

# Statement on Risk Management and Internal Control

## RESPONSIBILITY

The Board is responsible for the review of the adequacy and effectiveness of the Group's system of risk management and internal controls, which includes financial, operational and compliance controls. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives. Accordingly, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The risk management and control processes are implemented by the Management, led by the Group Managing Director and Senior Management of the Group, who collectively is responsible for good business practices and governance.

## RISK MANAGEMENT

The Board confirms that as an integral part of the system of internal control, there is an ongoing group-wide risk management process for identifying, evaluating and managing the significant risks faced by the Group. Risk management is practised within the Group on an iterative basis. All new and major investments have to observe a process approval that includes an assessment of the associated risks. The Group has in place an Enterprise Risk Management System (named RiSmart) which supports ISO 31000, premised on international principles and guidelines for managing risk. Risk owners across the business divisions of the Group uses RiSmart to define, highlight, report on and manage the key business and operational risks anticipated by them.

The Group-wide risk management process is subjected to regular review by the Board. The Group has an Executive Risk Management Committee which is chaired by the Group Managing Director and comprises Senior Management of the Group, to provide oversight and added impetus to the risk management process.

Management from major business or department apply a risk/control self-assessment approach to identify the risks relating to their areas of supervision and control. These include the likelihood of these risks occurring; the consequences if they do occur and the actions being and/or to be taken to manage these risks to an acceptable level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operations area having its respective risk register. The overall process is facilitated by the Group Risk Management Department which is dedicated to the role.

The Group Risk Management Department maintains regular communication and consultation with management and also facilitates risk analysis of strategic business objectives, operational initiatives and emerging issues in the Group. It also conducts periodic follow-up of the updating of risk profiles and the implementation of risk treatment measures by management.

## KEY ELEMENTS OF THE GROUP'S SYSTEM OF INTERNAL CONTROLS

The key elements of the Group's system of internal controls are described below:-

### Board Committees

The delegation of responsibilities to the various committees of the Board of Directors is clearly defined. At present, the committees which are established are the Audit and Compliance Committee, Nomination and Remuneration Committee, Finance and Investment Committee and Risk Management Committee. There is also an Integrity Committee which is chaired by a member of the Board who reports to the Audit and Compliance Committee.

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### Assignment of Authority and Responsibility

Clearly defined lines of authority within a divisionalised organisation structure have been established to facilitate the supervision and monitoring of conduct and operations of individual business units and support services departments. The Board has approved a defined and documented Limits of Authority (“LOA”) which is used consistently throughout the Group. These LOAs specify clear division and delegation of responsibilities from the Board to the Board Committees and to members of management and the authorisation levels of various aspects of operations. These are regularly reviewed and updated to resolve operational effectiveness and challenges and to reflect changing risks. Additionally, the Group has a Project Review Committee to provide added assurance to the Finance and Investment Committee in the feasibility evaluation of project/investment proposals and subsequent evaluation of the progress and results of endorsed project/investment through a process of due scrutiny. The Project Review Committee is chaired by the Group Managing Director and members include the Group Senior Management.

### Planning, Monitoring & Reporting

The Group undertakes a strategic and budgeting planning process annually, to establish plans and targets against which performance is monitored. These business plan and budgets are subjected to evaluation and assessment by the Senior Management Group and the Finance and Investment Committee before it is recommended to the Board for approval. Monthly review is carried out by the Management to ensure that the businesses are operating according to the plans, as well as to monitor adherence to the internal control procedures established. Monthly financial and operational reports are circulated to the Board and quarterly financial reports are tabled and presented to the Board providing financial information including key performance and risk indicators. The information is reviewed by the Audit and Compliance Committee before it is presented to the Board for consideration and approval.

### Policies & Procedures

There are policies and procedures in place to ensure adequacy of controls, and compliance with relevant law and regulations. These policies and procedures are periodically reviewed and updated to reflect changes in business structure and processes. In various instances, these documents form an integral part of the Integrated Quality Management Systems (“IQMS”). Chemical Company of Malaysia Berhad (“CCM Berhad”) IQMS is ISO 9001, 14001 and OHSAS 18001 certified namely by Bureau Veritas. Certain companies within the Group have ISO 9001:2008 and MS49:1994 accreditations for operational purposes. These certifications demonstrate our ongoing commitment to drive for excellence and continuous quality improvement.

The Group has implemented Enterprise Resource Planning System (SAP) across its key business activities namely its Pharmaceuticals Division, Chemicals Division, the regional entities (covering 3 countries) and the holding company, CCM Berhad. The Group plans to embark on implementing SAP system for its Fertilizers Division in the future. This is part of the Group initiative to establish best practices across key business functions promoting greater visibility, transparency and efficiency.

Annual assurance is provided by the Group Managing Director and Director Finance to the Board on the adequacy and effectiveness of controls in the business processes.

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### **Business Continuity Management (“BCM”)**

A framework on BCM has been established to ensure continuity of business in the event of a disaster. Recognising the diverse nature of risk and business within the Group, BCM in the Group is a business-owned and business driven process that establishes a fit-for-purpose strategic and operational framework to proactively improve the business resilience against the crisis and its ability to achieve its key objectives.

The framework includes a Crisis Management component at Group level which provides a rehearsed method of restoring the Group’s ability to supply its key products and services to an agreed or acceptable level within an agreed time after a crisis. Processes within the framework also support the objective of protecting the Group’s reputation and brand and adds to the overall assurance of achieving the strategic objectives of the Group.

As part of the continuous BCM process, the Group is currently working on a revised Succession Planning Framework for key positions; which amongst others includes structured plans to improve the Group’s bench strength in key positions, talent identification and retention, and strengthening the process in performance management.

### **Human Resource Management**

Key Performance Indicators are used to measure the achievement of staff in achieving the business and operational objectives. To enhance the competencies of the Group’s talent pool, staff are kept updated with required training programmes ensuring their capabilities to carry out duties and responsibilities towards achieving the Group’s objectives.

To ensure unsatisfactory performance and workplace conflicts are properly dealt with, the Group has in place guidelines for handling misconduct and disciplinary matters which include breach of integrity and other misconduct which do not comply with the terms and conditions of service whether expressed or implied.

### **Internal Audit**

The Group Internal Audit Department (GIA) independently reviews the adequacy and integrity of the system of internal controls in managing the key risks, and reports accordingly to the Audit and Compliance Committee of the Board on a quarterly basis. Where weaknesses have been identified as a result of the reviews, improvement measures are recommended to strengthen controls, and follow-up audits are conducted by GIA to assess the status of implementation thereof by Management. In carrying out its work, GIA focuses on areas of priority as directed and approved by the Audit and Compliance Committee of the Board.

The Board remains committed towards maintaining a sound system of internal controls and believe that a balanced achievement of the Group’s business objectives and operational efficiency can be attained. The Group continues to take measures to further strengthen the internal control environment.

### **BOARD’S ASSESSMENT**

The Board is of the view that the Company’s overall risk management and internal control system is operating adequately and effectively, in all material aspects, and have received the same assurance from both the Group Managing Director and Director Finance of the Company.

The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Group has been in place throughout 2014 up to the date of approval of this statement.

For the financial year 2014, the Board is of the view that the system of internal controls was adequate and effective and, has not resulted in any material loss, contingency or uncertainty that would require disclosure in the Annual Report 2014.

The statement has been approved by the Board of Directors at its meeting on 18 March 2015.