

# **CME GROUP BERHAD**

## **STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL**

The Statement of Risk Management and Internal Control (“Statement”) is made pursuant to Paragraph 15.26(b) and Practice Note 9 of Bursa Malaysia Securities Berhad Main Market Listing Requirements of which requires Malaysian Public listed companies to outline the nature and scope of risk management and internal control, as a Group, in their Annual Report. The Board of Directors (“The Board”) of CME Group Berhad (“The Group”) is pleased to present the following statement which outlines the nature and scope of internal control of the Company.

### **BOARD RESPONSIBILITY**

The Board recognizes the importance of good practice of corporate governance and is responsible for the adequacy and effectiveness of the Group’s Risk Management and Internal Control System. The Board is committed to maintain a sound system of internal control and risk management for the Group and is responsible for the establishment of an appropriate control environment, risk management framework, processes and structures, and continually reviewing its adequacy and integrity so as to safeguard shareholders’ investment and the assets of the Group.

The Board and Management have implemented a sound system designed to identify and manage risks faced by the Group in pursuit of its business objective including updating the systems in line with changes to business environment, operating conditions and compliance with relevant laws, both local and foreign, all other regulations, policies and procedures. As any system of internal control has inherent limitations, such systems are designed to manage rather than eliminate the risk that may restrict or prevent the achievement of the Group’s business objectives. This internal control system, by its nature, can only provide reasonable but not absolute assurance against material misstatement or losses, fraud or breaches of laws or regulations. The Board has received assurance from the CEO that the Company’s risk management and internal control systems are operating adequately and effectively in all material aspects.

### **RISK MANAGEMENT**

The Group’s overall risk management objective is to ensure that the Group creates value for its shareholders whilst minimising potential adverse effects on its performance and positions.

The Group has in place processes for the identification, evaluation, reporting, treatment, monitoring and review of the major strategic, business and operation risks within the Group. The risk management structure and control mechanism for financial, operational, environmental and compliance matters with Board’s participation, is put in place and embedded throughout the Group during the financial year under review and up to the date of approval of this Statement, so as to manage the significant risks that may affect the Group’s business objectives on a continuous basis and they also allow any new significant risk identified being subsequently evaluated and managed. The Board shall continue to evaluate the existing risk management practices, and where appropriate and necessary, revise such practices accordingly.

## **Enterprise Risk Management (“ERM”) Framework**

The Board is endeavoured to identify the relevant and major risk faced by the Group and regards risk management as an integral part of the Group’s business operations and has oversight over this critical area through the Audit Committee. The Audit Committee, supported by the outsourced Internal Audit department, provides an independent assessment of the effectiveness of the Group’s ERM framework and reports to the Board. The Group’s ERM framework is consistent with the ERM framework and involves systematically identifying, analysing, measuring, monitoring and reporting on the risks that may affect the achievement of its business objectives. This framework helps to reduce the uncertainties surrounding the Group’s internal and external environment, thus allowing it to maximise opportunities and minimise adverse incidences that may arise. The major risks to which the Group is exposed are strategic, operational, regulatory, financial, market, technological, products and reputational risks.

### **GROUP’S ERM FRAMEWORK**

The ERM process is based on the following principles:

- Consider and manage risks enterprise-wide;
- Integrate risk management into business activities;
- Manage risk in accordance with the Risk Management framework;
- Tailor responses to business circumstances; and
- Communicate risks and responses to Management

All identified risks are displayed on a 1-to-3 risk matrix based on their risk ranking to assist Management in prioritising their efforts and appropriately managing the different classes of risks. The Board and Management drive a proactive risk management culture and regular risk awareness and coaching sessions are held to ensure that the Group’s employees have a good understanding and application of risk management principles. There is no dedicated ERM department, however, Group Chief Operating Officer work closely with the Group’s operational managers to continuously strengthen the risk management initiatives within the Group so that it responds effectively to the constantly changing business environment and is thus able to protect and enhance shareholder value.

The Board acknowledged the importance of effective ERM in enhancing shareholder value while upholding a high standard of corporate governance. Combining a strong and sustained commitment from the Board and Senior Management with a clear direction and oversight from all levels of leadership, the Group embraces a holistic risk management approach to achieve its business targets with minimal surprises.

### **INTERNAL CONTROL SYSTEM**

The Board further recognises its responsibility for having an effective internal control system as part of the Internal Audit function of the Group. As more fully described in the Audit Committee Report, an independent internal audit function has been establishment which provides assurance to the Audit Committee on the adequacy and integrity of the Group’s internal controls, the Group in its efforts to provide adequate and effective internal control system had appointed T. H. Kuan & Co, (“TH Kuan”), an independent consulting firm to review the adequacy and integrity of its system of internal control. The internal auditor work closely with management to understand all aspects of CME Group’s business environment and recommend measures to improve the internal controls, where appropriate. They

concentrate on areas in which risk exposures are high and management's area of concern as well as areas which have significant financial impact to the Group. This is to provide reasonable assurance that such systems continue to operate satisfactorily and effectively within the Group.

For the Financial Year Ended 30 September 2024, the area of reviews by TH Kuan include:

- a) Human resource management
  - compliance with established policies and procedures
  - hiring and termination of personal
  - recording and computing of payroll
  - approval and disbursement of payroll, overtime and staff claim
  - maintenance of payroll master files
  - manpower planning and budgeting
  - staff training and development program
  
- b) Property, plant & equipment
  - approval of acquisition of assets
  - completeness of recording
  - safeguard measures
  
- c) Inventory management
  - stock count procedures and process
  - stock card system
  - recording system for stocks
  - security for storage of inventories
  - provision for stock obsolescence

The findings of the internal audit reviews together with Management's responses are circulated to the Audit Committee and Board by TH Kuan. The objective of the internal audit review is to assist the board of directors in performing its oversight responsibilities, and to help increase shareholders' confidence in the Group's system of internal controls.

The review is to determine whether there are significant areas of non-compliance with controls and procedures as indicated in the policies and procedures of the Group that may be detrimental to the Group's financial position.

The Key Elements of The Group's Internal Control System include:

1. The roles and responsible are clearly defined with a clear organisation structure, line of accountability and delegated authority to facilitate the Group's daily operations consistently in line with its corporate objectives, strategies, budget, policies and business directions as approved by the Board;
  
2. Policy guidelines and authority limits are imposed on Executive Directors and Management within the Group in respect of the day to day banking and financing operations, investments, acquisition and disposal of assets. The limits are reviewed and updated regularly to reflect business, operational and structural changes. There are guidelines within the Group for recruitment of staff, training, performance appraisals and other relevant procedures;

3. Quarterly Board meetings and monthly management meetings are held where information is provided to the Board and management covering financial performances and operations;
4. Training and development are provided as and when required by employees with the objective of enhancing their knowledge and competency; and
5. Management accounts and reports are prepared regularly for monitoring of actual performance.

Audits on quality accreditations of the Group by internal auditors and accreditation bodies to ensure compliance with certification and regulatory requirements were conducted. The Group has in place internal control systems at each level of responsibility supported by commitment of management. The Board believes that a sound internal control system reduces, though it cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

#### **REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS**

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Internal Control and Risk Management. Their limited assurance review was performed in accordance with ISAE 3000 (Revised), Assurance Engagements other than Audit or Reviews of Historical Financial Information and AAPG 3, Guidance for Auditors on Engagement to Report to the Statement on Risk Management and Internal Control Included in the Annual Report issued by the Malaysian Institute of Accountants. AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

Based on their procedures performed, the External Auditors have reported to the Board that nothing has come to their attention that caused them to believe that the Statement is not prepared, in all material aspects, in accordance with the disclosures required by Paragraph 41 and 42 of the Guidelines to be set out, nor is it factually inaccurate.

#### **CONCLUSION**

The CEO, being the person primarily responsible for the overseeing and managing of the operational affairs of the Company has provided assurance to the Board that the Group's risk management and internal control system, have been operated adequately and effectively, in all material aspects, based on the Group's policies and procedures. Under the purview of the CEO and the General Managers, the heads of department are empowered with the responsibility of managing their respective operations.

The Board is of the view that the risk management and internal control systems of the Group are satisfactory and have not resulted in material losses or contingencies to the Group for the financial year under review.

The Board has an ongoing commitment to ensure continuous improvement in the effectiveness and integrity of the Group's system of risk management and internal control.

This statement is made in accordance with the resolution of the Board of Directors dated 24 January 2025.