

# STATEMENT ON 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 Malaysian Code on Corporate Governance (2012) requires all listed companies to establish and maintain a sound risk management framework and internal control system to safeguard shareholders' investment and the company's assets.

Accordingly, the Board is pleased to present the Statement of Internal Control that was prepared in accordance with the "Statement on Risk Management & Internal Control – Guidelines for Directors of Public Listed Issuers" issued by Bursa Malaysia Securities Berhad which provides guidance on the processes to be adopted by the Board in reviewing the adequacy and effectiveness of the risk management and internal control system of the Group.

## 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, except for joint ventures and associate companies which are not under the control of 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 requirements.

## KEY INTERNAL CONTROL PROCESSES

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

### Board and Management Committees

The Board has set up Board Committees to fulfil its roles and responsibilities in accordance with good corporate governance.

The Chief Executive Officer/Group Managing Director is assisted by the Management Committees. The Management Committees play an important role in directing, monitoring and ensuring that the plans and operations are in accordance with the Group's policies and Board approvals.

The Board and Management Committees are:

Board Committees	Management Committees
Audit Committee	Executive Committee
Risk Management Committee	Business Committee
Remuneration Committee	Family Takaful Management Committee
Nomination Committee	General Takaful Management Committee
	Information Technology Committee
	Investment Committee

### 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 ("RMC"), whose authority and responsibility is clearly defined in the terms of reference. The RMC assists the Board to review and oversee the effectiveness of the risk management of the Group. The RMC reviews and assess the adequacy of risk management policies and ensures that infrastructure, resources and systems are emplaced for risk management. The Group Risk Management monitors and evaluates the system on an ongoing basis and reports to the RMC on a quarterly basis. The Chief Risk Officer has communicated the requirements of the framework and trained the respective Risk Champion appointed at various business and support units to update risk profiles continuously.

### Policies and Procedures

The Management has established written policies and procedures which have been approved in accordance with the approval processes 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.

### 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.

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## Internal Audit

The Internal Audit 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.

## 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.

## Compliance Department

The group compliance function is driven by the Group Legal and Compliance Department, whereby its main function is to facilitate, advise and monitor the business units to comply with laws, regulations and guidelines issued by the authorities. The Group Legal and Compliance presents its report to the Board at the Board meetings.

## 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 clear Human Resource Policies and Procedures encompassing a wide spectrum of human resource management activities from recruitment, training, appraisals and promotions to resignations, termination, industrial relations, remuneration and benefits. Policies and procedures are reviewed periodically to ensure its effectiveness and changes are communicated via emails and memorandums in a timely manner. Policies are also, made available via the company's Public Folder for easy access. Job descriptions are issued to all staff to ensure duties and responsibilities are effectively and efficiently managed at every level within the organisation.

## Control Self-Assessment

The Management has embarked on Control Self-Assessment ("CSA") on branches of the takaful 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.

## REVIEW OF INTERNAL CONTROL FOR FINANCIAL YEAR 2012

During Financial Year 2012, the Company detected lapses in the internal control of one of its subsidiaries, PT MAA General Assurance ("PTMAAG"). The audit conducted by Group Internal Audit Department ("GIAD") initially revealed that there were differences in the ledgers. Subsequent further reviews detected errors in the statement of financial position and the income statement of PTMAAG and these findings were reported to the Audit Committee and Board on 27 November 2012. In compliance with Bursa requirements, MAAG made immediate adjustment for the errors found to the financial 3<sup>rd</sup> quarter results which were announced on 30 November 2012, whilst GIAD continued with its investigations. Remedial actions were also taken to address these lapses in the internal controls of PTMAAG in its business operations, accounting and reporting functions. These include instructing the Financial Controller of PTMAAG to report directly to the Head Office and payments above specified thresholds require approval by Head Office.

Following the 3<sup>rd</sup> quarter adjustments and upon completion of the investigation and identification of errors relating to prior periods by GIAD, the Prior Year Adjustments were made in the unaudited consolidated Financial Statements of the Group for the 4<sup>th</sup> Quarter of 2012 as announced on 31 December 2012.

After due and careful inquiry, the Board is satisfied that appropriate actions and enhancements in control systems have been taken to address the weaknesses detected. For areas requiring attention, continuous review of its internal control system will be undertaken to ensure adequacy and effectiveness of internal control in safeguarding shareholders' investment and Group's assets.