

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Pursuant to Paragraph 15.26(b) and the Practice Note No. 9 of Bursa Malaysia Securities Berhad Listing Requirements and as guided by the Statement on Internal Control: Guidance for Directors of Public Listed Companies, the Board of Directors ("Board") is committed to maintain a sound system of risk management and internal control to safeguard shareholders' investment and the Company's assets. The Board of LBS Bina Group Berhad ("LBGB" or "Group" or "Company") is pleased to present the below mentioned statement for the financial year ended 31 December 2015.

## BOARD RESPONSIBILITY

The Board assumes overall responsibility for the Group's system of internal control and for reviewing its adequacy and integrity. The Group's internal control system and risk management systems covers governance, financial, strategy, organisational, operational, management information system and compliance with existing laws, regulations, rules, directives and guidelines. The Board ensures that appropriate policies on risk management and internal control are set and seeks regular assurance that the system is functioning adequately and that integrity is maintained. The Board also confirms that necessary actions have been or are being taken to remedy any significant failings and weakness identified from the review.

The Board recognises that such a system of internal controls has its inherent limitations as it is designed to manage, rather than to eliminate risks that are not adhering to the Group's business objectives and goals. Accordingly, the system can only provide reasonable assurance, and not absolute assurance against material misstatement or loss.

## INTERNAL AUDIT FUNCTION

The Internal Auditors conducts regular reviews and appraisals of the effectiveness as well as the adequacy and integrity of the system of internal controls of the Company impartially, proficiently and with due professional care. Reports will be presented to the Audit Committee on a quarterly basis or more frequently, if required.

## RISK MANAGEMENT

Risk Management and internal controls are embedded as an integral part of overall management process. Risk Management framework consists mainly of the Risk Manager and Risk Management Committee ("RMC"). The Risk Manager would go to the individual departments to discuss and deliberate their major risks, if any, on half-yearly basis. These risks would then be recorded in the Risk Register with the recommended Management Action Plans ("MAPs") for newly identified risks or modified MAP for existing on-going risks where improvement is needed in addressing the risks and the same would be raised and tabled at the RMC Meeting where they will be acknowledged and confirmed. Monitoring would then be on going till the next half where results would be recorded. Additional items such as investment and divestment decisions would also be tabled after analysis had been done by the risk manager for decision on whether to accept or not.

The RMC had been entrusted with the responsibility to assist the Board in overseeing and managing the risks management process across all the functions of the Group.

In 2015, the RMC had reviewed the implementation status of MAP of each department's risk profiles. The results of the discussions and findings are recorded in the Minutes and Risk Register and the same was tabled at the Audit Committee Meeting and Board Meeting for deliberation and adoption. Some of the MAP to address the risk highlighted had been fully implemented while others were still in progress. In addition, during the year, the RMC had also carried out risk assessments on asset and business investments where it was agreed that the risk was acceptable and the decision was made to go ahead with these investments.

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Additionally, during the year, a Risk Management seminar was held and attended by all the Heads of Department ("HOD") and senior officers to improve their understanding on the subject in order to further enhance the risk management process such as risk profiling, reviewing and reporting.

## OTHER KEY ELEMENTS AND PROCESSES OF INTERNAL CONTROLS

Other key elements and processes of the Group's system of internal control are:-

- The Group's Internal Audit Department, which reports to the Audit Committee, performed regular reviews of business processes to assess the effectiveness of internal controls. Internal Audits were carried out to review the adequacy of the internal control systems, compliance with policies and procedures. The work of the Internal Auditors is in accordance with audit plans approved by the Audit Committee and revised as and when deemed appropriate.
- Operational structure with defined lines of responsibilities and delegation of authority. A process of hierarchical reporting has been established that is documented and provides auditable trails to ensure accountability.
- The operational policies and procedures are periodically reviewed and updated if any to ensure effective management of the Group's operations.
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by the Internal Auditors on the state of the internal control system and reports to the Board.
- The Audit Committee and the Board monitor and review the Group performance and financial results at their quarterly meetings; and
- Weekly HOD and other relevant meetings are held to deliberate and discuss on operational issues that are in-progress or outstanding.

## ADEQUACY AND EFFECTIVENESS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board has also received assurance from the Managing Director and an Executive Director who are both primarily responsible for the management of the financial affairs of the Company that the Group's risk management and internal control is operating adequately and effectively in all material aspects. It is therefore of the view that risk management and internal control system is satisfactory and no material internal control failures nor have any reported weaknesses resulted in material losses or contingencies during the financial year.

## SUMMARY

The above control elements provide reasonable assurance to the Board that the structure of controls is appropriate to the Group's operations and that risks are at an acceptable level throughout the Group's business. The Board however recognizes the ever changing dynamic business environment, and hence will endeavor to continue improving, and enhancing the existing system of risk management and internal controls to ensure their continued relevance.