

DIESEL & MOTOR ENGINEERING PLC

DIMO	POLICY ON RISK MANAGEMENT AND INTERNAL CONTROLS	Document Number: GRP/FM/CG/07/11
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1. INTRODUCTION

Diesel & Motor Engineering PLC (hereinafter referred to as "the Company") is a diversified conglomerate listed on the Colombo Stock Exchange. Given its diverse business portfolio and the dynamic business environment, it is crucial for the Company to have a robust risk management and internal control framework. This policy establishes the principles and processes for effective risk management and internal controls to safeguard assets, ensure financial integrity, and comply with regulatory requirements.

2. OBJECTIVES

The objectives of this policy are:

- **Effective Risk Management:** To identify, assess, and manage risks that could impact the Company's ability to achieve its strategic, operational, and financial objectives.
- **Robust Internal Controls:** To establish and maintain internal controls that safeguard assets, ensure accurate financial reporting, and promote operational efficiency.
- **Regulatory Compliance:** To adhere to applicable laws, regulations, and listing requirements set forth by the Colombo Stock Exchange and other regulatory bodies.
- **Promote Accountability:** To foster a culture of accountability, integrity, and transparency across the organization.

3. RISK MANAGEMENT FRAMEWORK

3.1 Risk Management Objectives

The risk management framework aims to:

- **Identify Risks:** Systematically identify potential risks that may affect the Company's operations, financial performance, and compliance.

- **Assess Risks:** Evaluate the likelihood and impact of identified risks to prioritize risk management efforts.
- **Mitigate Risks:** Develop and implement strategies to mitigate risks to an acceptable level.
- **Monitor and Review:** Continuously monitor and review the effectiveness of risk management strategies and processes.

3.2 Risk Management Process

3.2.1 Risk Identification

- **Methods:** Utilize various methods such as risk workshops, scenario analysis, and SWOT analysis to identify risks. Engage with key stakeholders, including management, employees, and external advisors.
- **Risk Register:** Maintain a risk register that captures identified risks, their sources, potential impacts, and control measures. This enables the identification of Strategic Risk & Operational Risks within the company.

3.2.2 Risk Assessment

- **Likelihood and Impact:** Assess the likelihood of each risk occurring and its potential impact on the Company's objectives. Use qualitative and quantitative techniques to evaluate risks.
- **Risk Matrix:** Employ a risk matrix to categorize risks based on their severity, allowing for prioritization of risk management efforts.

3.2.3 Risk Response

- **Mitigation Strategies:** Develop strategies to address high priority risks. Strategies may include risk avoidance, reduction, sharing, or acceptance.
- **Action Plans:** Create detailed action plans outlining specific measures, responsibilities, timelines, and resources required for risk mitigation.

3.2.4 Risk Monitoring and Review

- **Ongoing Monitoring:** Continuously monitor the risk environment and the effectiveness of risk management strategies. Utilize key risk indicators and performance metrics.
- **Periodic Review:** Conduct periodic reviews of the risk management framework to ensure its continued relevance and effectiveness. Update risk assessments and strategies as necessary.
- **Annual Review:** Conduct annual reviews by the Corporate Planning Team.

3.3 Risk Management Responsibilities

- **Board of Directors:** Oversee the risk management framework, review significant risks, and ensure alignment with the Company's strategic objectives.
- **Audit Committee:** Periodically review risks identified and measures taken.
- **Group Management Committee:** Evaluate and address significant risks, oversee risk mitigation strategies, and provide guidance on implementation of risk management policy within the Company.
- **Management:** Implement risk management strategies, monitor risks, and ensure compliance with risk management policies within their respective areas.
- **Employees:** Identify and report risks encountered in daily operations and adhere to risk management procedures.

4. INTERNAL CONTROL FRAMEWORK

4.1 Group Management Committee

The Group Management Committee shall ensure that controls are in place to safeguard company's assets.

4.2 Finance Function

In order to facilitate safeguarding of assets, the company's finance function should maintain adequate and accurate records.

The finance function also should ensure that adequate internal controls are in place to ensure the accuracy of financial statements.

4.3 Internal Audit Function

The internal audit function shall carry out tests to provide comfort that internal controls designed are followed.

4.4 Audit Committee

The audit committee shall oversee the adequacy of internal controls and their implementation.