

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## BOARD'S RESPONSIBILITIES

The Board of Directors ("The Board") acknowledges their responsibility for maintaining a sound system of internal control covering financial and operational controls, compliance and risk management to safeguard shareholders' investments and the Group's assets.

There is an on-going review process by the Board to ensure the adequacy and integrity of the risk management and internal control system in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. However, the Board recognises the review of the Group's system of risk management and internal controls is a concerted and continuous process, designed to manage rather than eliminate the risk of failure to achieve business objectives. As such, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has received assurance from the Executive Committee that the Group's risk management and internal control system is adequate and operates effectively, in all material aspects. The Executive Committee consists of the Executive Chairman, Group Managing Director, Executive Directors and the head of business units.

## MANAGEMENT'S RESPONSIBILITIES

Management is accountable to the Board for risk management and internal control and has implemented processes to identify, evaluate, monitor and report risks and to design and implement relevant controls in response to the risks. In this regard, Risk Management Unit ("RMU") and Risk Management Committees ("RMC") have been established at the Group. The terms of reference of RMU & RMC, among others, are: -

- Identify and communicate to the Board, the critical risks, whether present or potential, the Group faces, their changes and the Management action plans to manage the risks;
- Perform risk oversight and review risk profiles of the Group and monitor organisational performance; and
- Provide guidance to the business units on the Group's and business unit's risk appetite and capacity.

The RMU of QL Resources Berhad comprises Executive Committee, Head of Financial Reporting and Investor Relations and Group Risk Management Manager and is chaired by Executive Chairman. The RMU reports to the RMC of the Company. The members of the RMC comprises of Audit Committee members, Executive Chairman, Group Managing Director and Finance Director.

## RISK MANAGEMENT

The Board has put in place an Enterprise Risk Management ("ERM") framework, in accordance with the Malaysian Code on Corporate Governance 2017, to ensure that there is an on-going process of identifying, evaluating, and managing significant business risk exposure. The Group's ERM framework aims to facilitate the execution of strategic business action to achieve the Group's vision of being preferred global agro based enterprise, by implementing relevant controls or translating the principal risks of the business into upside opportunities.

The Group has a Risk Management Department ("RM"), led by the Group Risk Management Manager. The RM facilitates and supervises the implementation of the ERM framework and processes by the respective business units. The RM reports functionally to the RMU and RMC.

During the financial year under review, the Group's activities exposed it to the following principal risks:

- Operational Risk

The Group's policy is to assume operational risks that are manageable within its core business competencies. The operational risk management ranges from disease outbreak and farm or plant management. The management of the Group's day-to-day operational risks are mainly decentralised at the respective business unit level and guided by Standard Operating Procedures.

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- Financial Risk

The Group is exposed to various financial risks relating to foreign currency rates, credit risks, interest rate risks and commodity price fluctuations. These financial risks are mitigated through internal control processes and constant monitoring.

- Information Technology Risk

The Group is exposed to various information technology risks. This includes potential risks such as network security risk, data protection risk and cybersecurity risk. These risks are mitigated through regular information technology risk assessment and relevant action plans. The Management is wary of the cybersecurity risk and is in the process of preparing Cybersecurity risk framework to be implemented for the Group.

The key aspects of the risk management process are as follows:

- Emerging and existing risks are identified by respective business unit and are classified based on probability of occurrence and impact magnitude.
- Head of business units undertake to update their risk profiles' worksheet on a quarterly basis.
- The risk profiles' worksheet, control procedures and status of action plans are reviewed for efficacy on a periodic basis by the Group Risk Management Manager together with the Head of business units.
- On a quarterly basis, the RMU and RMC meet to review the risk profiles' worksheet and the progress of the action plans implemented. A risk management report summarising the high and significant risks and status of action plans are presented to the Audit Committee for review, deliberation and recommendation for endorsement by the Board of Directors.

Enterprise Risk Management refresher trainings were conducted separately by third party facilitator and Group Risk Management Manager during the financial year as part of the ERM awareness enhancement activity. Going forward, the RMU and RMC will continuously be deliberating the following to further strengthen the existing risk management controls within the Group:

- Key risks highlighted in the Risk Management Report will be used in developing internal audit plans.
- The Group Risk Management Manager will conduct an annual review of the ERM framework and its processes.
- The documented standard operating policies and procedures to ensure compliance with internal controls, laws and regulations, will be subjected to regular reviews and improvement.

## INTERNAL CONTROL PROCESS

The key elements of the Group's internal control processes are summarised as follows:

- The Board, RMU, RMC and Audit Committee meet on a quarterly basis to discuss strategic, operational, risk and control matters raised by the Management.
- The Board has delegated its responsibility to several committees and to the Management of the Company to implement and monitor designated tasks.
- The authority limits delineate authorisation limits for various level of management and matters reserves for collective decision by the Board to ensure proper identification of accountabilities and segregation of duties.
- Standard Operating Procedures are revised to meet the operational requirement, the business and statutory reporting needs when necessary.

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- Performance reports are provided to the Executive Committee and the Board for review and deliberation.
- Head of business units present their strategies, annual budgets and capital expenditure proposals to the Executive Committee and the Board for deliberation and approval.
- The review of strategy and annual budget is undertaken by Management on half yearly basis.

## INTERNAL AUDIT

Internal audit function was carried out by an independent professional services firm. Scheduled internal audits are carried out based on audit plan approved by the Audit Committee. The internal audit reports, summarising the observations of control weaknesses, recommendations for improvement and Management responses were presented to the Audit Committee on quarterly basis. These findings were deliberated together with Management at the Audit Committee Meetings. The Audit Committee assessed the overall adequacy and effectiveness of the system of internal controls of the Group and reports to the Board of Directors, in particular, the matters relating to significant risks and the necessary recommendations for changes.

For the financial year under review, the internal audit's scope covered the following based on the approved audit plan:

- Revenue control management, involving assessing the adequacy of controls over, sales management, cash handling and credit control management.
- Cost control management, involving assessing the adequacy of controls over, purchases of raw materials and stocks; Inventory management; and Asset Management.
- Operational and compliance control management involving assessing the adequacy of controls over scrap management, production and industrial compliance, and recurrent related party transaction to ensure its completeness, accuracy and it is transacted on an arm's length basis.

## CONCLUSION

The Board is of the view that the risk management and internal control systems that are in place for the year under review and up to the date of approval of this statement, is adequate and effective to safeguard the shareholders' investment and the Group's assets.

There have been no significant breakdowns or weaknesses in the system of internal control of the Group for the financial year under review. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.

The Group's system of internal control applies to QL Resources Berhad and its subsidiaries. Associated companies have been excluded because the Group does not have full management and control over them. However, the Group's interest is served through representations on the boards of the respective Associated companies.

This Statement on Risk Management and Internal Control was approved by the Board on 6 July 2018.