

# **SALCON BERHAD**

## **- TERMS OF REFERENCE FOR RISK MANAGEMENT COMMITTEE**

### **Part 5 Terms of Reference**

#### **5.1 Board of Directors (BOD)**

Salcon Berhad's Board retains the overall risk management responsibility, in accordance with Principle A, Malaysian Code on Corporate Governance; which requires the Board to:

- I. Ensure there is a sound framework for internal controls and risk management;
- II. Understand the principal risks of the Company's businesses and recognise that business decisions involve the taking of appropriate risks;
- III. Set the risk appetite within which the Board expects Management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks.

Hence, the roles and responsibilities of the BOD in risk management are as follows:

##### **5.1.1 Primary Responsibilities**

The BOD shall assume full responsibilities over the effectiveness of the Group's risk management and internal control systems. The BOD will, through the establishment and supervision of an operating risk framework, manage the various risks faced by the Group.

This framework shall include the following:

- 5.1.1.1 Set the tone and culture of risk management within the Group which includes:
  - a) Determining any relevant risk issues;
  - b) Determining types and acceptability of risks;
  - c) Setting the standards and expectations of staff with respect to conduct and probity;
  - d) Setting a risk management policy;
  - e) Setting the risk profile of each business unit within the Group which ranks the risks in accordance to its relative weight/ risk factors;
- 5.1.1.2 Determine the appropriate risk appetite or level of exposure for the Group;
- 5.1.1.3 Approve major decisions affecting the Group's risk profile or exposure;
- 5.1.1.4 Monitor the management of significant risks to reduce the likelihood of unwelcome surprises;
- 5.1.1.5 Conduct reviews of control activities / operations on high risk areas. Satisfy itself that the risks are being actively managed, with the appropriate controls in place and working effectively;

- 5.1.1.6 Evaluate the control activities / operations and express an opinion on the systems of internal controls;
- 5.1.1.7 Monitor changes in business conditions and operating style; and
- 5.1.1.8 Evaluate changes against risks identified earlier and internal control systems.

The BOD also performs assessments of the Group's risk management and internal control system and the results are disclosed within Salcon's annual reports.

Kindly refer to Salcon's Annual Report's:

- (a) Corporate Governance Statement;
- (b) Audit Committee Report; and
- (c) Statement of Risk Management and Internal Control.

*Note:*

*Please refer the Group's website: [www.salcon.com.my](http://www.salcon.com.my) for Annual Reports.*

## **5.1.2 Secondary Responsibilities**

The BOD may delegate certain aspects of the work to other committees established as deemed appropriate. However, it is the responsibility of the BOD to form its own opinion on the adequacy of the work performed; after due care and careful inquiry by it or its committees.

The BOD has established an Audit Committee (AC) which is separately governed by the AC terms of references.

The Board shall approve the risk management strategies but will delegate authority for operational decisions on risk management to the Risk Management Committee.

## **5.2 Risk Management Committee (RMC)**

Whilst the BOD retains ultimate responsibility for risk management and for determining the appropriate level of risk appetite, a RMC has been established to provide assurance concerning the group's risk profile to the Board. A RMC established at the group level shall meet at least once a year. Meetings can be conducted at more frequent intervals should conditions require.

The objectives of the RMC are:

- i. To be at the forefront of the Enterprise-wide Risk Management Program and ensure that a risk management structure is embedded throughout Salcon Berhad;
- ii. To ensure that the risk management structure is consistently adopted throughout the group and is within the parameters established by the Board; and

- iii. To ensure compliance with external requirements such as Bank Negara Malaysia (BNM) and Bursa Malaysia Securities Berhad (BURSA), etc.

### ***5.2.1 Authority and Scope***

The BOD has authorized the RMC to oversee all risk management activities within the group including compliance with the risk management strategy. The RMC reports to the BOD.

### ***5.2.2 Composition***

The membership of the RMC should be approved by the Board and include a mixture of risk and business management knowledge and experiences, and include a Non-Executive Director in the role of Chairman.

### ***5.2.3 Meetings***

Meetings of the Committee shall be held at least once a year. Meetings can be conducted at more frequent intervals should conditions require. The Chairman of the Committee shall call a meeting if so directed or requested by the BOD or members of the Committee.

The Company Secretary shall ensure that proper minutes are kept of each meeting for approval by the Committee.

### ***5.2.4 Responsibilities***

- a. Establishing Strategic Context – Ensuring that the strategic context of the risk management strategy is complete and takes into account the environment within which the group operates and the requirements of all stakeholders and the BOD;
- b. Establishing Risk Management Processes – Determining the overall risk management processes that should be adopted by the Companies / Divisions and overseeing the development of appropriate guidelines and policies for implementation;
- c. Establishing Risk Management Structure – Ensuring both short-term and long-term risk management strategies, framework and methodologies have been implemented and consistently applied by the Group;
- d. Embedding Risk Management Capability – Ensuring risk management processes are integrated into all core business processes and that the culture of the organization reflects the risk consciousness of the Board;
- e. Establishing Reporting Mechanisms – Providing a consolidated risk and assurance report to the BOD and AC, to support the statements relating to internal controls in the Company's annual report;
- f. Integrating & coordinating assurance activity – Ensuring alignment and coordination of risk and assurance activities across the organization;

- g. Establishing Business Benefits – Identifying opportunities to release potential business benefits through the enhancement of risk management capabilities within the Group;
- h. Establishing Effectiveness of Risk Management Processes – Simplifying and improving the effectiveness of existing risk management structures;
- i. Establishing Controls Effectiveness – Ensuring effective assessment and monitoring of mitigating controls implemented to reduce the significance and impact of identified risks;
- j. Managing the Enterprise-wide Risk Management Program – Supporting the implementation of the risk management processes within the business. The RMC will act as a steering committee.

### **5.3 Risk Management Working Group (RMWG)**

The RMWG is established at the business unit level and shall meet at least once a year. Meetings can be conducted at more frequent intervals should conditions require.

The RMWG shall comprise of the respective Heads of Business Units or Companies / Joint Ventures / Divisions / Departments in the Group; which then, consist of a range of complementary skills and resources. The RMWG is headed by the Chief Operating Officer (COO).

The Internal Audit & Risk Management Department (IARMD) shall act as a **coordinator and facilitator** for the periodic summarizing of key significant risks across all business units/companies, joint ventures, divisions or departments.

The RMWG's principal roles and responsibilities are:

1. To identify and communicate to the RMU and RMC, the critical risks (present or potential) the business unit faces, their changes, and the management action plans to manage the risks;
2. To communicate risk management requirements in the Group;
3. To review risk profiles and performances for the Group; and
4. To review and update risk management methodologies applied, specifically those related to risk identifications, measuring, controlling, monitoring and reporting.

Significant risk issues evaluated by the RMWG and/or major changes proposed by the RMWG will be discussed at management meetings and also in the meetings convened by the RMC.

In essence, risk areas are dealt and contained at the respective business unit level, and are communicated upwards to the RMC through RMWG. The business unit's Management may delegate their business units' reporting functions to the RMWG, but they shall retain the overall risk responsibility.

### **5.4 Risk Management Function**

A Risk Officer, acting in the role of Risk Management Function; is responsible for the operational day-to-day risk management and coordination activities for the Group inclusive of liaison with both the RMWG and RMC.

The Risk Officer (who is primarily accountable for the permanent effectiveness of the risk management system) should be distinguished from a Risk Owner, the latter being such person within the Group who is able to actively influence the identified risk through decisions and actions.

The following functions and duties are incumbent on a Risk Officer:

- a) Acting as central contact and guide for Enterprise Risk Management (ERM) issues within the Group;
- b) Coordinating the issuance of group-wide uniform ERM standards, combined with the authority to set guidelines with the approval of Salcon's RMC;
- c) Coordinating and supervising ERM policy implementation within the Group;
- d) Developing and updating the ERM system at Group level after consulting the RMC;
- e) Documenting the ERM system;
- f) Condensing ERM and risk situation information;
- g) Aggregating the Group's risk positions and periodic reporting to the Board on the risk situation/status; and
- h) Training and communicating ERM details within the Group.
- i) A listing of the key contact person on risk management issues for all the respective entities will be centrally maintained by the Risk Officer. The Risk Officer will undertake the task of updating applicable changes.