

## **STATEMENT ON INTERNAL CONTROL**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

### **INTRODUCTION**

The Malaysian Code on Corporate Governance stipulates that the Board of Directors of listed companies should maintain a sound system of internal control to safeguard shareholders' investment and Group assets. Set out below is the Board of Directors ("the Board") of Sunway Holdings Incorporated Berhad's ("the Group") Statement on Internal Control ("Statement") as a Group, made in compliance with Paragraph 15.27 of the Kuala Lumpur Stock Exchange Listing Requirements and the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

### **THE BOARD'S RESPONSIBILITY**

The Board places importance on, and is committed to maintaining a sound system of internal control and effective risk management practices in the Group to ensure good corporate governance. The Board affirms its responsibility for reviewing the adequacy and integrity of the Group's system of internal control and management information systems, including systems for compliance with applicable laws, rules, directives, guidelines and risk management practices.

Notwithstanding, as with any internal control system, the Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. It follows, therefore, that the system of internal control can only provide reasonable but not absolute assurance against material misstatement or loss.

In the case of associated companies, the systems of internal controls are managed by the management of those companies. This statement therefore does not cover these associated companies.

### **THE GROUP'S SYSTEM OF INTERNAL CONTROL**

#### **Monitoring Mechanisms and Management Style**

Scheduled periodic meetings of the Board, Board Committees and management represent the main platform by which the Group's performance and conduct is monitored. The daily running of the business is entrusted to the President, Managing Director ("MD") and their management team. Under the purview of the President and MD, the respective heads of each operating subsidiary and department of the Group are empowered with the responsibility of managing their respective operations.

The Board is responsible for setting the business direction and for overseeing the conduct of the Group's operations through its various Board Committees and the various management reporting mechanisms. Through these mechanisms the Board is informed of all major control issues pertaining to internal controls, regulatory compliance and risk taking.

#### **Enterprise Risk Management Framework**

In dealing with its stewardship responsibilities, the Board recognises that effective risk management is part of good business management practice. The Board acknowledges that all areas of the Group's activities involve some degree of risk and is committed to ensuring that the Group has an effective risk management framework which will allow the Group to be able to identify, evaluate and manage risks that affect the achievement of the Group's business objectives within defined risk parameters in a timely and effective manner.

It is the Board's view that the Group's objectives, its internal organization and the environment in which it operates continuously evolve; and as a result, the risks that it faces also change. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the Group is exposed.

Against this backdrop, in December 2002, the Board appointed a professional services firm to assist the Group in establishing a formal Enterprise Risk Management framework. This project, which is currently in progress, includes the development of a risk management policy which would drive the risk management activities of the Group as well as establishment of a formal risk management oversight structure to oversee these activities.

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Notwithstanding the above, the Group's annual business plans include internal and external analysis which enable the Group to identify and manage any potential hurdles the Group may face in realising its objectives as well as to fully leverage on any profitable ventures in the market place.

### **Key Elements of the Group's System of Internal Control**

The current system of internal control in the Group has within it, the following key elements:

- Clear Group vision, mission, corporate philosophy which is communicated to employees at all levels.
- An effective Board which retains control over the Group with appropriate management reporting mechanisms which enable the Board to review the Group's progress.
- Board approved annual budgets and management plans, prepared by each subsidiary company during the Business Plan exercise consider the relevant strengths, weaknesses, opportunities and threats including competitor, market and broader environmental analysis.
- Relevant Board Committees with formal terms of references clearly outlining their functions and duties delegated by the Board.
- Management meetings involve discussion on operational issues at the respective subsidiary level.
- Formal risk identification exercise carried out by Sunway Construction Berhad, a major subsidiary, considering risks from various facets of its activities.
- Policies and procedure manuals that provide guidelines on, and authority limits over various operating, financial and human resource matters.
- A systematic performance appraisal system.
- Relevant training provided to personnel across all functions to maintain a high level of competency and capability.
- Continuous quality improvement initiatives to obtain accreditation for all subsidiaries such as ISO and OHSAS certification.
- An internal audit function which carries out internal audits based on an annual risk based audit plan approved by the Audit Committee (see also Assurance Mechanisms below).

### **Assurance Mechanisms**

The Audit Committee ("AC") is tasked by the Board with the duty of reviewing and monitoring the effectiveness of the Group's system of internal control. In carrying out its responsibilities, the AC relies significantly on the support of the Group Internal Audit Division ("GIAD") which carries out internal audits on various operating units within the Group based on a risk-based audit plan approved annually by the AC. Based on these audits, the GIAD provides the AC with periodic reports highlighting observations, recommendations and management action plans to improve the system of internal control. In addition, the AC also reviews and deliberates on any matters relating to internal control highlighted by the external auditors in the course of their statutory audit of the financial statements of the Group. A number of minor internal control weaknesses were identified during the year, all of which have been or are being addressed. None of these weaknesses have resulted in any material impact to the results of the Group.

Additionally for subsidiaries which are accredited with ISO or OHSAS certification, scheduled audits are conducted internally as well as by SIRIM auditors. Results of audits are reported to the Quality Management Committee and Occupational Safety and Health Committee respectively.

The Report of the AC is set out on pages 21 to 26 of the Annual Report.

### **THE BOARD'S COMMITMENT**

The Board recognises that the Group operates in a dynamic business environment in which the internal control system must be responsive in order to be able to support its business objectives. To this end, the Board remains committed towards maintaining a sound system of internal control and believes that a balanced achievement of its business objectives and operational efficiency can be attained.