



NATIONAL POWER CORPORATION

NATIONAL POWER BOARD'S REVIEW AND COMMENT ON THE ADEQUACY OF NPC'S MATERIAL CONTROLS (INCLUDING OPERATIONAL, FINANCIAL, AND COMPLIANCE CONTROLS) AND RISK MANAGEMENT SYSTEMS

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

The internal control and risk management systems of NPC aim to mitigate/minimize the risks associated with its operations. Nevertheless, 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 are established to provide for a documented and auditable trail of accountability. This process is facilitated by the Internal Audit Department (IAD), reporting to the Board through the Board Audit Committee, with the objective of providing an independent and objective assurance and advisory activity designed to add value and improve operations. The IAD independently reviews the governance, risk management, and control processes implemented by the NPC Management.

The Board Audit Committee oversees, evaluates, and monitors 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 approves and reviews 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 and adopts often the recommendations made by the Board Audit Committee.

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Management System
ISO 9001:2015



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The National Power Board Audit Committee met five times in the fiscal year 2021. It had three (3) regular and two (2) special meetings during the year. Pursuant to its mandate, it performed the following:

- Evaluated the effectiveness of the internal controls system of NPC
- Reviewed and assessed the NPC Management's processes of monitoring compliance with laws, rules, regulations, and policies through the IAD
- Reviewed the IAD Strategic Plan 2020-2024 and approved the 2021 Internal Audit Work Plan
- Discussed the audit results reported by the Commission on Audit as well as the Internal Auditor
- Issued policy directives resulting from the COA and Internal Audit reports
- Monitored the NPC Management's actions to address the COA and IAD audit findings/observations
- Evaluated the applicants for Internal Auditor positions
- Assessed the performance of the Internal Audit

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

- Fuel Inventory Management - Small Power Utilities Group (Luzon)
- Budget Management - Head Office
- Implementation of Management Action Plans on Audit Reports of the Management Audit Division
- Procurement System - Decentralized Bids and Awards Committee
- Procurement System - Head Office Bids and Awards Committee
- Warehousing Operations - Small Power Utilities Group (Luzon)
- Warehousing Operations - Head Office
- Data Privacy Management

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

The Board confirms that the Board Review and 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.

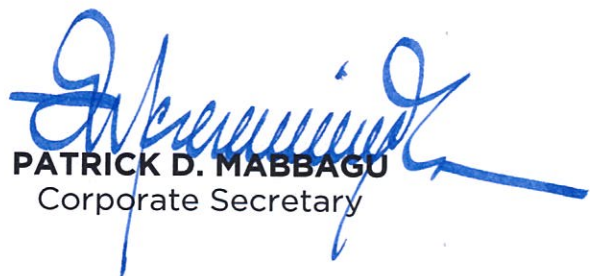
The Board, through the Board Review and Risk Management Committee, has reviewed the process for identifying and evaluating the significant risks affecting NPC's operations, the policies and procedures by which these risks are managed and the effectiveness of the system of internal control pursuant to the NPC's primary mandates of providing electricity in the missionary areas; managing the dams and watershed resources of the corporation and optimizing the use, upkeep, and operation of the undisposed assets of the government. These risks are assessed on a continual basis and are associated with a variety of internal or external sources including power service delivery, power outages and regulatory requirements, among others.

The Committee provides policy recommendations and guidance based on its continuing review of the risks inherent in NPC's operation and the system of controls necessary to manage such risks. The Committee presents its findings and assessments to and updates the Governing Board on key management issues and concerns including its independent take and evaluation of key reports, proposals, and power industry-related developments that affect the business operation and contribute to the risk exposures of the corporation.

In addition, all standing committees of the Board can be called upon to perform their specific functions in accordance with their respective charters of expectations and in relation to the management of diverse corporate risks and challenges.

The Board ensures that the above systems are in place and regularly reviewed throughout the year, taking into account changes in the regulatory and business environment; and policy, governance, and socio-political and legal developments and issuances, to ensure the adequacy and integrity of the systems of internal controls and risk management.


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