



HOUSE OF INVESTMENTS, INC.
A YGC Member

HYD-HI-2013/0372

February 22, 2013

Memo to : All Concerned
From : HYDee
Subject : Management Control Policy

This is to remind all concerned that setting up of Internal Controls is a function of management and is an integral part of the overall process of managing operations. As such, it is the responsibility of officers and line managers to establish a written network of practical control activities and processes that would instil to everyone in the organization a culture that is ethical and control-conscious, in the performance of achieving their goals and objectives.

Everyone should own the established controls within his/her sphere of operation/process. Part of management's ownership of the internal control is encouraging the process owner to foster continuous improvement and efficiency of the set processes. Thus management should, likewise, not allow outdated control activities or ineffective processes to continue.

The following are examples of rationalization that are not acceptable if there is owning of the internal control:

1. A manager tasked to approve a transaction should own the responsibility that the transaction should not proceed if he does not approve it. The approving person must not give a reason that he gave the approval because it is a practice even before he came; or it already bears the initials of his colleague; or he was rushing when he approved it thus he did not have time to look at it, etc.
2. An accountant/supervisor reviewing an aging of receivables should own the responsibility of making sure the report being generated is accurate and reliable. He must not give a reason that the aging of receivables under his watch (say the current and up to 30 days) are accurate but disclaim on those older and past due because he was not handling the account yet at that time; or those who reviewed the report in the previous months did not bother to ask that item, so he just left it again as it is; or those numbers were just lifted from adjustments of external auditors, etc.
3. A purchasing personnel should own the responsibility of procuring (or recommending to procure) the requisitions in economical terms beneficial to the company. He must not give a reason later on that the old-timer supplier helped him provide the required additional quotations from other suppliers; or another department is exerting pressure to buy from a supplier even though he can get the same item from another supplier with a better economic term; or he knows that the supplier is a middleman with a relative in the organization and the end supplier was willing to give it in better economic term, etc.

As shown in the above examples, the control processes happen in all levels of the organization for various day-to-day functions. Some wrong rationalizations may sound frivolous, but those examples can happen when there is no ownership of the control process. Thus, it is important that everyone appreciates the reasons for instituting the controls that management set-up.

The Group Internal Audit should reinforce the control activity and is responsible to provide an independent and objective review of the Internal Control set up by management. Audit is responsible to evaluate the adequacy and effectiveness of internal controls and should recommend improvements, if necessary, in the control processes set up by management.

Please be guided accordingly.

A handwritten signature in black ink, appearing to read "Dhalye", is positioned to the right of the text "Please be guided accordingly.".