

Statement on Internal Control

The Board of Directors (“the Board”) recognises the importance of maintaining a sound system of internal control to safeguard shareholders’ investment and the Group’s assets. Pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad, the Board is pleased to present the Statement on Internal Control of the Group for the financial year under review.

For the purpose of this Statement, Associated Companies are not included as part of the Group as the Board does not have control over their operations.

BOARD RESPONSIBILITY

The Board acknowledges that it is responsible for the Group’s system of internal control and for reviewing its adequacy and integrity. However, due to its inherent limitations, the Group’s system of internal control is designed to manage rather than eliminate the risks that may impede the achievement of the Group’s business objectives. The system of internal control can therefore only provide reasonable and not absolute assurance against material misstatement, fraud or loss.

RISK MANAGEMENT

The Board confirms that as an integral part of the system of internal control, there is an on-going process of identifying, evaluating and managing the significant risks faced by the Group. This process, which was in place throughout the year, is subject to regular review by the Board through its Audit Committee.

The Group’s Enterprise-wide Risk Management (ERM) policy and framework, implemented since 2006, continues to ensure that a structured and consistent methodology and approach is practised across the Group to identify, assess, monitor and control the key risks faced by the various business units.

The key elements of the ERM Framework include:

- ERM Principles which require, amongst others, that risk management should be embedded into the major business processes and day-to-day management; that each business unit and head office function is expressly responsible for managing the risks associated with its areas of accountability; and that all significant risks must be proactively identified, assessed, managed, monitored and reported on.
- An ERM Organisation Structure which provides clearly defined lines of accountability and roles and responsibilities of all concerned, right from the Board (through its Audit Committee), the ERM Committee and Senior Management down to business unit management and risk owners. A dedicated risk and compliance function was formed during the year to further strengthen the framework, providing support to effectively lead and drive the ERM processes and activities.
- A clearly defined ERM Process which comprises five (5) broad steps - risk identification, risk assessment, risk response, risk monitoring and risk reporting.

The ERM Committee comprises members of Senior Management and Head of Risk & Compliance. Under its terms of reference of oversight role in the effective implementation of the ERM Framework, the ERM Committee periodically reviews the Group Risk Register; reviews the mitigating strategies; provides direction for allocation of resources and assignment of responsibilities to address business risks; provides guidance for the enhancement of the ERM Infrastructure (including systems, processes and organisational structure); reviews, approves and monitors the ERM work plan; and reports to the Audit Committee the Group Risk Profile, major risk management issues and significant risks together with its recommendations.

INTERNAL AUDIT

The Group has an adequately resourced Internal Audit function which reports directly to the Audit Committee and is independent of the activities and operations that it audits. Its primary responsibility is to undertake regular and systematic reviews of the business operations, processes and procedures so as to provide reasonable assurance that the system of internal control continues to operate satisfactorily and effectively.

During the year, the Internal Audit function has carried out audits on the core business units and operating areas that are identified premised on a risk based approach, in accordance with the annual audit plan that has been reviewed and approved by the Audit Committee. Internal audit reports were presented to the Audit Committee on a quarterly basis, highlighting findings, observations, recommendations and proposed management action plans to improve the system of internal controls. Follow-up audits were also conducted to ensure proper and timely implementation of the agreed action plans.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

Apart from risk management and internal audit, the other key elements of the Group's system of internal control are described below:

- An organisational structure with key responsibilities clearly defined and clear reporting lines within companies, the Group and up to the Board and its Committees.
- Group Policies and Guidelines, which set out the policies, procedures and expected standards for the Group's operations.
- Established Authority Table with clearly defined delegation of authority and financial limits to management personnel so as to minimise the risks of unauthorised transactions.
- A detailed budgeting process which requires all business units to prepare budget and business plan on an annual basis. The Board reviews and approves the Group's annual budget while Management monitors the monthly results of the Group against budget.
- Monthly performance reporting and review requiring the submission of timely monthly operational and financial performance reports by all business units. This comprehensive information on performances and key indicators are presented and reviewed at the monthly Management Review Meeting and the Executive Committee Meeting.
- Quarterly review of key business variables and the monitoring of the achievements of the Group's performance by the Board and Audit Committee.
- Control Self-Assessments (CSA) Checklists have been implemented by core operating units with a focus to ascertain the level of control adequacy and compliance.

CONCLUSION

For the financial year under review, the Board is satisfied that the system of internal control maintained by the Group was generally sound and adequate and has not resulted in any material losses, contingencies or uncertainties that will require disclosure in the Annual Report.

The Board remains committed to ensure that appropriate initiatives and active measures are taken to strengthen and continuously improve the system of internal control to support the Group's operation in a very dynamic and challenging business environment.

This statement is made in accordance with the resolution of the Board dated 29 March 2010.