

# INTERNAL CONTROL AND RISK MANAGEMENT

In the business environment that we live in, doing nothing might be the biggest risk of all. At Cim, the Board plays a crucial role in risk oversight; it is bringing more diverse viewpoints into the boardroom, rethinking the allocation of risk oversight duties, and ensuring that risk topics have the necessary agenda time at meetings of both the Board and sub committees.

By viewing the Group's operations through a lens of risk, values and ethics, and by asking the right questions at the right time, the Board and sub committees effectively oversee, challenge and assess how executives are managing performance and risk.

New technologies and changes in our society and environment present new opportunities but harbour new risks. While regulatory risk, economic slowdown and reputation risk are challenges that will remain, disruptive technologies, cyber risk and competition now feature on the Cim Group's risk radar.

The successful management of risk is essential to enable Cim Group to deliver upon its strategic objectives. Our risk management and internal control framework defines the procedures that manage and mitigate risks facing the business, rather than eliminate risk altogether, and can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Board retains overall responsibility for the Group's system of internal control and risk management and determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives.

Cim Group's combined assurance framework comprises three lines of defense, with oversight provided by the Board and Board committees. This is in accordance with enterprise risk management best practice, as set out below:



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## Risk Management

Cim Group has a structured risk management framework to support the identification and effective management of risks across the Group. The goal of our risk management approach, based on ISO 31000, is to continue to support Cim Group in meeting its strategic and operational objectives.

### Our risk management framework

The diagram below, 'How we manage risk', shows our approach to risk management across Cim Group and is being used not only to identify, assess and mitigate risk, but also to reinforce our efforts to embed risk

management best practice approaches across all levels of the business.

Risk assessment is performed regularly at management level in line with the defined risk appetite. A risk register tracks all risks which are relevant to the main business units, namely Cim Finance, Cim Forex and Cim Property Holdings, which are approved and tabled at their relevant RMACs and Boards.

The Group risk register of the principal risks faced by the Group is maintained and tabled at the CIM Financial Services Ltd RMAC.

The monitoring and the review of the risk management processes generate improvement action which is integrated into the mitigating action plan.

## How we manage risk

**Our risk management framework is used to assess and drive consistent improvements in risk management across Cim Group**



## Internal Control and Compliance

The Board oversees the development and implementation of the Group's internal control systems and reviews their effectiveness. The role of the Group's management is to implement all Board policies on risk and control.

The Group's internal control systems are designed to provide reasonable protection of the Group's

assets, and to safeguard these assets against unauthorised use or disposition by ensuring that all such transactions are executed in accordance with the management's authorisation. The systems also ensure that accounting records are sufficiently accurate for the preparation of financial information used for operational and reporting purposes and that applicable laws and regulations are adhered to.

The Group has adopted comprehensive procedures with duly assigned levels of authority in the areas of financial, operational and compliance controls, and risk management, to ensure that its assets and resources remain secure at all times.

The regulated businesses of the Group (Cim Finance and Cim Forex) are supported by dedicated compliance teams which provide on-going support to management to ensure that policies, procedures, laws and regulations are adhered to at all times.

**Internal Audit**

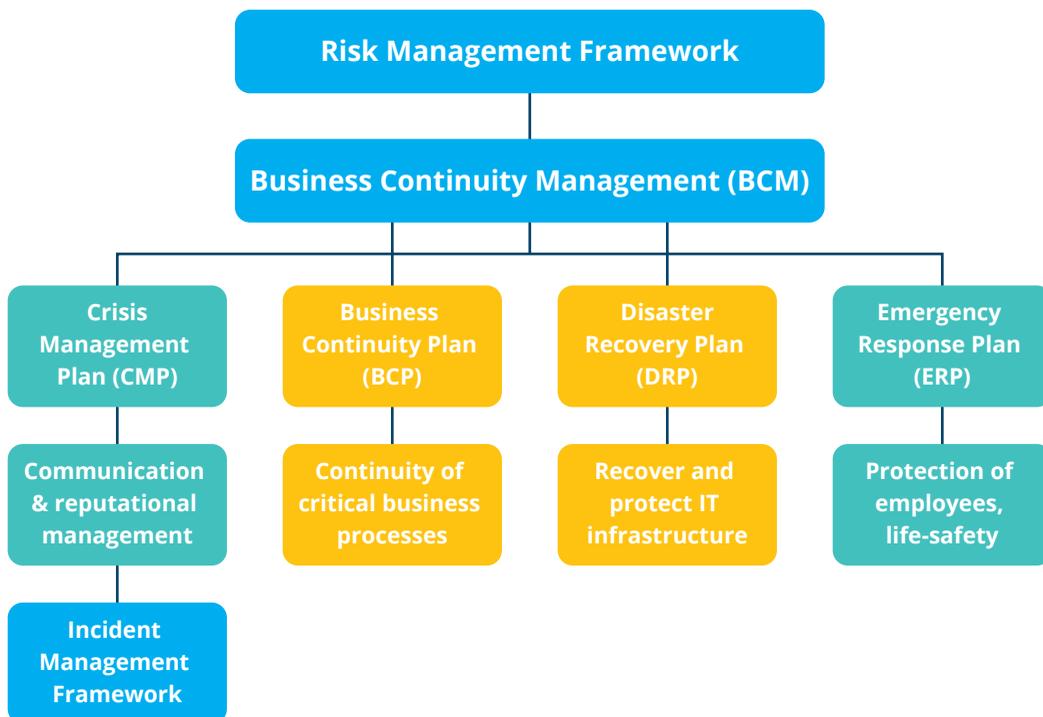
The Group has an effective risk-based internal audit department which is suitably resourced. It has a specific internal audit charter duly approved by CIM Financial Services Ltd (CFSL) RMAC which independently appraises the adequacy and effectiveness of the Group’s systems, internal controls and accounting records. All audit activities are performed in compliance with the International Standards for Professional Practice as provided by the Institute of Internal Auditors (IIA).

The Internal Audit function serves to provide assurance to the RMACs and Boards that relevant controls and actions are in place. Its plan of work is guided by the Group’s risk assessment process and agreed with the RMACs and Boards at the start of each year, although it remains flexible to address new and emerging risks.

The Chief Audit Executive is responsible to report the key findings of audit reports to management, the external auditors as well as the RMACs and Boards.

As a trusted advisor, Internal Audit needs to have a clear understanding of the expectations of its stakeholders. It aligns its scope and the resulting audit plan with the business direction in the context of these expectations. The function maintains alignment through its planning and coordination with other lines of defense. The types of audit activities conducted depend on the complexity of risks, stakeholders’ expectations and range from fully assurance, a mix of assurance and consulting and wholly advisory/ consulting which clearly defines the value it will deliver to the Group.

**BUSINESS CONTINUITY MANAGEMENT FRAMEWORK**



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Cim Group Business Continuity Management Framework is established, as highlighted above, to mitigate the related risks.

During the year, the BCP and DRP have been updated to ensure the rapid restoration of services to customers through:

- Providing training and awareness;
- Conducting continuous business continuity and network disaster recovery exercises.

## Whistleblowing

A whistleblowing facility is available to employees and third parties to report control failures or behaviours, informing the Group on potential changes or improvements to risk mitigation activities.

Whistleblowing Policy facilitates employees and other stakeholders reporting on any suspected misconduct or malpractice within the Group in confidence and without fear of reprisal or victimisation. The policy is posted on the Company's intranet. Incidents reported are promptly followed up. Investigation results are then communicated to the Chairman of CFSL RMAC or the Board (where applicable).

## Our risk management achievements in financial year 2017

Following the departure of the global business segment, the implementation of related actions was not applicable.

The risk culture was strengthened through the following action points:

- Ongoing training sessions were conducted in line with Bank of Mauritius and Financial Services Commission guidelines.
- Setting up of a Legal and Regulatory Forum at Cim Finance.

## Risk Management priorities for financial year 2018

Cim Group intends to:

- Continue to improve the Group's risk maturity in 2018. This will include a review of the Company's risk appetite and tolerance and improving how risk is monitored and reported to the Board;
- Conduct self-risk assessment workshops using a bottom up approach to track operational risks in Cim Finance Ltd;
- Continue linking risks with business strategy;
- Continue to enhance the risk culture through regular training sessions; and
- Conduct a full scale simulation exercise with the help of an independent consultant;
- Carry out cyber security maturity assessment for Cim Finance Ltd and cyber security testing from a Group perspective.

Key risks are risks which Cim Group considers would have the most impact on its objectives; these risks have been robustly assessed in the context of the external and internal control landscape.

The Board of Directors has evaluated the principal risks and mitigating controls as set below.

CURRENT KEY RISKS	MITIGATING FACTORS
<p><b>Concentration risk</b></p> <p>The Group's revenue is largely derived from one major business line and may be impacted by adverse changes in the regulatory regime.</p>	<ul style="list-style-type: none"> <li>• Regular monitoring of external influences.</li> <li>• Develop new products and provide ancillary services to its customers.</li> <li>• Diversify and explore new markets (local and overseas).</li> <li>• Monitor borrowers' expenditure.</li> </ul>
<p><b>Competition risk</b></p> <p>The Company is operating in a highly competitive financial services market and new entrants are penetrating the non-banking financial sector.</p>	<ul style="list-style-type: none"> <li>• New products/service offering to customers with cross-selling opportunities.</li> <li>• Development of loyalty programme.</li> <li>• Revision of brand identity.</li> <li>• Retain key staff.</li> </ul>
<p><b>Reputational risk</b></p> <p>The Group is exposed to reputational risks due to getting involved/named/sued and ineffective management of internal and external communication which could impact on its ability to grow its client base and future income streams.</p>	<ul style="list-style-type: none"> <li>• Maintaining a robust control framework to ensure adherence with circulars, guidelines and applicable laws and regulations.</li> <li>• Staff training on compliance, complaints handling and anti-money laundering procedures.</li> <li>• Regular reviews and reinforcement of policies, procedures and controls with input from the compliance and internal audit functions.</li> <li>• The Group maintains an insurance programme against potential legal liabilities. This is reviewed annually.</li> <li>• Monitoring of potential and existing litigation cases.</li> <li>• Use of effective communication messages in line with the Crisis Management Plan.</li> </ul>

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CURRENT KEY RISKS	MITIGATING FACTORS
<p><b>Information Security risk/Cyber risk</b></p> <p>The Group is increasingly reliant on Information Technology and has to maintain the highest level of data integrity and system security.</p>	<ul style="list-style-type: none"> <li>• Review of IT strategy and systems through Cyber Security assessment by Ernst &amp; Young.</li> <li>• Multi-layered controls are in place to protect the Group's information and technical infrastructure. These include backup procedures, business continuity plans, disaster recovery plans, malware detection, virus protection and penetration testing.</li> <li>• Staff awareness sessions have been held to highlight the importance of maintaining a high level of information security.</li> </ul>
<p><b>People risk</b></p> <p>The Group's continuity of business operations and realisation of its business objectives may be impacted due to loss of people in critical positions.</p>	<ul style="list-style-type: none"> <li>• Identify 'what if' scenarios.</li> <li>• Succession planning for critical positions and staff.</li> <li>• Identify and retain talents.</li> </ul>
<p><b>Regulatory and Compliance risk</b></p> <p>The Group operates in a complex and dynamic regulatory environment which requires strict adherence to new or existing laws, regulations, rules, internal policies and procedures.</p>	<ul style="list-style-type: none"> <li>• Regular review of Cim Group control framework and operating procedures to improve their effectiveness.</li> <li>• Legal and regulatory developments are monitored on a continuous basis to ensure that the Group is well prepared for local changes.</li> <li>• Advice is sought from our in-house legal and compliance teams and/or externally as and when required.</li> <li>• A robust and consultative Internal Audit function to support BUs in designing appropriate control frameworks and policies and to ensure adherence to policies and procedures.</li> <li>• Ensuring prominence of these risks via standard agenda items at management committees, RMAC and Board meetings.</li> <li>• Effective training intended to educate staff.</li> </ul>

CURRENT KEY RISKS	MITIGATING FACTORS
<p><b>Financial, Liquidity &amp; Credit risk</b></p> <p>The Group is exposed to the risk of loss resulting from forex, interest rate, liquidity, lending and borrowing exposures.</p>	<ul style="list-style-type: none"> <li>• The Group's exposures are monitored through an Asset and Liability Committee, Credit Risk &amp; Forex monitoring committees.</li> <li>• Credit exposures are tracked by a Debtors Monitoring Committee.</li> <li>• Explore the funding options available (e.g. deposits, borrowings from financial institutions, issue of debentures).</li> </ul>
<p><b>Project risk</b></p> <p>The Group is exposed to loss resulting from the pursuit of an unsuccessful business plan/ project and/or to risks that are associated with the execution of projects that are in the phase of implementation e.g., delays, additional costs.</p>	<ul style="list-style-type: none"> <li>• Due diligence prior to project implementation.</li> <li>• Business plan duly approved by the Board.</li> <li>• Close supervision to produce required specific deliverables.</li> </ul>
<p><b>Business Interruption</b></p> <p>The Group's operations may be impacted due to any significant disruption in the normal operations impacting on its revenue.</p>	<ul style="list-style-type: none"> <li>• Implement a Business Continuity Management Framework (Crisis Management Plan, Business Continuity Plan, Disaster Recovery Plan and Emergency Response plan).</li> <li>• Appropriate insurance covers.</li> <li>• Regular maintenance of the Disaster Recovery Centre.</li> <li>• Appropriate firewalls and back-up infrastructure.</li> </ul>