



# Colombo Dockyard PLC

Ship Repairers, Ship Builders and Heavy Engineers

<b>POLICY ON RISK MANAGEMENT AND INTERNAL CONTROLS</b>	Document No. : DMD/LEG/CG/9.2.1(f)/2024
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The Board of Directors of the company recognizes that effective risk management and internal controls are critical to ensuring long-term value creation and sustainability. This policy establishes the framework for identifying, assessing, mitigating, and monitoring risks, as well as maintaining robust internal controls in compliance with the Corporate Governance Requirements under the Listing Rules of the Colombo Stock Exchange (Rules).

## 1. PURPOSE & SCOPE OF THE POLICY

The purpose of this policy is to:

- Ensure that a sound system of risk management and internal controls is in place to protect the Company's assets and shareholder value.
- Comply with the Rules of Corporate Governance Requirements.
- Support the achievement of the Company's strategic objectives while maintaining compliance with legal, regulatory, and governance standards.

This policy applies to the Board of Directors, senior management, and all employees of the company. It covers all aspects of risk management and internal control systems, including financial, operational, compliance, and strategic risks.

## 2. RISK MANAGEMENT OBJECTIVES

The objectives of the Company's risk management are to:

- Identify, assess, and mitigate risks that could impact the achievement of the Company's business objectives.
- Foster a risk-aware culture throughout the organization.
- Ensure that risks are managed within acceptable levels as defined by the Board's risk tolerance.
- Enhance decision-making processes by incorporating risk management into strategic planning.

### 3. ROLES AND RESPONSIBILITIES

- a) **Board of Directors:** The Board is responsible for the overall governance of risk management. It defines the Company's risk appetite, approves the risk management policy, and ensures that risks are appropriately managed by senior management.
- b) **Audit Committee:** The Committee oversees the effectiveness of the risk management framework and the adequacy of internal controls. It reviews key risk exposures and ensures that the Company has appropriate mitigation strategies in place.
- c) **Senior Management:** Senior management is responsible for implementing the risk management framework and ensuring that risks are identified, assessed, and managed in their respective areas of operation.
- d) **Compliance Officer:** Compliance Officer is responsible for coordinating risk management activities, monitoring risk exposures, and reporting to the Audit and Risk Management Committee and the Board.
- e) **Employees:** All employees are responsible for understanding and managing the risks relevant to their roles and for complying with internal controls.

### 4. RISK IDENTIFICATION

Risk identification is a continuous process that is conducted across all business units. Key categories of risks identified by the Company include:

- **Financial Risks:** Liquidity risk, credit risk, interest rate risk, foreign exchange risk.
- **Operational Risks:** Business continuity risk, IT systems risk, supply chain disruptions.
- **Compliance Risks:** Legal and regulatory non-compliance, including securities laws.
- **Strategic Risks:** Market competition, technological changes, mergers and acquisitions.
- **Reputational Risks:** Negative publicity, customer dissatisfaction, regulatory breaches.

### 5. RISK ASSESSMENT

The Company evaluates risks based on their likelihood and potential impact on business objectives. Risks are categorized as high, medium, or low, and ranked based on their severity. The risk assessment process helps in prioritizing risks that require immediate action or mitigation.

### 6. RISK MITIGATION

For each identified risk, the Company establishes mitigation strategies, which may include:

- Implementing internal controls to reduce the risk of operational failures.
- Hedging financial risks through insurance, forward contracts, or other financial instruments.
- Developing contingency and business continuity plans to manage disruptions.
- Training employees on compliance with laws and regulations.
- Regular monitoring and reporting of risk levels to senior management and the Board.



## 7. INTERNAL CONTROLS FRAMEWORK

### a) Objectives of Internal Controls

The internal control system of the company is designed to:

- Safeguard the Company's assets.
- Ensure the accuracy and reliability of financial reporting.
- Ensure compliance with applicable laws and regulations.
- Support operational efficiency and effectiveness.
- Prevent and detect fraud or mismanagement.

### b) Components of Internal Controls

The Company's internal control framework is based on widely accepted standards, It includes the following key components:

- **Control Environment:** Establishes the ethical values, leadership philosophy, and organizational culture that set the tone for internal controls.
- **Risk Assessment:** Identifies and evaluates risks that could hinder the achievement of the Company's objectives.
- **Control Activities:** Policies, procedures, and mechanisms implemented to mitigate risks and ensure that necessary actions are taken to achieve business objectives.
- **Information and Communication:** Ensures that relevant information is effectively communicated throughout the Company to support decision-making.
- **Monitoring and Review:** Ongoing assessments to ensure the effectiveness of internal controls and identify areas for improvement.

### c) Segregation of Duties

The Company maintains segregation of duties to reduce the risk of errors and fraud. Critical functions such as financial reporting, cash handling, procurement, and inventory management are performed by different individuals or departments to ensure checks and balances.

### d) Financial Controls

The Company ensures that financial controls are in place to maintain the integrity of financial reporting. This includes:

- **Approval and authorization procedures:** Ensuring that only authorized individuals approve significant financial transactions.
- **Budgeting and forecasting:** Regular financial planning and variance analysis to ensure that the Company is on track to meet its financial targets.
- **Audit trails:** Ensuring that all financial transactions are documented and traceable for internal and external audits.
- **External audit:** Independent audits conducted annually to ensure compliance with accounting standards and regulatory requirements.

#### e) IT and Cybersecurity Controls

Given the increasing reliance on information technology, the Company maintains robust IT controls to protect data integrity, confidentiality, and availability. This includes:

- Data encryption and access controls.
- Regular security assessments and vulnerability testing.
- Disaster recovery and backup systems.
- Staff training on cybersecurity risks and best practices.

#### 8. MONITORING AND REPORTING

The Company implements continuous monitoring of risk management and internal control systems through internal audits, management reviews, and automated reporting systems. Any identified weaknesses or areas for improvement are reported to senior management and the Audit Committee.

The internal audit function is responsible for independently reviewing and evaluating the effectiveness of the Company's risk management and internal controls. The internal audit team reports directly to the Audit Committee.

Senior management reports key risk exposures, mitigation actions, and internal control deficiencies to the Board on a quarterly basis. Additionally, the Audit Committee submits an annual report to the Board, summarizing its findings on the effectiveness of the risk management and internal control systems.

#### 9. BOARD OVERSIGHT

The Board of Directors has overall responsibility for ensuring that the Company maintains effective risk management and internal control systems. The Board's responsibilities include:

- Approving the risk management and internal control policies.
- Reviewing the Company's risk tolerance and key risk indicators.
- Ensuring that the internal audit function is effective and independent.
- Reviewing and approving financial statements to ensure compliance with internal and external auditing standards.

#### 10. AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit Committee assists the Board in fulfilling its oversight responsibilities. The Committee is responsible for:

- Reviewing the adequacy and effectiveness of the Company's risk management policies.
- Monitoring the implementation of internal controls.
- Reviewing internal and external audit findings and ensuring that any deficiencies are addressed.

#### 11. AMENDMENTS TO THE POLICY

This policy will be reviewed annually or as necessary to reflect changes in business operations, regulatory requirements, or best practices in risk management and internal controls. Any amendments will be approved by the Board of Directors.

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