

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Board of Directors (“the Board”) of Federal International Holdings Berhad is pleased to present its Statement on Risk Management and Internal Control for the financial year ended 30 June 2019, which has been prepared in accordance with the “Statement on Risk Management & Internal Control – Guideline for Directors of Public Listed Issuers” issued by Bursa Malaysia Securities Berhad and taking into consideration the Malaysian Code on Corporate Governance 2017.

RESPONSIBILITY

The Board and the Company strive to ensure a sound system of risk management and internal control to safeguard shareholders’ investment and the Company’s assets.

The risk management and internal control system is designed to enable the Group to manage rather than to eliminate risks. The Board acknowledges that risks cannot be completely eliminated and the system can only provide reasonable and not absolute assurance against material misstatement, loss and fraud.

The risk management and internal control system continuously identify, evaluate and manage the significant risks faced by the Group and was in place for the financial period under review up to the date of approval of the annual report.

The processes within the internal control system are regularly reviewed by the Board and are in accordance with the guidance as contained in the Statement on Risk Management & Internal Control - Guidance for Directors of Listed Issuers.

The Board has received assurance from the Managing Director and the Chief Financial Officer that the Group’s risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Group.

The Board adopted a Risk Management policy that provides an overview of the Management enterprise-wide approach to risk management and illustrates examples of how the approach is implemented within the Group.

RISK MANAGEMENT FRAMEWORK

The Group recognizes that effective Risk Management is firmly embedded in the Company’s management system as Management firmly believes that risk management is critical for the Company’s sustainability and the enhancement of shareholder value.

The Group has in place process for the selection, implementation, assessment and monitoring of the major strategic, business and operation risks within the Group. The process has been in place for the financial year under review and up to the approval of this statement for inclusion in the annual report.

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The key aspects of the risk management framework are:

Categorise – Categorise the information by its potential impact on the organisation.

Select - Select security controls. Find out the most appropriate control systems for the needs of the organisation and the nature of the potential risks.

Implement - Implement security controls and keep a record of how the controls are used in the context of the information system and the general risk management approach.

Assess - Assess the security controls using objective, factual measuring systems to determine their effectiveness against the pre-defined objectives.

Authorise - Authorise operations based on the information gathered, the objectives and the degree of risk that the company is able to assume.

Monitor - Monitor the security controls and their effectiveness on an ongoing basis, documenting changes, flaws, potential improvements and the overall state of the risk management programme to report to the management board.

KEY PROCESSES

The key processes that have been established by the Board in reviewing the adequacy and effectiveness of the risk management and internal control system include the following:

- The Group's internal audit department conducts regular reviews of business processes to assess the adequacy and effectiveness of the risk management and internal controls and highlight significant risks impacting the Group.
- The internal audit department reports to the Audit and Risk Management Committee who regularly reviews and holds discussions with the internal audit department and management on the findings and recommendations in reports prepared by the internal audit department.
- The Board receives and reviews regular reports from management covering the financial performance and key business indicators of various business operating units.

INTERNAL AUDIT FUNCTION

The Company has an Internal Audit Department that reports to the Audit and Risk Management Committee on a quarterly basis. The Audit and Risk Management Committee reviews the annual internal audit plan, which was co-developed by the Internal Audit Department and management. Applying a risk-based approach, periodic internal audit visits have been carried out to review the adequacy and integrity of key internal controls of the Group's business to provide an independent assurance on the systems of internal control.

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Review of this Statement

The External Auditors have reviewed this Statement pursuant to the scope set put in Audit and Assurance Practice Guide (“AAPG”) 3, *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants (“MIA”) for inclusion in the annual report of the Group for the financial year ended 30 June 2019 and reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the processes adopted by the Board in reviewing the adequacy and integrity of the system of internal controls.

AAPG 3 does not require the external auditors to consider whether the Directors’ Statement on Risk Management and Internal Control covers all risk and controls, or to form an opinion on the adequacy and effectiveness of the Group’s risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon.

Conclusion

The Board is of the view that the Group’s risk management and internal control systems are in place for the year under review, and up to the date of approval of this Statement, is sound and adequate to safeguard shareholders’ investment, interests of customers, regulators, employees and other stakeholders, and the Group’s assets. Notwithstanding this, on-going reviews are continuously carried out to ensure the effectiveness of the system.

The Board is committed towards operating a sound system of internal control and effective risk management throughout the Group. As such, the Board will, when necessary, put in place appropriate action plans to rectify any potential weakness or further enhance the system of internal control.