

# Statement on Risk Management and Internal Control

## BOARD RESPONSIBILITY

The Board acknowledges the importance of maintaining a sound internal control system and risk management framework controls for good corporate governance ; with the objective of fulfilling its mission and mandate. The Board affirms its overall responsibility for reviewing the adequacy and the effectiveness of PCIC risk management and internal control system. This includes reviewing the adequacy and integrity of financial, operational and compliance controls and risk management procedures.

In view of the limitations that are inherent in any internal control system, the Board ensures that this system is designed to manage the PCIC's key areas of risk within acceptable risk profile, rather than eliminate the risk of failure of achieving the Group's policies and objectives. Therefore, the system implemented can only provide reasonable but not absolute assurance against material misstatement or loss or fraud.

The Board's objective is to ensure that PCIC has an appropriate system in place for the identification and management of risks, including the implementation of internal controls to address the risks so identified.

## INTERNAL CONTROL AND RISK MANAGEMENT

During the year under review and up to the date of this Statement, PCIC has been proactive in its management of risks and control issues as demonstrated by the existence of policies, procedures and strategies as illustrated below:

- PCIC has established an organisational structure with clear operating and reporting procedures, lines of responsibility and delegated authority;
- Relevant senior management has been delegated with specific accountability for monitoring the performance of designated business operating units;
- Annual business plans and budgets are reviewed and approved by the Board. The senior management meets on a semi annual basis with the regional management and support services groups to review their operational and financial performance against the corporate plans and approved budgets. Significant corporate risks relevant to each regional and office operations are reviewed in these meetings;
- Explanations on significant variances from budgets are provided to the Board on a monthly basis. This helps the Board and senior management monitor the PCIC operations and plans on a timely basis;
- Each regional office or department is responsible for its own identification and evaluation of key corporate risks applicable to their parts of operation and for managing how these risks are reduced, transferred to third parties or insured;
- Each regional office or department maintains internal controls and procedures appropriate to its structure and corporate environment whilst complying with PCIC's policies, standards and guidelines;
- The Internal Audit function conducts a systematic review of financial, managerial and operational processes in order to provide independent assurance to management on the adequacy and effectiveness of internal controls. Where weaknesses are identified in the system of internal controls, management will take necessary measures to ensure that improvements are implemented.

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- The PCIC maintains an appropriate insurance programme in order to provide sufficient insurance coverage on farmer's crops and agricultural assets

- Established PCIC Automated Business System (PABS) in a key corporate unit primarily aimed at ensuring the efficient computerization of the financial, underwriting and claims indemnity processes and procedures of the corporate operations. It has recovery procedures and backup systems in place to handle potential service interruptions;
- Treasury department manages the cash balances and exposure to currency transaction risks through treasury policies, risk limits and monitoring procedures; and
- Code of ethics are established and adhered to by all employees to ensure high standards of conduct and ethical values in all business practices.

## **INTERNAL AUDIT**

The Internal Audit Services (IAS) is an independent function that reports directly to the Audit Committee. It undertakes regular reviews of the operations and system of internal controls based on annual audit plans approved by the Audit Committee. IAS carries out the reviews with impartiality, proficiency and due professional care.

The IAS findings are discussed at management level and actions are agreed in response to the IAS's recommendations. The progress of implementation of the agreed actions is reviewed and verified by the IAS through its follow-up reviews. The Audit Committee reviews all internal audit findings, management responses and the adequacy and effectiveness of the internal controls. Significant risk issues, if any, are referred to the Board for consideration. The Audit Committee reports to the Board on a monthly basis of its deliberations and recommendations.

## **REVIEW OF ADEQUACY AND EFFECTIVENESS**

The Board has reviewed the adequacy and effectiveness of the PCIC's risk management activities and internal control framework and ensured that necessary actions have been or are being taken to rectify weaknesses identified during the year.

The President and senior management have confirmed to the Board that the internal control system is operating adequately and effectively in all material aspects during the financial year and up to the date of this Statement.

In this connection, the Board concludes that an effective system of risk management and internal control is in place in fulfilling its mission and mandate.

## **REVIEW OF THE STATEMENT BY EXTERNAL AUDITOR**

The external auditor has reviewed this Statement for inclusion in the PCIC Annual Report for the financial year ended December 31, 2014. The external auditors Commission on Audit (COA) and TUV Rheinland (ISO) have reported to the Board that nothing have come to their attention that cause them to believe that the Statements are inconsistent with their understanding of the processes adopted by the Board in reviewing the adequacy and integrity of the risk management system and internal controls.