

# STATEMENT OF INTERNAL CONTROL

## INTRODUCTION

Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad requires the Board to include in the Company's Annual Report a statement about the state of internal control of the Group. The statement has been prepared in accordance with the "Guidance for Directors of Public Listed Company" issued by Bursa Malaysia.

## RESPONSIBILITY

The Board acknowledges that it has overall responsibility for maintaining sound internal control system including reviewing its adequacy and integrity, to safeguard shareholders' interest and Group's assets. However, the system is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can therefore only provide reasonable and not absolute assurance against material misstatement of financial statements or financial losses due to fraud.

The Board, through assistance of the Management, has ensured that there is an ongoing process for identifying, evaluating, monitoring and mitigating significant risks that may adversely affect the Group. It has also regularly reviewed the system which encompassed compliance and management information system, during the financial year to ensure that the Group was able to respond appropriately to changes in the business environment and regulatory requirement.

## KEY INTERNAL CONTROL PROCESSES

The key processes that have been established to review the adequacy and integrity of the internal control system are as follows:-

### Risk Management

The Board recognises the significance of risk management in maintaining sound system of internal control. Accordingly, the Management has adopted Enterprise Risk Management Framework which outlined the vision, mission, policy, structure, responsibilities, processes and corporate risk scorecard. The framework provides the Board and the Management with a tool to anticipate and manage both existing and potential risks, and the risk profiles were regularly updated to account for changes in business environment, law and regulatory requirement throughout the year.

The Board has delegated the responsibility of reviewing the effectiveness of risk management system to the Risk Management Committee, whose authority and responsibility is clearly defined in the terms of reference. The Group Risk Management function monitors and evaluates the system on an ongoing basis and reports to the Risk Management Committee on a quarterly basis. The Chief Risk Officer has communicated the requirement of the framework and trained the respective Risk Champion appointed at various business and support units to update risk profiles continuously.

### Management Committees

The Chief Executive Officer/Group Managing Director is assisted by the Executive Committee to ensure that daily operations are conducted effectively and in accordance with corporate objectives, strategies, approved budgets, policies, procedures and regulatory requirements. A business committee, Investment Committee, Governance Working Committee, Human Resource Committee, Information Technology Steering Committee, Risk-Based Capital Committee and Credit Committee are also established within its term of reference to manage and report on business operations, governance and compliance matters on a monthly or quarterly basis.

### Policies and Procedures

The Management has established written policies and procedures which have been approved by the Chief Executive Officer/Group Managing Director or Board Committees and they have been implemented in respective core business processes throughout the Group. It serves to ensure compliance with internal controls, laws and regulations. Regular reviews and updates have been performed in line with changes in business environment, statutory and regulatory requirements to ensure its relevance and effectiveness. All the policies and procedures issued during the year have been reviewed by Legal, Compliance, Risk Management and Internal Audit function before submission for approval.

### Annual Business Plan and Performance Review

Respective business units submit their business plan and budgets to the Board for approval before commencement of a financial year. Actual performances would be reviewed against the budgets by the Management Committee on a monthly basis thereafter the management action plan would be timely carried out. The Board also reviews the business performance reports and compliance report from the Management on a quarterly basis, to ensure that the business has been managed according to the corporate strategies and goals within the regulatory requirements.

### Internal Audit

The Internal Audit function conducts operational, financial and information system control audit on branches and subsidiaries within the Group in accordance with the annual audit plan approved by the Audit Committee. The internal auditors adopt a risk-based approach and employs systematic audit methodologies to provide an objective and independent audit assessment on the adequacy and effectiveness of internal controls. The audit also encompasses reviews on effectiveness of Compliance and Risk Management function within the Group. Internal audit recommendations to mitigate associated risks would be provided for each internal control issues highlighted and follow-up audit would be carried out to ensure that the auditee has implemented the recommendations within the agreed timeline. The Chief Audit Executive presents internal audit reports to the Audit Committee for review on a quarterly basis.

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## **Audit Committee**

The Audit Committee was set up by the Board within its terms of reference to assist in reviewing the Management's financial reports, internal audit reports and external audit reports. The Committee also oversees the independence and resources of the internal audit function besides ensuring that the scope of work is adequate and that the audit has been carried out objectively and effectively by a competent team of auditors.

## **Business Continuity Management**

The Business Continuity Management Committee is established by the Management to manage business continuity programme for the Group. It has identified major application systems that are critical in supporting daily business operations and conducted Disaster Recovery Test for major subsidiaries twice a year in accordance with the regulatory requirements. The tests have been satisfactorily carried out during the year and results have been reported to Bank Negara Malaysia.

## **Code of Ethics**

Every employee is required to confirm and declare that they would abide by the Group's Code of Ethics. The Code encompasses work conduct, non-disclosure of Group's information, accountability and areas on potential conflict of interests. Employees are also required to declare any potential conflict of interests with regards to their interests or involvement in agency's business including outside the Group.

## **Human Resources Policies and Procedures**

The Management has established Human Resource Policies and Procedures encompassing a wide spectrum of human resource management, including recruitment, training, appraisal, promotion, resignation, termination, industrial relation, remuneration and benefits. The policies and procedures have been reviewed periodically and any changes effected are communicated to relevant employees via-email or through memorandums on a timely manner. The policies are readily available through the Group's intranet where staff can easily access at their convenience. Job descriptions have also been clearly spelled out for each employee to ensure proper delegation of authorities and responsibilities at various levels of the organisational structure. The Human Resource Department have conducted various in-house training programmes and arranged external trainings for directors and employees throughout the year to enhance their competency in fulfilling their responsibilities and towards the achievement of the Group's goal.

## **Control Self-Assessment**

The Management has embarked on Control Self-Assessment ("CSA") on branches of the insurance business division during the year. As the assessment employs a risk and control based methodology, it would assist respective process owners to continuously identify, assess, profile and mitigate its operational, compliance and information system risk systematically. The deployment of CSA, which is facilitated by Internal Audit Department, would enable respective process owners to provide assurance on the adequacy and integrity of internal controls on their day to day business activities.

## **Conclusion**

The Board is of the view that the present internal control system is adequate and effective in mitigating risks to achieve its business objective. This includes major associate companies which are part of the Group. Continuous review of its internal control system would be carried out in line with the changes in its business and regulatory requirement to ensure its effectiveness in safeguarding shareholders' investment and Group's assets.