

## INTRODUCTION

In compliance with Bursa Securities' Listing Requirements, the Board is pleased to present this statement on internal control. To prepare this statement the Board has been guided by the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("the Guidance") issued by The Institute of Internal Auditors, Malaysia with the endorsement of Bursa Securities.

## BOARD RESPONSIBILITY

The Board acknowledges its responsibility to maintain a sound system of internal control in the MBf Group and to review the adequacy and integrity of the system to safeguard the shareholders' investments and the MBf Group's assets. As with the inherent limitations in any system of internal control, the Company's system too is designed to manage rather than eliminate the risk of failure to achieve its business objectives. The system of internal control is designed to provide reasonable assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating, monitoring and managing the significant risks faced by the MBf Group. This process has been in place throughout the year under review and up to the date of this Annual Report. Such process is also applied consistently throughout the MBf Group and is regularly reviewed by the Board. The Board has established an internal audit function which is carried out in-house via the Group Internal Audit Department. This audit function covers all principal areas of operations and continuously offers assurances on the system of internal control. The internal audit function is independent of the activities it audits and audits are performed with impartiality, proficiently and with due professional care. The internal audit function reports to the Audit Committee whose members are all independent and non-executive members of the Board. It is the practice of the Board to review the internal audit function's scope of work, authority and resources at least once a year. All reports by the internal audit function are presented to the Audit Committee whom shall ensure that all risks identified are satisfactorily dealt with.

## RISK MANAGEMENT FRAMEWORK

The Board has established an organisation structure with clearly defined lines of accountability and proper delegation of authority. It has extended the responsibilities of the Audit Committee to include the identification, evaluation, management and continuous monitoring of significant risks affecting the achievement of the MBf Group's business objectives. The Audit Committee carries out its functions with the assistance of the Group Internal Audit Department.

## KEY INTERNAL CONTROL PROCESSES

The key processes that the Board has established in reviewing the adequacy and the integrity of the system of internal control are as follows:-

- 1) The risk management principles and procedures are clearly documented by the individual subsidiary companies indicating their respective risks and the internal controls to manage these risks to achieve their business objectives. The respective board of directors of the subsidiary companies continuously identifies the key risks and evaluates the risks to formulate the risk mitigation measures.

- 2) The Board regularly receives and reviews management reports which highlight the key performance indices, legal issues at hand, environmental and key regulatory matters. The Board deliberates on these matters and where necessary, ensures that actions are taken to resolve issues promptly and satisfactorily.
- 3) There is a structured budgeting and forecasting system in place. Each operating subsidiary company submits its business plan and its performance is monitored, where variances are accounted for and reported. This is conducted on a monthly basis.
- 4) The Group Internal Audit Department, reporting to the Audit Committee, performs regular reviews of business processes to assess the effectiveness of the system of internal control and highlight significant risks affecting the MBf Group with recommendations on risk mitigation measures.
- 5) The Audit Committee, on behalf of the Board, regularly reviews and holds discussions with Company's Management Team on the internal control issues highlighted by the Group Internal Audit Department.
- 6) The MBf Group has a stringent staff recruitment process and regular staff performance appraisal exercises. Training programmes are conducted regularly to increase the level of competency and professionalism of the staff.

The Board reports that there had been no significant weaknesses in the system of internal control of the Company and subsidiary companies that had resulted in material losses, contingencies or uncertainties requiring disclosure in the Annual Report. The Board is of the opinion that the system of internal control throughout the MBf Group for the year under review and up to the date of the Annual Report is sound and sufficient to safeguard shareholders' investments and the MBf Group's assets.

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors had reviewed this Statement on Internal Control for inclusion in this Annual Report of MBfH and reported to the Board that they had not noted any:-

- 1) inconsistency with their understanding of the processes adopted by the Board in reviewing the adequacy and integrity of the system of internal controls; and
- 2) significant weaknesses in the internal controls that had resulted in material losses, contingencies or uncertainties requiring disclosure in the Annual Report.