

Statement on Risk Management and Internal Control

The Board of Directors of the Company (“Board”) is committed in maintaining a sound risk management framework and internal control system and is pleased to provide the following statement on the scope and nature of risk management and internal control for the Company and its subsidiaries (“Group”) for the financial year ended 31 March 2017.

BOARD RESPONSIBILITY

The Board acknowledges that it is responsible for the Group’s Risk Management and Internal Control system (“Group RMIC System”) to safeguard shareholder’s investments and the Group’s assets and for reviewing the adequacy and integrity of the system. The Group RMIC System is for the purpose of managing the risk of the Group but does not eliminate the risk of failure to achieve business objectives. It provides only reasonable but not absolute assurance against material misstatement, loss or fraud.

The Board has implemented an ongoing process, for identifying, evaluating, monitoring and managing the significant risks affecting the achievement of its business objectives throughout the period. The process is regularly reviewed by the Board and accords with the Statement on Risk Management & Internal Control: Guidelines for Directors of Public Listed Companies.

Management assists the Board in the implementation of the Board’s policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The Board is of the view that the risk management and internal control system in place for the year under review and up to the date of issuance of the financial statements is adequate and effective to safeguard the shareholders’ investment, the interest of customers, employees and other stakeholders, and the Group’s assets.

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

Enterprise Risk Management Statement

The Group has established an enterprise risk management (“ERM”) framework to proactively identify, evaluate and manage key risks to an optimal level. In line with the Group’s commitment to deliver sustainable value, this framework aims to provide an integrated and organised approach entity-wide. It outlines the ERM methodology which is in line with the ISO31000, mainly promoting the risk ownership and continuous monitoring of key risks identified.

MTD ACPI Engineering Berhad (“MTDACPI”) has implemented and enhanced its ERM framework and processes which has been adopted for implementation throughout the Group. This was conducted in line with the Principles and Guidelines of ISO31000: Risk Management. The enhanced ERM framework has incorporated a well-structured systematic process to identify, analyse and manage risks to an acceptable level for the achievement of MTDACPI’s strategic objectives.

Briefings on ERM are conducted for Senior Management as part of the Group’s efforts to instil a proactive risk management culture and implement a proper ERM framework in the Group.

The context within which the Group manages the risks and key focus of accountability is as follows:

Strategic risks are risks primarily caused by events that are external to the Group, but have a significant impact on its strategic decisions or activities. Accountability for managing strategic risks therefore rests with the Board and President & CEO. The benefit of effectively managing strategic risks is that the Group can better forecast and quickly adapt to the changing demands that are placed upon the Group. It also means that the Group is less likely to be affected by some external event that calls for significant change.

Operational risks are inherent in the ongoing activities within the different Divisions of the Group. Typically, some of the risks cover costing management, credit, competency, quality, etc. Senior management needs ongoing assurance that operational risks are identified and managed. Accountability for managing operational risks rests specifically with the Heads of Divisions.

In this context, ERM aligns MTDACPI’s strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks that the Group faces as it creates value.

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The Management Committee of MTDACPI has assumed the role of the Risk Management Committee (“RMC”). The principal responsibilities of the RMC include the following:

- Communicate requirements of the ERM Policy and ensure continuous enhancement of ERM;
- Formulate and implement ERM mechanism to accomplish requirements of the ERM Policy;
- Articulate and challenge risk ratings, control effectiveness, risk treatment options and risk action plans identified by Risk Owners; and
- Ensure that the ERM reports prepared are submitted to the Board in a timely manner, and flash reports are submitted in the event of any risk(s) that require urgent attention.

The RMC is assisted by the Head of the Risk Management Division who facilitates the risk assessment process, by performing independent enquiry on risk identification and risk ratings determination by the respective process owners (line managers). The Head of the Risk Management Division also assists in the facilitation process for the development of action plans to address key risks of the Group. Heads of Divisions are responsible for identifying, analysing and evaluating risks, as well as developing, implementing and monitoring risk action plans and reporting all major risks to the RMC.

During the year, the status of key risk action plans of the Group and the respective Divisions were presented to the Board of Directors (“Board”) on a half-yearly basis. The Board has assumed the oversight and strategic role for ERM.

Audit Committee

The Audit Committee (“AC”), which is chaired by a Senior Independent Non-Executive Director deliberates on findings and recommendations for improvement proposed by the internal and external auditors. The AC also evaluates the adequacy and effectiveness of the Group’s risk management and system of internal control. Apart from reviewing the annual audit plan, the AC assesses the scope and quality of audit performed.

Further details on the AC are set out in the AC Report.

Internal Audit Function

The Internal Audit Function is carried out by the Group Internal Audit Department (“Group IAD”) of AlloyMtd Group. Group IAD independently carries out its function and provides the AC and the Board with the assurance on the adequacy and integrity of the system of internal control.

Group IAD reviews the internal control systems and procedures of the Group’s businesses based on the annual audit plan. The annual audit plan is reviewed and approved by the AC and the findings of the audits are submitted to the AC for review at their periodic meetings. Group IAD adopts a risk-based approach when establishing its audit plan and strategy. Responses from Management and action plans are regularly reviewed and followed up by Group IAD and the AC.

Other Key Elements of Internal Control

Apart from the above, the other key elements of the Group RMIC include:

- Limits of authority are established to govern the management of financial and non financial approval limits;
- Formal operating structure in place with clearly defined lines of responsibility and accountability;
- Board Committees have been established to assist the Board in discharging its duties. The committee are:-
 - Audit Committee
 - Nomination Committee
 - Remuneration Committee
 - Management Committee
- Management Committee meets regularly to oversee the day-to-day operation and business affairs of the Group as well as guiding, directing and monitoring the activities to achieve the corporate objectives and goals of the Group;
- Policies and procedures for key processes are documented to provide guidance to all levels of staff. The policies and procedures are reviewed and regularly updated when necessary;
- Where appropriate, certain companies have the ISO accreditation for their operational processes;
- Comprehensive operation and financial reviews by the Board vide the quarterly financial reports;
- Strategic Business Plan and Annual Operating Budget for business review of current financial year performance compared to the budget and previous financial year results, and projected three (3) years Strategic Business Plan and Annual Operating Budget of AlloyMtd Group are presented to the Board and Management Committee annually, for review, approval and adoption;

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- Provisions of regular and comprehensive information to management and employees;
- Key Performance Indicators (“KPIs”) are used to measure staff performance annually;
- Proper guidelines for hiring and termination of staff, and annual performance appraisal system are in place;
- Training and development programmes are identified for employees to acquire the necessary knowledge and competency to meet their performance and job expectations;
- Whistle blowing policy is established to provide an avenue and a structured mechanism for employees to raise or report concerns on any suspected wrongful activities or wrongdoing and to protect the value of integrity, transparency and accountability in where the Group conducts its business and affairs;
- A Confidential Information Policy is established to manage, control and protect confidential information used by the Group to avoid leakage and its improper use;
- Adequate insurance coverage protects against any material loss or damage of assets and resources of the Group insured; and
- Regular visits to operating units by senior management and internal auditors.

The Board is of the view that the system of risk management and internal control instituted throughout the Group is sound and sufficient. All internal control weaknesses identified during the financial year under review have been or are being addressed. Notwithstanding this, reviews of all control procedures will be continuously carried out to ensure the ongoing effectiveness and adequacy of the system of risk management and internal control, so as to safeguard shareholders’ investment and the Group’s assets.

ASSURANCE FROM MANAGEMENT

For the financial year under review, the Board has received a written assurance from the President & Chief Executive Officer (“CEO”) and the Vice President, Head, Finance & Treasury Division that the Group’s risk management and internal control system, in all material aspects, is operating adequately and effectively. There were no material control failures or adverse compliance events that have directly resulted in any material loss to the Group.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by paragraph 15.23 of the Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. As set out in their terms of engagement, the said review procedures were performed in accordance with the Recommended Practice Guide 5 (Revised): Guidance for Auditors On Engagements To Report On The Statement On Risk Management and Internal Control Included in the Annual Report (“RPG 5”) issued by the Malaysian Institute of Accountants. RPG 5 does not require the external auditors to consider whether this Statement 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. RPG 5 also does not require the external auditors to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in this Annual Report will, in fact, remedy the problems. Based on their procedures performed, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is not prepared in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Public Listed Companies, nor is factually inaccurate. This statement is approved by the Board of Directors on 05 July 2017.