compliance with laws, rules and regulations through the Internal Audit Department
- Approved the 2020 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

After judicious review and evaluation, the PSALM Board Audit Committee finds that the system of internal controls established by PSALM Board and Management remains adequate.