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Group Risk Management Handbook

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1.0 Introduction

Practice 9.1 of the Malaysian Code on Corporate Governance 2017 (“MCCG”) stipulates that the Board should establish an effective risk management and internal control framework to manage risks. The Guidance 9.1 of the MCCG provides guidance on how to achieve that, which includes, among others:-

- Determining the company’s level of risk tolerance;
- Actively identifying, assessing and monitoring key business risks;
- Articulating, implementing and reviewing the company’s internal controls system; and
- Periodically testing the effectiveness and efficiency of the internal controls system.

This Risk Management Handbook sets out the risk management framework adopted by our Group in managing the various risks faced by us in our business operations.

It is imperative for our Group to practice effective governance, risk management and internal control processes in order for us to achieve our business objectives and strategies, and sustain success. In this regard, it is important for our Group to uphold a culture that emphasizes integrity and risk management, and to embed a holistic risk management framework in all aspects of our activities. Equally important is that is communicated and instilled in all our employees.

2.0 What is Risk?

From an organization’s perspective, risk is anything that threatens the ability of an organization to accomplish its mission. It is an event where the occurrence or non-occurrence of it, could have a positive or negative effect on the business. Risk has to do with uncertainty, probability or unpredictability and contingency planning. It could have a financial or non-financial impact (i.e. reputation, efficiency etc).

"Risks" are the potentialities that stand between the ambitions and goals of an organization and the actual realization of those goals.

There are risks that can help achieve goals, and risks that can thwart achievement of goals. However, risks are generally taken so as to achieve some advantage or objective.

Risk = Impact (Consequence) x Likelihood (Probability)

2.1 Types of Risks

- Hazard risks include risks from fire and other property damage, windstorm and other natural perils, theft and other crime, personal injury, business interruption, disease and disability and liability claim.
- External / Market risks are exposure to uncertainty due to changes in the external economic environment of the organization.

- Operational risks exist when there are changes to the internal environment of the organization arising from daily tactical business activities.
- Strategic risks arise from long-term policies or strategic objectives taken by the organization to maintain operational competitiveness.
- Financial risks are concerned with the effective management and control of the finances of the organization and the effects of external factors such as availability of credit, foreign exchange rates fluctuations, interest rates movements and other market exposures.
- Compliance risks concern issues such as occupational, health & safety, environmental, trade regulations, consumer protection, data and intellectual property protection, employment practices and regulatory requirements.

2.2 What is Risk Management?

Risk Management is a process consisting of well-defined steps which, when taken in sequence, support better decision making by contributing to a greater insight into risks and their impacts. It is as much about identifying opportunities as it is about avoiding losses. Adopting effective Risk Management techniques can help to improve safety, quality and business performance of an organization. Risk Management is:

- the art and science of identifying, analyzing and responding to risk factors throughout the life of an organization and in the best interests of its objectives,
- the preparation for possible events in advance, rather than responding as they happen,
- the formal process whereby risk factors are systematically identified, assessed and provided for,
- taking informed decisions on risk and exploiting the balance of risk and reward,
- integral to the whole business,
- the responsibility of the board and key managers throughout the business, and
- A continuous and evolving process relevant to all aspects of the organization's business.

Effective Risk Management requires accountability and the appropriate balance of risk and control.

The Risk Management process is a framework for identifying risks and deciding what to do about them. However, not all risks are the same. Therefore, Risk Management is not just about identifying risks.

- It is about learning to evaluate various risks and making decisions about which risks deserve immediate action.
- Risk Management is a continuous and developing process which runs throughout the organization's strategy and the implementation of that strategy.
- It must be integrated into the culture of the organization with an effective policy and a programme led by the most senior management.

- It must translate the strategy into tactical and operational objectives, assigning responsibility throughout the organization with each manager and employee responsible for the management of risk as part of their job description.
- It supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.

2.3 Benefits of Risk Management

There are many benefits in implementing Risk Management procedures. Some of these include:

- more effective strategic planning,
- can play a part in successfully implementing change initiatives,
- enhancing shareholder value by minimizing losses and maximizing opportunities through identification new opportunities for business areas,
- increased knowledge and understanding of exposure to risk,
- a systematic, well-informed and thorough method of decision making Better utilization of resources which leads to better cost control,
- strengthening culture for continued improvement as it has the potential to re-orient work of the individual departments and the organization, as a whole, around performance improvement,
- creating a best practice and quality organization,
- provides an internal focus on doing the right things properly and can reduce management time spent `fire fighting' since there are fewer sudden shocks and unwelcome surprises, thus minimized disruptions to operations.

3.0 Risk Management Terms of Reference

3.1 Objectives

- To ensure compliance with Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers which is issued by the Taskforce on Internal Control with the support and endorsement of Bursa Malaysia Securities Berhad (“Bursa Securities”);
- To ensure that the Risk Management framework is consistently adopted and is within the parameters established by the Board of Directors;
- To ensure that a Risk Management framework is implemented and embedded in the business processes.
- Address other matters related to risks that may arise from time to time.

3.2 Principles

The principles listed below are intended to provide a general risk management policy framework for evaluating and reducing risks, while recognizing risk analysis is an evolving process.

- The depth or extent of the analysis of risks, benefits and costs associated with a decision should be commensurate with the nature and significance of the decision.
- Employ the best reasonable obtainable information from various sources to conduct risk assessment exercise.
- The risk categorization should be broad enough to inform the range of activities to reduce risks identified.
- Judgment used in evaluating a risk assessment, such as assumptions, defaults, and uncertainties, should be clearly stated. The rationale for these judgments and the influence on the risk assessments should be articulated.
- Employ the best reasonable risk mitigation strategy by avoiding, preventing, reducing, transferring, neutralizing risks and uncertainty.

3.3 Function of Risk Management

The Audit and Risk Management Committee ("ARMC") is responsible to discharge the Risk Management functions for the Group. The Risk Management Working Group is responsible to assist the ARMC to discharge the Risk Management functions at its respective subsidiary. The Internal Auditor plays an independent role in reviewing the effectiveness of the Risk Management. For the Risk Management aspect, the Internal Auditor shall support and advise the ARMC and the ARMC shall inform Board of Directors on the implementation and monitoring of the Group Risk Management Policy, Strategy and Profile.

3.4 Members of ARMC

The ARMC comprises entirely of Independent Non-Executive Directors. However, the ARMC may invite the Executive Directors and any other appropriate officers to attend the meetings.

3.5 Members of Risk Management Working Group

The Risk Management Working Group ("RMWG") shall comprise of all the Executive Management team that comprises of Group Chief Executive Officer, Heads of Divisions and / or Heads of Department. However, the RMWG may invite any other appropriate officers to attend the meetings.

3.6 Minutes & Meetings

- Meetings of the ARMC and RMWG shall be held periodically and may be called at any time at the discretion of the ARMC Chairman or directed by the ARMC / Board of Directors.
- The minutes of each meeting shall be minuted and filed.

3.7 Responsibilities and Duties of RMWG

The RMWG shall consider any matters relating to the identification, assessment, monitoring and management of risks associated with the Group that it determines to be appropriate. In respect to the Risk Management, the duties of the RMWG shall include:-

- Identify, assess and monitoring of risks associated with the operations of the Group;
- Development and implementation of internal compliance and control systems and procedures to mitigate and/or manage risks;
- Assessment, monitoring and evaluate of the effectiveness of controls instituted;
- Review and make recommendations to the ARMC in relation to Risk Management;
- Consider, and make recommendations to the ARMC in connection with, the compliance by the Group with its Risk Management Strategy;
- Report to the ARMC on any material changes to the risk profile of the Group;
- Monitor and refer to the ARMC any instances involving material breaches or potential breaches to the Group's Risk Management Strategy;
- Report to the ARMC in connection with the Group's annual reporting responsibilities in relation to matters pertaining to the Group's Risk Management Strategy;
- Undertake annual review, in accordance with the Group's Risk Management framework and to make recommendations to the ARMC in connection with changes required to be made to the Group's Risk Management Strategy;

ARMC shall have the authority to seek any information it requires from any officer or employee of the Group or its subsidiary companies and such officers or employees shall be required to respond to such enquiries;

ARMC is authorized to take seek independent professional advice as it considers necessary. On periodical basis, the ARMC will review its own performance and Terms of References to ensure that it is operating at maximum effectiveness, recommending any changes it considers necessary to the Group.

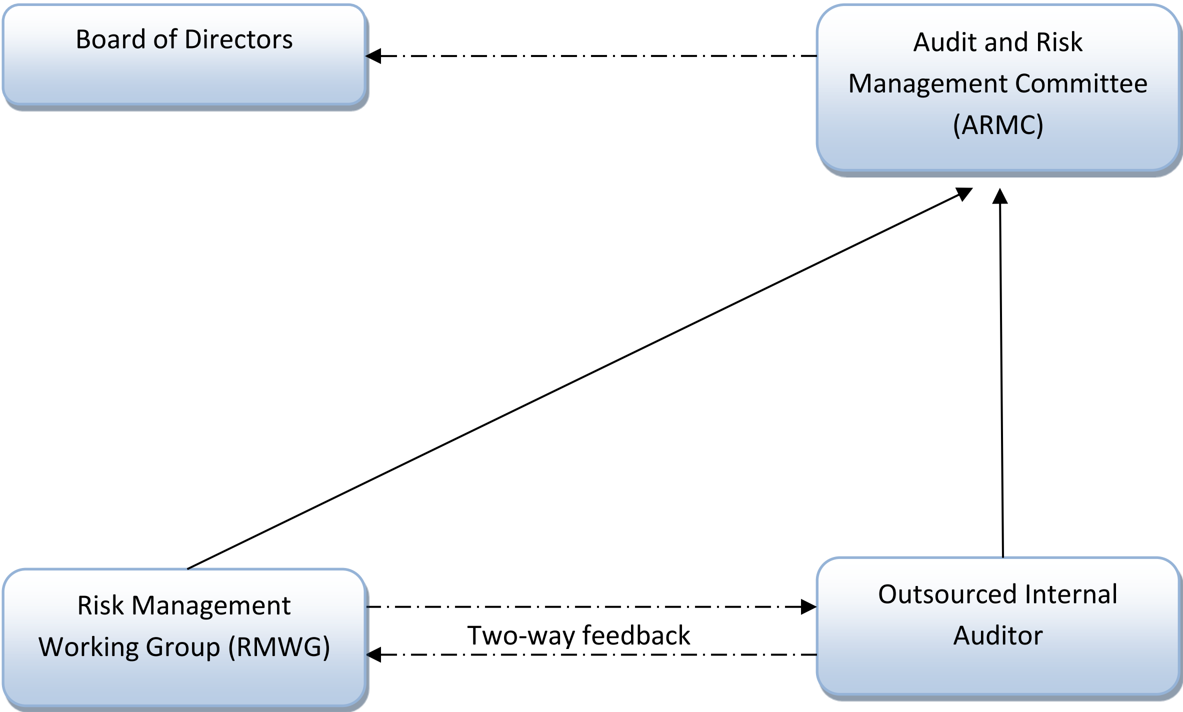
3.8 Responsibilities and Duties of the Internal Auditor

The Internal Auditor shall review the effectiveness of the Risk Management System to ensure risks are adequately managed and controlled. In respect to the Risk Management, the duties of the Internal Auditor shall include:-

- Assist ARMC to discharge the required Internal Control and Risk Management Functions;
- Review the risk profile and report to ARMC on the effectiveness of the risk management system;
- Highlight significant risks identified to ARMC;
- Feedback significant risks identified during internal audit reviews to ARMC;
- Develop Risk Based Internal Audit Plan for internal audit reviews.

4.0 Reporting Structure and Roles & Responsibilities

4.1 Reporting Structure



Notes:

Risk factors should be identified and discussed as one of the agenda in the RMWG.

Feedback (dash-dot arrow)
Functional Reporting (solid arrow)

4.2 Roles & Responsibilities (In respective to Risk Management)

Board of Directors

- Align and approve the corporate objectives and policies.
- Review the system of internal controls and risk management which includes the establishment of an appropriate control environment and framework.
- Establish an ongoing process for identifying, evaluating and managing significant risks.

Audit and Risk Management Committee (ARMC) (Independent)

- Review adequacy of scope, functions, competency and resources of internal audit functions
- Review and assess the performance of internal audit functions
- Review the adequacy and effectiveness of the Group's internal control system, risk management, administrative, operating and accounting policies
- Feedback significant risks reported to Board of Directors, if necessary
- Review any related party transactions and conflicts and interest situations
- Delegation of authority in accordance with the policies
- Identify access and review significant rules.

Outsourced Internal Audit

- Assist ARMC to discharge the required Internal Control and Risk Management Functions,
- Review of risk profile and report to ARMC on the effectiveness of the risk management system
- Highlight significant risks identified to ARMC
- Feedback significant risks identified during internal audit reviews to ARMC
- Develop Risk Based Internal Audit Plan for internal audit reviews.

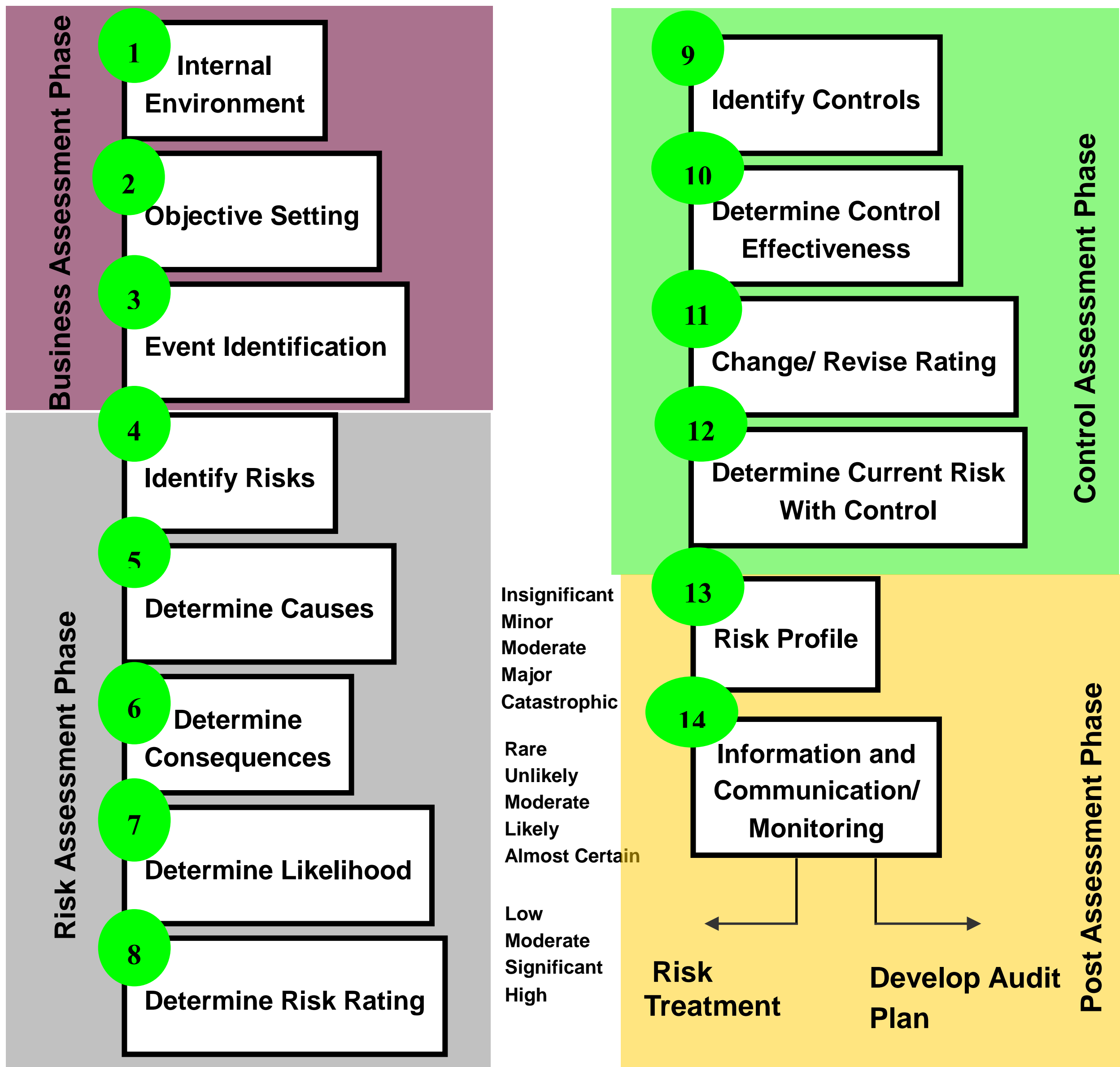
Risk Management Working Group (RMWG)

- Implement Risk Management Control framework and measurements,
- Continuous Risk Management review and assessment,
- Report to the ARMC on any material changes to the risk profile of the Group,
- Highlight significant risks identified to ARMC

5.0 Risk Management Framework

For this process to function there must be a framework for it to be 'built' upon. This Risk Management Framework (Diagram 5.0) and clear allocation of responsibility for risk activities must be clearly communicated throughout the organization (upwards to all echelons of management and downwards to every employee of the organization).

Diagram 5.0 Risk Management Framework



6.0 Risk Measurement

6.1 Qualitative Measure of Risk Consequences

Factor	Consequences				
	Insignificant	Minor	Moderate	Major	Catastrophic
Financial					
Shareholder Equity	Above 50% of Issued and Paid Up Capital	46% to 50% of Issued and Paid Up Capital	36% to 45% Issued and Paid Up Capital	25% to 35% of Issued and Paid Up Capital	Less than 25% of Issued and Paid Up Capital
Revenue	Above 13% of Issued and Paid Up Capital	11% to 13% Issued and Paid Up Capital	8% to 10% of Issued and Paid Up Capital	5% to 7% of Issued and Paid Up Capital	Less than 5% of Issued and Paid Up Capital
Cash flow impact	No impact	Cash flow impact absorbed under normal operating conditions	Cash flow may be affected	Cash flow may be adversely affected	Imminent cash flow problems
Delayed collection (amount not collected which is > 90days ÷ total billings)	Delayed collection of <10%	Delayed collection of 10% to 20%	Delayed collection of > 20% to 40%	Delayed collection of > 40% to 70%	Delayed collection of > 70%
Non financial					
Delay in executing tenancy agreements	No delay	Delay of < 1 month	Delay of < 1 month > 3 months	Delay of > 3 months to 6 months	Delay > 12 months
Percentage of customer complaints upon receipts of keys (per project / tenancy)	0-2% of customers have major complaints.	>2% - 5% customers have major complaints	> 5% - 10% customers have major complaints	> 10% - 30% customers have major complaints	>30% customers have major complaints.

Factor	Consequences				
	Insignificant	Minor	Moderate	Major	Catastrophic
Effect from Safety Health Environment issues	Minor complain by a staff or third party	Complain by a staff or third party	First warning received from DOE and DOSH	Continuous warnings received from DOE and DOSH	Closure of one project/site
Ethics, regulations or contract violation	Insignificant effect	Isolated violations and/or minor penalties	Limited violations and/or moderate penalties	Some violations and/or material penalties	Frequent violations and/or severe penalties
Image /Reputation	No impact on image/reputati on	There is potential impact on image/ reputation	Image/reputatio n will be affected the short term	Serious diminution in image/reputati on with adverse publicity	Sustained, serious loss in image/ reputation
Risk Consequence	Impact can be readily absorbed through normal activity	An adverse event which can be absorbed with some management effort	A serious event which requires additional management effort	A critical event which requires extraordinary management effort	Disaster with potential to lead to collapse.

6.2 Determine Likelihood

Likelihood	Example Explanation	Value
Almost Certain	High likelihood of occurrence unless controlled, i.e. almost certain to occur more than once within the next twelve months, e.g. past history	5
Likely	The risk is almost certain to occur within the next twelve months, unless controlled, e.g. past history	4
Moderate	Some likelihood of risk occurring unless controlled, i.e. the risk could occur at least once in the next 3 years	3
Unlikely	The risk could occur at least once in the next 3-5 years, e.g. past history in general industry and commerce	2
Rare	Very low potential for occurrence, e.g. unlikely to occur in the next 5 – 10 years	1

6.3 Assessing Impact

Impact	Rating	Description
5	Catastrophic	Loss of ability to sustain ongoing operations. An event or situation that would cause a stand-alone business to cease operation.
4	Major	Reduced ability to achieve strategic objectives and targets e.g. • Sales/ Revenue Growth • Market Share • Earnings per share • Brand Name/ Reputation Building Reduced ability to achieve business objectives e.g. • loss of market confidence; • loss of key customers and sales opportunities; • short term loss of operation capability or distribution/ supply chains; • incurring excessive costs which impact ongoing profitability; • permanent reduction in product quality; and • Loss or misappropriation of significant assets.
3	Moderate	Disruption to normal operations with a limited effect on achievement of corporate strategy and objectives e.g. • temporary loss of operation and distribution/ supply chains; • credibility damaged to some extent; • correctable product quality impact; and • Loss of assets.
2	Minor	No material impact on the achievement of corporate strategy and objectives e.g. • minor loss of operation capability; • limited damage to reputation; • loss of audit trail; and • Minor cost, quality and time impacts.
1	Insignificant	Accounting/ administrative problems with no legal, decision-making or profit and loss impact.

7.0 Implementing Risk Management Process

7.1 Select Appropriate Risk Management Strategy

Risk Management Strategies involve either preventing losses from happening or reducing the adverse effects of the risk.

Transfer
Transferring of risk refers to a contractual transfer of legal and financial responsibility for a loss to another party. Using indemnity, disclaimer, waiver or release clauses or sale by way of agent is a way to accomplish a transfer of risk.

Reduce
Reduction is simply changing an activity to make it less risky. Reducing a risk involves practicing loss prevention or implementing measures to reduce the chances or degree of loss. By implementing controls, certain risks can be reduced.

Accept
There are two ways to accept risk. The first is by design. By ‘accepting’ a risk, the organization acknowledges the presence of the potential threat and yet chooses to proceed. This can be a rational and appropriate approach to managing risk. Where organizations get into trouble is when risk is retained unintentionally. Unintentional retention of risk can be the result of failing to understand the exclusions of an insurance policy, insufficient understanding of the scope of risk an organization faces or simply because no one has taken the time to consider the risk and how it can addressed.

Diversify
To ‘diversify’ should not be confused with to ‘transfer’. To diversify a risk means to ‘spread’ the risk so that the effects are not far reaching and I or crippling to the organization.

Eliminate
Eliminating the activity which gives rise to the risk is the simplest method of controlling risk. By simply choosing not to undertake that particular activity, there will be no risk. However, if all risky activities are eliminated, not only will there be no risk, there will also be no profit! No risk, no gain.

A useful tool to help you decide on the control strategy to take is a ‘decision tree’ as illustrated in Diagram 7.1

Diagram 7.1 Decision Tree for Deciding on a Control Strategy

Consider Control Strategy

Transfer — Yes → Pass to 3rd Party to Manage

No

Reduce — Yes → Consider Control Strategy

No

Accept — Yes → Monitor

No

Diversify — Yes → Action Plan

Residual Risk

No

Eliminat — Yes → Develop Exit Strategy

No

Reconsider Control Strategy