

PHILIPPINE CROP INSURANCE CORPORATION

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Board Responsibility

The Board of Directors acknowledges the importance of maintaining a sound internal control system and an efficient risk management framework 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's risk management and internal control system. This includes reviewing the adequacy and integrity of financial, operational and compliance controls and risk management procedures.

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.

Internal Audit Responsibility

In view of the limitations that are inherent in any internal control system, the Board together with the Internal Audit Service Department, ensures that the system is designed to manage PCIC's key areas of risk within the acceptable risk profile, rather than eliminate the risk of failure to comply with policies and achieving 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.

Policies and Strategies

PCIC is proactive in its management of risks and control mechanisms as demonstrated by the existence of policies and strategies below:

- PCIC has established an organizational structure with clear operating and reporting procedures, lines of responsibility and delegated authority;
- 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, Support Services, and Corporate Business Affairs 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 quarterly 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 function in operation and in managing how these risks are reduced or transferred to third parties;
- Each regional office or department maintains internal controls and procedures appropriate to its structure and corporate environment while complying with PCIC's policies, standards and guidelines; and
- The Internal Audit Service Department conducts a systematic assessment of financial, managerial, and operational processes in order to provide independent assurance to management on the adequacy and effectiveness of the established internal controls. Where weaknesses are identified in the system of internal controls, management will take necessary measures to ensure that improvements are implemented.

Statement on Risk Management and Internal Control

- The PCIC maintains appropriate insurance programs in order to provide sufficient insurance coverage of farmer's and fisherfolk's crops and agricultural assets;
- Established PCIC Automated Business System (PABS) in key corporate units primarily ensures the efficient computerization of the financial, underwriting and claims indemnity processes and procedures. Nevertheless recovery procedures and backup systems are in place to handle potential service interruptions;
- Finance Department manages the cash balances and exposure to currency transaction risks through treasury policies, risk limits and internal control procedures and adopted the Philippine Financial Reporting Standards (PFRS) 4 in the preparation and presentation of PCIC's financial statements;
- Code of Ethics has been laid down for adherence by all Directors, Officers and employees to ensure high standards of conduct and ethical values in all business practices; and
- Established a Risk Management Office (RMO) to strengthen PCIC's overall risk management framework. This initiative will ultimately enable PCIC to optimize its use of government assets and resources.