



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## Introduction

Pursuant to Paragraph 15.26 (b) of the Listing Requirements and the Malaysian Code on Corporate Governance 2017 (“MCCG 2017”) with regards to the Group’s state of internal control, the Board of Directors (“Board”) is pleased to present below the Group’s Statement on Risk Management and Internal Control during the financial year under review and up to the date of approval of this statement, prepared in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers (“Guidelines”) issued by the Institute of Internal Auditors Malaysia and adopted by Bursa Malaysia Securities Berhad and taking into consideration the recommendations of the MCCG 2017.

## Board’s Responsibility

The Board affirms its responsibility for the Group’s system of risk management and internal control which includes the establishment of an appropriate internal control environment and risk management framework as well as reviewing its adequacy and effectiveness to safeguard shareholders’ investments and the Group’s assets.

The system in place is designed to manage rather than eliminate the risk of failure to achieve the Group’s business objectives by providing reasonable assurances against material misstatement or loss.

The Board has received assurance from the Group Chief Executive Officer and the Chief Financial Officer that the Group’s risk management and internal control system is operating adequately and effectively, in all material aspects.

## Risk Management Framework

In an increasing complex and dynamic business environment, proactive management of the overall business risks is a prerequisite in ensuring that the Group achieves its business objectives. Risk management activities are regarded as an integral part of the Group’s business practices and not in isolation. The Group plans and executes activities to ensure that the risks inherent in its business are identified and effectively managed to achieve an appropriate balance between realizing opportunities for gains while minimizing losses to the Group.

The Group has a Risk Management Framework (“RM Framework”) which sets out the risk management governance, guidelines, processes and control responsibilities and underpins the Group Risk Management Policy (“RM Policy”). It seeks to ensure that there is a consistency to the methods used in managing risks throughout the Group and that risk management efforts are aligned with the Group’s business objectives. It also outlines enhanced and explicit requirements for managing risks and assists in understanding the impact of uncertainties inherent in business decisions.

The Board is assisted by the Risk Management Committee (“RMC”) which is chaired by the Group Chief Executive Officer and comprises representatives from key senior management. The function of the RMC is to drive risk management guided by the Group RM Policy and RM Framework to ensure effective identification of emerging risks and management of identified risks through implementation of appropriate controls and risk treatment strategies.

The RMC meets periodically and works closely with the Risk Management Department (“RMD”) to ensure effective and consistent adoption of risk management practices. The RMD meets with the risk owners made up of managers or heads from the divisional units to identify and evaluate the risks related to their business objectives or budgets against which performance is measured and to establish the risk profiles of the Group during the risk assessment sessions. The level of risk tolerance of the Group is expressed through the use of a risk consequence and likelihood matrix. Once the level of risk tolerance is determined, the risk owner is required to identify and implement the risk treatment strategies covering management actions with target timeline for implementation. The risk owners are to monitor and timely update their risk profiles on an on-going basis. The update of the risk profiles includes changes to operational, financial and compliance risks and the identification of emerging risks arising from changing business conditions as well as the adequacy and effectiveness of the related controls.

The RMC reviews periodically both the Group top and divisional risk profiles to ensure that the overall risks impacting the Group are adequately identified and managed within an acceptable risk appetite. Mitigation measures in addressing major risk factors or challenges pertaining to manpower supply and climate change effect on the oil palm yield during the financial year include process fine-tuning and mechanization within the operational areas to enhance productivity as well as improvement in water management to reduce the effects of

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

drought and flooding. The RMC presented the risk management report to the Board twice a year whereas the risk assessment result is presented on an annual basis. As part of the Board's efforts to ensure risk management and internal control processes are adequate and effective, risk mitigation strategies and internal controls are subject to periodic review by the internal audit with areas for improvement.

### Key Elements of the Group's Internal Control

An effective check and balance control environment is fundamental for ensuring a sound internal control system in the Group. The Board and Management are committed to maintain an effective internal control environment by continuously enhancing the design of internal control systems to ensure that they are relevant and effective to promote operational agility while ensuring corporate governance and compliance to regulatory guidelines. The key elements and/or features of our Group's internal control system established for maintaining strong corporate governance are as follows:

- The Group's reporting structure incorporating checks and balances is aligned to the business requirements.
- Authority limits are in place for approving capital expenditure and matters on financial, treasury, operations and personnel, keeping potential risk exposures under control.
- Documented policies and procedures are also in place subject to review every now and then to ensure that it maintains its effectiveness to support the Group's business activities.
- Annual budgets are prepared by the Group's operations. Analysis and reporting of variances against budget are presented in the Group's management meetings which act as a monitoring mechanism.
- Quarterly and annual financial statements containing key financial results as well as operational performance results of the Group are prepared and reported to the Board.
- Periodic company briefings with analysts are conducted to apprise the shareholders, stakeholders and general public of the Group's performance while promoting transparency and open discussion.
- The Group Chief Executive Officer is involved in the running of the day-to-day business operations by meeting up with both management and operation on a regular basis to monitor the performance and profitability of the Group's businesses.
- Meetings on management accounts results against prior periods are conducted every two months with significant variances explained and appropriate actions taken or plans put in place.
- Management meetings are held monthly between the Group Chief Executive Officer and senior management to deliberate on Group strategies and policies, operational and financial performance and other key issues.
- The Group has a comprehensive information system that enables the production of timely, reliable and relevant data to enhance management in decision making.
- Guidelines on employment, performance appraisal, training and retention of employees are in place to ensure the Group's ability to operate in an effective and efficient manner.
- The Group has established the safety & health committees at the operating level to address and ensure compliance with occupational safety and health policies and procedures as required by the various authorities.
- The Group undertakes adequate insurance coverage on both its employees and assets to ensure both are sufficiently insured against any losses arising from various perils faced in the Group's operations.
- The Intranet Portal is used as an effective dissemination tool to share up-to-date information on development and happenings.
- The Group has in place the KPI reporting to drive awareness of shared management responsibility on their contribution towards enhancing the operating performance in achieving the business objectives.



## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- Internal audit function includes performing regular reviews of business processes to assess the effectiveness of the internal control system and to highlight significant risks impacting the Group with recommendations for improvement.
- Senior management team conducts regular visits to the Group's operations for better understanding to facilitate cognizance in decision-making capability.

### Internal Audit

The Group has established an Internal Audit Department ("IAD"), which reports independently to the Audit Committee ("AC") to provide the Board with adequate assurance it requires regarding the adequacy and effectiveness of risk management, internal control and governance processes.

The IAD adopts a risk-based approach in executing the annual audit plan that focuses on major business units and/or operations within the Group. The annual audit plan is reviewed and approved by the AC. The IAD reports directly to the AC on the outcome of its appraisal of the operational activities. Significant audit findings are presented and deliberated by the AC on a quarterly basis or as appropriate. The IAD also monitors the implementation of audit recommendations in order to obtain assurance that all major risks and controls measures identified have been reasonably addressed by the management in an effective and timely manner.

### Board Review

The Board is of the view that the risk management and internal control system in place throughout the year under review and up to the date of approval of this Statement is sound and sufficient to safeguard the interests of the Group's stakeholders, their investments and the Group's assets. Additionally, the Board regards the risks faced by the Group are within acceptable levels in relation to its business objectives.

The Board is not aware of any material losses or fraud during the year under review as a result of weaknesses in internal control. The management is continuously taking necessary measures to improve and strengthen the risk management and internal control system of the Group.

### Review of the Statement by External Auditors

Pursuant to Paragraph 15.23 of the Listing Requirements, the external auditors have reviewed the Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide, *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control* ("AAPG 3") included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 30 June 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement intended to be included in the annual report of the Group, in all material respects: has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Directors and management thereon. The report from the external auditors was made solely for and directed solely to the Board in connection with their compliance with the Listing Requirements of Bursa Malaysia Securities Berhad and for no other purposes or parties. The external auditors do not assume responsibility to any person other than the Board in respect of any aspect of this report.

The statement was approved by the Board on 18 October 2018.