

## MAJOR ACCOMPLISHMENTS OF THE AUDIT AND COMPLIANCE COMMITTEE CY 2019

### INTERNAL AUDIT GROUP

DBP Internal Audit Group (IAG) continuously strengthens its role in corporate governance through risk-based audits that provide assurance and insights on the Bank's processes and structures to help achieve strategic, operational, financial, and compliance objectives. While maintaining independence, IAG performs assessments objectively, providing Management and the Board with informed and unbiased opinions on governance processes, risk management, and internal control with corresponding internal audit recommendations.

The DBP-IAG is in the forefront on the adoption of international standards on the practice of internal auditing as validated by the recent completion of the 1st External Quality Assessment by a reputable auditing firm. DBP-IAG's practices were assessed as "**GENERALLY CONFORMS**" with the definition of Internal auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors. Overall, DBP-IAG is at the **Problem Solver** maturity level, which is higher than its peers in the banking sector, regionally and globally, and higher than the perception of the stakeholders.

DBP-IAG continues to implement leading practices and innovations in internal auditing thru continuous review of its audit programs, periodic updating of its charter and audit rating system, among others to incorporate the current professional and regulatory standards and leading practices. Such efforts gained recognition in 2019 when IAG was recognized for its innovations in internal auditing in the Government-Owned and Controlled Corporations (GOCC) sector particularly the "Adoption of 4-Tier Risk-Based Internal Audit Rating System". DBP's Internal Audit Group (IAG) received the award during the Association of Government Internal Auditors Search for IAS with best practices and innovations in internal auditing.

Likewise, upgrading the audit management system is among the top priorities of DBP-IAG and one of the systems committed by DBP to GCG to be implemented in 2019. In 2019, TeamMate+, the new Audit Management System of DBP-IAG was acquired and implemented/go live in December 2019.

Being the Board-Level Committee directly assisting the Board of Directors in its responsibility of supervising the internal control framework of the Bank, the Audit and Compliance Committee has deliberated and acted upon the foregoing programs and projects, in addition to other internal control and compliance projects of the Bank in 2019.

## **COMPLIANCE MANAGEMENT GROUP**

In order to strengthen the oversight and monitoring functions of the Compliance Management Group, the following updating and establishment of major programs and policies were presented to the Audit and Compliance Committee (ACC) and some were consequently approved by the Board:

### **1. Anti-Money Laundering Department**

- Money Laundering and Terrorism Financing Prevention Program (MTPP)

The Bank's MTPP, which represents institutionalization of the general Anti-Money Laundering (AML)/Counter-Terrorism Financing (CTF) policies and procedures to be adhered to within the organization, was updated in 2019 to ensure continuing compliance with newly-issued regulatory updates during the said period as well as to integrate recommendations made by the BSP during their onsite examination. The amendments made brought about clearer and more defined controls necessary for effective combatting and prevention of money laundering and terrorism financing related attempts.

- Institutional Money Laundering (ML) and Terrorism Financing (TF) Risk Assessment

The completion of this bank-wide activity is required under current regulations. This would enable the Bank to take a holistic approach towards proper evaluation and corresponding definition of the specific ML and TF risks which the Bank is exposed to taking into consideration its customer base/reach as well as its product and service offerings. Determination of the Bank's actual ML/TF level, in turn, enabled it to come up with corresponding action plans that would need to be carried out to further mitigate the noted risk levels and anticipate any possible future movements to the same.

- AML Compliance Risk Testing Program

The Bank's AML Compliance Risk Testing Program was amended to enable further expansion of the covered areas in terms both of business units and key operational areas looked into, while undertaking of said activities such that a more accurate representation of the business unit's AML compliance level can be established and, thus, more appropriate corrective actions can be facilitated to address noted weaknesses resulting from the completed testing engagement. More specific follow-through activities relating to continuing monitoring of noted observations have likewise been instituted within the subject program.

- AML System Implementing Guidelines

Updates were made relative to the subject guidelines to facilitate further strengthening of the implemented policies and procedures covering the handling of system-generated red flag alerts to further improve the quality of processing as undertaken by the business units. This constituted implementation of stricter monitoring of and instituting of accountabilities for the concerned business units and putting in place necessary post-processing review activities to enable immediate correction of mishandled alerts. More objective-based approaches were also put in place to assist business units in the proper determination of appropriate course of action for the generated alerts assigned to them.

- New Scenarios Activated in the AML System

The activation of new scenarios within the AML system would allow better monitoring of customer transactions such that potentially suspicious transactions can be immediately detected and acted upon by the concerned business units, thus associated ML risks are immediately addressed and, in effect, continued protection of the Bank and its stakeholders. The activated new scenarios specifically focused on channels that allow for remote transactions on the part of the customers which generally pose higher level of risks compared to those that necessitate face-to-face encounters.

## 2. Compliance Testing and Monitoring Department

The Bank's Compliance Manual includes the Compliance Program. The review and revision of the Compliance Program is made in light of the BSP requirement for it to be updated at least annually to incorporate changing responses to evolving internal and external conditions. The said Manual is made available to employees/officers of the Bank as it is posted in the Compliance Portal.

The Manual also contains the revised Compliance Risk Testing Rating System which reflects the overall assessment of Compliance Testing and Monitoring Department (CTMD) on the level of business unit's (BU's) compliance with relevant rules and regulations. Effectiveness and adequacy of the BU's risk management system are considered in the testing. This serves as a useful tool for summarizing the compliance position of BUs. It consists of qualitative descriptions for each rating category and include compliance management system elements reflecting risk control processes designated to manage compliance risk and considerations regarding violations of laws, rules, and regulations, and the size, complexity, and risk profile of a business unit.

Further, on 21 June 2019, CMG released the Guidelines in the Preparation and Issuance of Reports on Crimes and Losses (RCL) under DBP Circular No. 24. The Circular aims to (1) establish guidelines in the evaluation of reportable events/incidents; (2) determine the escalation and reportability of events/incidents as Crimes and Losses; and (3) the role/responsibilities of governing bodies from reporting business units (RBU) to the Board of Directors.

CTMD also steered the update on the Trust Compliance Manual which covers the implementation of the Bank's compliance system for its trust, other fiduciary business and investment management activities and through which all relevant Philippine laws and banking rule and regulations applicable to trust operations are identified and monitored for adherence by the Trust Banking Group (TBG).

The compliance system for trust operations includes a written and comprehensive compliance program designed to monitor observance with relevant laws, rules and regulations, as well as internal policies including risk limits, internal control systems, fiduciary principles, and agreements with clients. The compliance system for trust, other fiduciary business and investment management activities are periodically reviewed for relevance, effectiveness, and appropriate follow-up.

Aside from the above-stated Manuals, Programs, Systems, and Guidelines, other relevant policies, programs and/or system updates were also revised/updated and were presented to either and both the ACC and the Board of Directors, as follows:

### 3. Associated Person

- Review of Treasury Trade Recordings. This policy covers a broader variety of communication media utilized by Treasury Group's Traders in consummating trades. The policy aligned the existing bank controls and monitoring processes with the industry and technological developments to ensure full compliance with the requirements of the regulatory bodies and the safety of the Bank and its customer's assets.
- Written Supervisory Procedures. The procedures were updated to reflect the changes in the pertinent regulations governing the Bank's Treasury Trading Operations. Further, the scope of the procedures was broadened to include other types of securities such as Equity Securities in order to proactively anticipate the establishment and operations of the Bank's Equities Trading Department.

### 4. Data Privacy

1. The Succession Plan on the position of the DPO entails the designation of an internal candidate to replace the incumbent DPO to ensure compliance with the Data Privacy Act and the issuances of the National Privacy Commission and to guarantee continued oversight and monitoring on Data Privacy.
2. The Data Privacy Manual was instituted to inform all DBP personnel of the privacy and data protection protocols that need to be observed and carried out within the Bank.