

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## THE BOARD OF DIRECTORS AFFIRMS ITS OVERALL RESPONSIBILITY FOR ESTABLISHING AND MAINTAINING AN ADEQUATE AND EFFECTIVE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM TO SAFEGUARD SHAREHOLDERS' INVESTMENTS AND THE ASSETS OF MRCB AND ITS SUBSIDIARIES ("THE GROUP").

The Board also affirms its commitment to review the effectiveness, adequacy and integrity of these systems to ensure its continued relevance and effectiveness in the face of its changing business circumstances.

Management has been tasked to identify and assess the risks faced by the Group and to design effective control measures to mitigate the risks. From time to time, the Board also reviews and ascertains that the risks are within the Group's risk appetite and ensure that appropriate control measures are implemented and are effective. These processes are regularly reviewed by the Board through the Audit Committee. Nevertheless, it must be acknowledged that due to the limitations inherent in any system of internal control, the system is designed to manage rather than eliminate the risk of failure to achieve the Group's objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss.

### 1. KEY ELEMENTS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

Key elements of the Group's risk management and internal control framework, which have been in place throughout the financial year under review and up to the date of the Directors' Report are as follows:

#### a. Control Environment

- i) Clearly defined lines of authority within a divisional organisation structure to facilitate the supervision and monitoring of the conduct and operations of individual business units and group support service departments.
- ii) Limits of Authority have been established for the Group. These Limits of Authority specify clear division and delegation of responsibilities from the Board to Board Committees and to members of management and the authorisation levels for various aspects of operations. The effectiveness of the Limits of Authority are reviewed periodically and where necessary enhancements or revisions are proposed by the management team. All revisions to the Limits of Authority are approved by the Board with the recommendation of the Audit Committee.
- iii) Clearly documented internal policies and procedures have been set out in a series of standard operating procedure manuals, policies and guidelines. These are periodically reviewed and updated to reflect changes in business structures, processes as well as changes in external environments. Any changes in policy require the approval of the Board.
- iv) Annual budgets are prepared in advance of the coming year using a detailed budgeting process. These budgets are subjected to evaluation and scrutiny by the senior management team and the EXCO before they are recommended to the Board for approval. Performance against the budget is tracked on a quarterly basis and on a semi-annual basis, a comprehensive budget review exercise is undertaken.
- v) The Group's assets and insurable operational risks are adequately covered by insurance policies to ensure that the Group is insured against financial losses in the event of untoward incidences.
- vi) A Safety, Health and Environment policy is in place and the Group Safety, Health and Environment Department continues to enhance awareness of safety, health and environment practices throughout the Group and monitors the compliance with the relevant regulations and best practices.

- vii) Quality improvement initiatives are in place and key business units of the group are accredited for ISO and OHSAS certifications. The construction division has adopted the integrated Quality, Environment, Safety and Health management system.
- viii) All employees of the Group are governed by a Code of Conduct and are required to acknowledge having read and understood the Code upon commencement of employment.
- ix) Performance of all employees are tracked through formal performance appraisal processes.

**b. Information and Communication Processes**

- i) Regular and comprehensive information is provided by the Management to the Board and its Committees, covering financial performance, achievement of key performance indicators, progress of key projects, utilisation of funds and cash flow position.
- ii) Various management information systems are operational to provide management with timely and accurate information on the Group's performance and to assist management make effective decisions.
- iii) Briefings are given to investment analysts on a quarterly basis where the Group's financial performance approved by the Board is presented and investment analysts are given the opportunity to pose questions and have a dialogue with the senior management team of the Group. The presentation slides used during these briefings are uploaded on to the Group's website for anyone to view.

**c. Monitoring Processes**

- i) The performance of business divisions and the status of key projects are monitored through weekly Results-Action-Review meetings at various levels in the organisation.
- ii) The Internal Audit Department conducts regular reviews of operations to assess the effectiveness and efficiency of the system of internal control. Significant risk exposures and non-compliances to the policies and procedures of the Group are highlighted for management's attention and recommendations for improvement are given to management for consideration. Follow-up reviews are conducted subsequently to ascertain that improvement measures are implemented. The findings of these reviews along with management's responses are reported to the Audit Committee on a quarterly basis for deliberation.

**d. Integrity and anti-corruption**

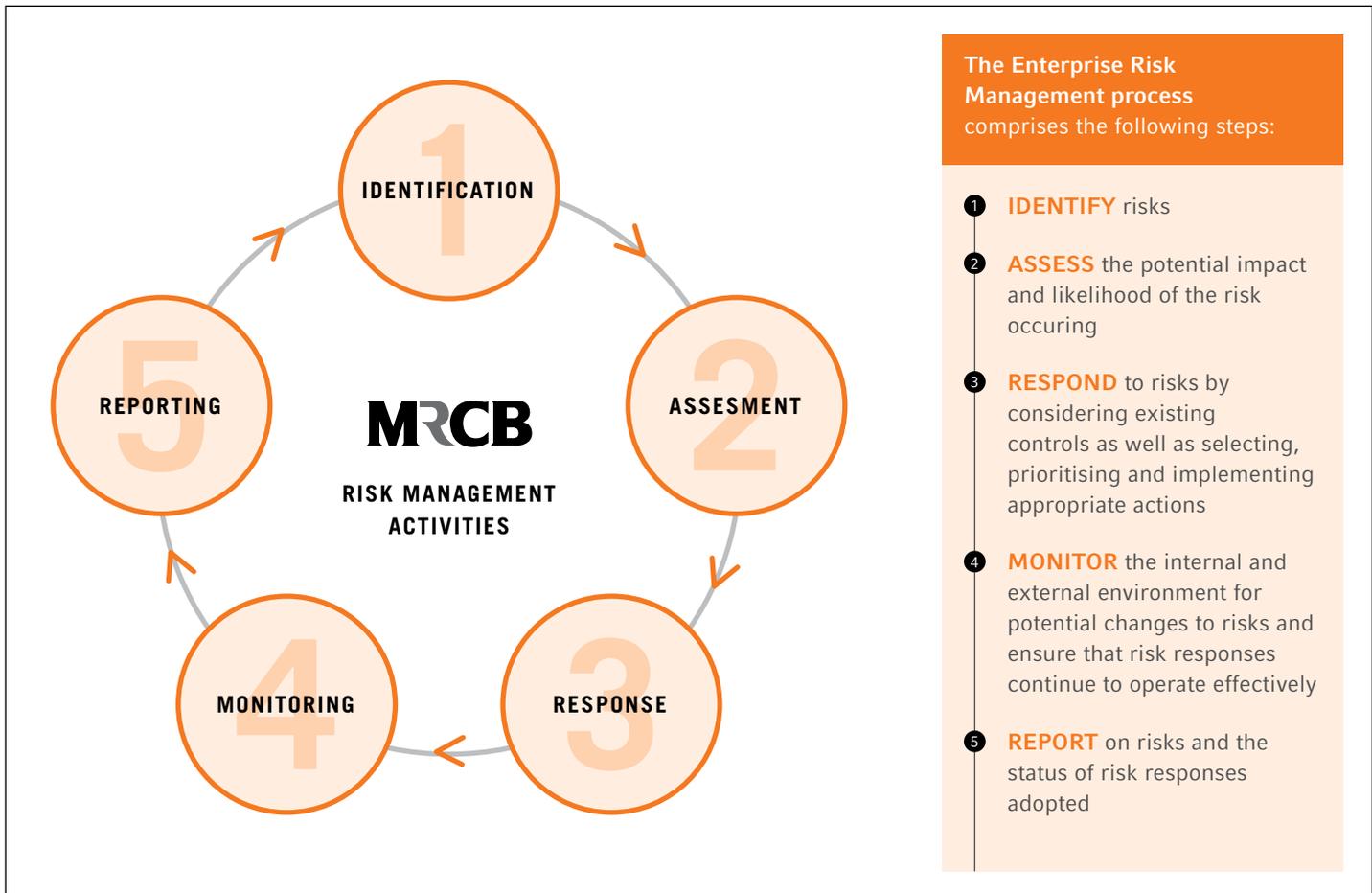
- i) All contracts entered into by companies in the Group contain an anti-corruption clause which requires the contracting party to comply with all anti-corruption laws of Malaysia. In the event that it is proven that the contracting party, its personnel, or agents are involved in any corruption or illegal activities, the contract may be terminated.
- ii) A whistleblowing process has been established to provide an avenue for whistleblowers to communicate their concerns on matters of integrity in a confidential manner. During the year, the Whistleblowing Policy was reviewed and updated. The scope of the Policy has been extended to cover members of the Board and designated independent personnel have been identified to receive the reports in a confidential manner.

The Board believes that the development of the system of internal control is an on-going process and has taken steps throughout the year under review to improve its internal control system and will continue to do so. The effectiveness of the Group's risk management system is also regularly reviewed by the Board.

During the year under review, the Internal Audit Department highlighted some areas for improvement in the internal control system and Management has taken appropriate measures to address them accordingly. The internal control enhancements highlighted were mainly operational in nature and have negligible impact on the operational results of the Group.

## 2. RISK MANAGEMENT

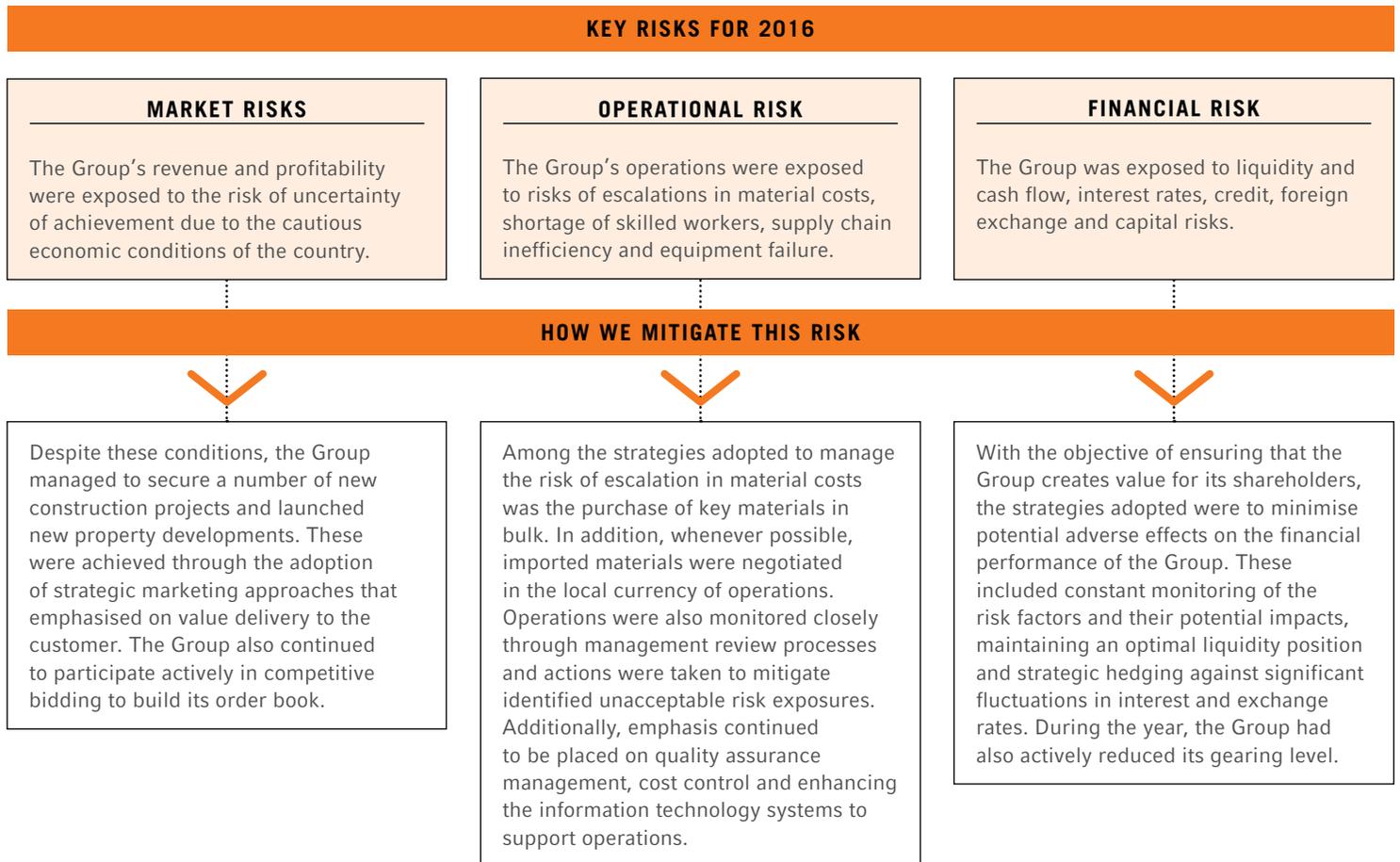
An ongoing process to identify, assess, respond, monitor and report significant risks that may affect the achievement of the Group’s business objectives is in place. A Risk Management Framework and Manual, which serves as a documentary guide of the Group’s risk management policy, risk management processes and reporting framework, is accessible from the Group’s intranet.



All employees of the Group are responsible for managing risks within their respective areas of responsibilities. The Group Managing Director is accountable for the implementation of the Enterprise Risk Management Framework and Policy, ensuring its continued application in the MRCB Group, and for ensuring that business and risk strategies are aligned.

Key risk exposures are highlighted to the Audit Committee and mitigating actions proposed by management are deliberated. The Board also conducts an assessment of risks during its deliberation of the Group’s business plans and when evaluating investment decisions.

The management of risks is an integral element of management’s decision making processes. Risk exposures are discussed and appropriate mitigating actions are established and agreed prior to implementation. The progress of implementation of the risk mitigating actions and its effectiveness is monitored through subsequent updates and where necessary, additional measures may be implemented. This approach provides for faster response and close tracking of key risk exposures.



### 3. MATERIAL JOINT VENTURES AND ASSOCIATES

The disclosures in this statement do not include the risk management and internal control practices of the Company's material Joint Ventures and Associates. The Company's interests in these entities are safeguarded through the appointment of members of the Group's Senior Management team to the Board of Directors and, in certain cases, the management committees of these entities. Additionally, where necessary, key financial and other appropriate information on the performance of these entities are obtained and reviewed by the MRCB Board.

The monitoring, review and reporting arrangements in place provide reasonable assurance that the system of internal control are appropriate to the Group's operations and that risks are at an acceptable level throughout the Group's businesses. Such arrangements, however, do not eliminate the possibility of human error, deliberate circumvention of control procedures by employees and others, or the occurrence of unforeseeable circumstances.

The Board has received an assurance from the Executive Director and Chief Financial Officer of the Company that the risk management and internal control system of the Group is operating adequately and effectively. The Board is thus of the view that the risk management and internal control system in place for the year under review is sound and sufficient to safeguard shareholders' investments, stakeholders' interests and the Group's assets.

#### REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad's Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised) issued by the Malaysian Institute of Accountants.

RPG 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

This Statement on Risk Management and Internal Control is made by the Board of Directors in accordance to its resolution dated 27 February 2017.