



# 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 include financial, operational and compliance controls. It should be appreciated that, however effective a system is, it can only provide reasonable and not absolute assurance against material misstatement, loss or fraud. It should be further noted that such a system is designed to manage and mitigate, rather than eliminate, the risks of failure to achieve its business objectives and strategies.

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 are 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. During the year under review, the Group has adopted a Risk Management Manual and Guidelines, which is based on ISO 31000, premised on international guideline for managing risk, to ensure that risk management process is consistent across the Group.

The line functions within the organisation structure – including the monitoring and assurance functions – provide the necessary support to the Board of Directors in ensuring the effectiveness of the Group's risk management framework. Responsibilities are allocated to the respective functions to enable the Group to have adequate lines of defence in managing its risk.

In managing risk, the Group's three (3) lines of defence are:

1. The first line of defence are functions and businesses that own and manage the risk;
2. The second line of defence are functions that specialises in risk management and compliance; and
3. The third line of defence are functions that provide the independent assurance on the effectiveness of the risk management processes, namely the internal audit function.

Risk owners across the business divisions of the Group (who are the first line of defence in risk management) define, highlight, report on and manage a variety of risks, including business and operational risks anticipated by them, and the 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.



## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Management from all Business Divisions or major departments conducted risk assessments to identify the risks relating to their areas of supervision and control, analysed the likelihood of these risks occurring and the consequences if they do occur and evaluated the risk level by comparing against the approved risk criteria, as well as determined 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 this role.

The Management has put in place internal controls to ensure that the Company's objectives are achieved through adequate mitigation of the identified risks.

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

The Board, through the Audit and Compliance Committee, had approved a Management Control Policy which dictates the responsibilities of the Audit and Compliance Committee, the Management and the Internal Audit function with regards to internal controls.

The Audit and Compliance Committee is responsible for monitoring, overseeing and evaluating the duties and responsibilities of Management, the internal and external auditors as those duties and responsibilities relate to the Group's processes for controlling its operations. The Audit and Compliance Committee is also responsible for determining that all major issues reported by the Group Internal Auditor, the external auditors and other outside advisors have been satisfactorily resolved. Finally, the Audit and Compliance Committee is responsible for reporting to the Board of Directors all important matters pertaining to the Group's controlling processes.

Management is charged with the responsibility of establishing an internal control framework with the objective of controlling the operations of the CCM Group of Companies (the Group) in a manner which provides the Board of Directors with reasonable assurance that the control objectives will be achieved.

The internal audit function is charged with the responsibility for ascertaining that the ongoing processes for controlling operations throughout the Group are adequately designed and are functioning in an effective manner. The Group Internal Auditor is also responsible for reporting to Management and the Audit and Compliance Committee on the adequacy and effectiveness of the Group's systems of internal control, together with ideas, counsel and recommendations to improve the systems.

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.

## **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 Divisions and Group Management Committee to ensure that the businesses are operating according to the plans, as well as to monitor adherence to the internal control procedures established. Quarterly financial and operational 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) IQMS is ISO 9001, 14001 and OHSAS18001 certified namely by Bureau Veritas. Certain companies within the Group have ISO 9001:2008 and MS 49:1994 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 Pharmaceutical Business, Chemicals Business, Polymers Business and the regional entities (covering 3 countries) and the holding company, CCM Berhad. This is part of the Group's initiative to establish best practices across key business functions promoting greater visibility, transparency and efficiency.

The Board has received assurance from the Group Managing Director who also assumed the role of Chief Financial Officer, on the adequacy and effectiveness of controls in the business processes.