Statement on Risk Management & Internal Control

This Statement on Risk Management & Internal Control is made pursuant to the Malaysian Code on Corporate Governance ("the Code") and Paragraph 15.26 (b) of the MMLR with regards to the Group's state of internal control.

The Board of Directors ("the Board") of CRESCENDO CORPORATION BERHAD ("CCB" or "the Company") is pleased to present below its Statement on Risk Management & Internal Control as a group for the financial year under review, prepared in accordance with the 'Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Companies' ("the Guidelines") issued by the Institute of Internal Auditors Malaysia and adopted by Bursa Securities and taking into consideration the recommendations underlying the Code.

BOARD RESPONSIBILITIES

The Board affirms its overall responsibilities for the Group's system of risk management and internal control, and for reviewing the adequacy and integrity of the Group's risk management and internal control system. The Board's responsibility in relation to the system of risk management & internal control embedded in all aspects of the Group's activities which encompasses all subsidiaries of the Company.

The Board has received assurance from the Executive Chairman and Managing Director and the Group Financial Controller that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects.

However, as there are inherent limitations in any system of risk management and internal control, such system put into effect by Management can only manage but not eliminate all risk that may impede the achievement of the Group's business objectives. Therefore, the risk management and internal control system can only provide reasonable assurance and not absolute assurance against material misstatement or loss. The process to identify, evaluate and manage the significant risks is a concerted and continuing effort throughout the financial year under review.

The Board sets the policy on internal controls after conducting a proper assessment of operational and financial risks by considering the overall control environment of the organisation and an effective monitoring mechanism. The Executive Chairman and Managing Director and his management carried out the process of implementation and maintenance of the control systems. Except for insurable risks where insurance covers are purchased, other risks are reported on a general reporting basis and managed by the respective Committees within the Group.

KEY FEATURE OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The responsibility for reviewing the adequacy and integrity of the risk management and internal control system has been delegated by the Board to the Audit Committee. On a periodic basis, the Audit Committee assesses the adequacy and integrity of the risk management and internal control system through independent reviews conducted and reports it received from the Internal Auditors, the External Auditors and Management. Significant risk management and internal control matters were brought to the attention of the Audit Committee.

The Audit Committee then in turn reports such matters to the Board, if the Audit Committee deems such matters warrant the Board's attention.

Key elements of the Group's risk management and internal control system that have been established to facilitate the proper conduct of the Group's businesses are described below:

i. Control Environment

- **Policies and Procedures**

  Clearly defined policies and procedures are in place and are undergoing constant improvements to ensure that they continue to support the Group's business activities as the Group continues to grow.

- **Operations Review and Monitoring**

  Operations of the Group are constantly monitored with up-to-date reports being presented by the Management. Variances are carefully analysed, and corrective actions are taken where necessary. Detailed reports on performance review with steps to be taken are presented to Executive Directors periodically.

  The Executive Directors, Project Director, Contract Director, General Managers and Deputy General Manager regularly visit the Group's business units. During the visits, the head of business unit report on the progress and performance, discuss and resolve the business unit's operational and key management issues.

- **Organisational Structure and Authorisation Procedures**

  The Group maintains a formal organisational structure with clear lines of reporting to the Board, Committees and Senior Management with defined roles and responsibilities, authority limits, review and approval procedures and proper segregation of duties which supports the maintenance of a strong control environment.

  Specific responsibilities have been delegated to relevant Committees authorised to examine all matters within their scope and report to the Executive Chairman & Managing Director and Executive Directors with their recommendations.

- **Human Capital Policy**

  Comprehensive and rigorous guidelines on the employment, performance appraisal and training program and retention of employees are in place, to ensure that the Group has a team of employees who are well trained and equipped with all the necessary knowledge, skills and abilities to carry out their responsibility effectively.

  Emphasis is being placed on enhancing the quality and ability of employees through training and development. Employees' competencies are assessed annually through the annual appraisal system and subsequently, further development and training requirements are highlighted to Heads of Departments and business units for follow up.

- **Management Style**

  The Board relies on the experience of the Executive Chairman and Managing Director, Executive Directors and the respective business units' management teams to run and manage the operations and businesses of the Group in an effective and efficient manner.

  The Executive Chairman and Managing Director and management adopt a "hands on" approach in managing the businesses of the Group. This enables timely identification and resolution of any significant issues arising.

- **Quality Control**

  Strong emphasis is placed on ensuring that the Group adheres to health, safety and environmental regulations as required by the various authorities.

- **Other Key Elements of Internal Control**

  Other key elements of procedures established by the Board which provide effective internal control include:
  - The Finance Department monitors the activities and performance of the subsidiaries through the monthly management accounts and ensures control accounts are reconciled with the subsidiary's records.
  - Adequate insurance and physical safeguarding of major assets are in place to ensure these assets are sufficiently covered against any mishap that may result in material losses to the Group.
  - Proposals for major capital expenditures of the Group are reviewed and approved by the Executive Directors.
  - Regular Board and management meetings to assess performance of business units.
  - All recurrent related party transactions are dealt with in accordance with the MMLR. The Audit Committee and the Board review the recurrent related party transactions at the respective meetings of the Audit Committee and the Board.
  - Budgetary controls for its projects.
  - Reporting mechanism whereby Executive Directors receive monthly performance and production statistics with explanations and justification.

- **Code of Business Conduct and other related Policies**

  In addition, the following Internal Control components have been embedded and defined in the CG Manual to assist the Board in maintaining sound internal control system:
  - The Code of Ethics and Conduct defines acceptable behaviour for staff in dealing with key stakeholders. The Code of Business Conduct is made available to all staff through their respective Head of Department.
  - Corporate Integrity Policy – Anti Fraud Policy have been developed to define consistent and clear process focused on the prevention, detection and management of fraud and applies to any irregularity, or suspected irregularity, involving employees as well as shareholders, consultants, vendors, contractors, external parties doing business with employees within the Group.
  - Whistle-Blowing Policy had been formulated to encourage and provide a channel to employees to report in good faith and in confidence, without fear of reprisals, of concerns about possible improprieties. Allegations of improprieties which had been reported via the whistle-blowing channel are appropriately followed up upon and the outcome(s) reported at the Audit Committee meetings.

ii. Risk Management Framework

The Board recognises that risk management is an integral part of the Group's business operations and is important for the achievement of its business objectives. The Group has established a Risk Management and Sustainability Committee ("RMSC") that is chaired by the Chairman and Managing Director and its members comprising the Executive Directors, Heads of Divisions & Departments ("HODS") and staff from key operations. They have also been trained to identify the risks relating to their areas; the likelihood of these risks occurring; the consequences if they do occur; and the actions being and/or to be taken to manage these risks to the desired level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operations area having its respective risk register. The risk registers are eventually compiled to form the Group Risk Profile for reporting to the RMSC and the Audit Committee.

Ongoing risk management education and training is provided at Management and staff level by members of the RMSC.

Statement on Risk Management & Internal Control

(Cont'd)

Risk Management & Sustainability Committee

Key Roles:
- Develop Group strategies and policies
- Monitoring sustainable performance

Risk Management & Sustainability Committee - Working Group

Roles:
- To monitor the implementation of sustainability practices and standards
- Raising sustainability practices awareness amongst employees
- Continues stakeholders engagement efforts

Note:
The Chairman of the Working Group can be a member of the Risk Management & Sustainability Committee or appointed by the Risk Management & Sustainability Committee

Tabulated below are the key risks faced by the Group and the mitigation strategies

Key Risk	Effect on us	Mitigation strategies
Softening Market Demand and competition from competitors	The risk arising from the weak macroeconomics that may have an adverse impact on the Group's revenue and lead to higher competition.	This is an Inherent Risk. In order to mitigate the risk, the Management conducts market studies to identify and to understand the needs of customers and ensure our products and services are competitive.
Project Management & Delivery Risk	The risk is associated with potential weak services to customers as well as late deliverables of product and services.	Putting in place an actively managed operational risk management system to ensure the products and services meets expectation, quality checks and controls are performed, and the delivery timelines are closely monitored.
Changes in Regulatory requirements and government policies	Risk that some of the changes could have a negative impact on the Group's operations, environment and possibly financial performance.	Management actively monitors changes in the legal and regulatory requirements to adapt and adopt to ensure compliance. Maintaining regular communication with the Authorities to ensure updates on the changes that have an impact on the Group. In addition, the relevant Departments carry out the following measures: • Liaising closely with government officials and external institutions; • Maintaining close working relationships with financial institutions to counter the cooling policies; and • Adopting methods that are less dependent on labour, whilst improving the productivity and quality of construction work.
Operational Risk: Escalating operational costs and shortage of skilled labour	Movement of building material costs due to external factors e.g. weak Ringgit, increase in inflation and shortage of skilled labour will lead to increasing cost. The construction industry is highly dependent on foreign workers and any change in Government policies may lead to shortage of labour.	Before any new launches, if possible, we will lock in the construction cost with our contractors to keep our costs in check.

iii. Internal Audit Function

The roles, responsibilities and activities of the Internal Audit functions are described and detailed on page 49 under Corporate Governance Overview Statement of this Annual Report.

There were neither major weaknesses in the system identified during the year, nor any of the reported weaknesses resulted in material losses or contingencies requiring disclosure in the Group's Annual Report. Those areas of non-compliance with the procedures and policies and those which require improvements as highlighted by the Internal Auditors during the period have been or are being addressed.

iv. Information and Communication

Information critical to meeting the Group's business objectives are communicated through established reporting lines across the Group. This is to ensure that matters that require the Board and Senior Management's attention are highlighted for review, deliberation and resolution on a timely basis.

v. Review and Monitoring Process

The Group's management teams carry out monthly monitoring and review of the Group's operations and performance, including financial results and forecasts for all business operations within the Group.

In addition to the above, scheduled and ad-hoc meetings are held at operational and management levels to identify, discuss and resolve business and operational issues as and when necessary. The Board monitors the Group's performance by reviewing its quarterly results and operations and examines the announcement to Bursa Securities. These are usually reviewed by the Audit Committee before they are tabled to the Board for approval.

CONFIDENTIAL REPORTING

The Group's Whistle-blowing Policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out on the website at www.crescendo.com.my. The Audit Committee receives reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in financial year 2020 (major issues being defined for this purpose as matters having a financial impact greater than RM10,000).

ASSURANCE PROVIDED BY THE EXECUTIVE CHAIRMAN & MANAGING DIRECTOR AND GROUP FINANCIAL CONTROLLER

In line with the Guidelines, the Executive Chairman & Managing Director and the Group Financial Controller have provided assurance to the Board that the Group's risk management and internal control systems have been operated adequately and effectively, in all material aspects, to meet the Group's business objectives during the financial year under review. The Executive Chairman & Managing Director and the Group Financial Controller have in turn obtained relevant assurance from the business heads in the Group.

REVIEW OF STATEMENT BY EXTERNAL AUDITORS

Pursuant to Paragraph 15.23 of the MMLR, the External Auditors have reviewed this Statement on Risk Management & Internal Control for inclusion in the Annual Report for the financial year ended 31 January 2020.

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out 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 Governance & Financial Report issued by the Malaysian Institute of Accountants (MIA) for inclusion in the Governance & Financial Report of the Group for the year ended 31 January 2020, and reported to the Board that nothing has come to their attention that causes them to believe that the statement intended to be included in the Report of the Group, in all material aspects:

(a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
(b) is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks 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. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in this Report will, in fact, remedy the problems.

CONCLUSION

The Board is of the view that the system of internal control in place throughout the year under review is sound and sufficient to safeguard the shareholders' investment, the interests of customers, regulators, employees and the Group and to facilitate the expansion of its operations. Additionally, the Board regards the risks faced by the Group are within acceptable levels to the business environment within which the Group operates.

There were no material losses or fraud during the current financial year as a result of internal control failures and the Board and Management are continuously taking measures to improve and strengthen the internal control framework and environment of the Group.

This Statement is made in accordance with a resolution of the Board of Directors dated 5 June 2020.