Corporate governance report continued

Whistle-blowing hotlines and tip-offs

Whistle-blowing hotlines and tip-offs are in place in all regions in which the group operates. This service, operated by independent service providers, enables all stakeholders to report concerns anonymously.

It is the responsibility of all employees and stakeholders to report known or suspected unethical or illegal conduct. Retaliation against whistle-blowers is not tolerated.

Internal audit co-ordinates all reported matters. Tip-offs are also sent to the CEOs of the respective businesses and investigated accordingly. Detailed feedback is given at the respective financial and risk review committees and group audit committee.

King IV principle demonstrated:
Principle 13: Compliance governance

Risk management

Risk management model

Imperial has an embedded enterprise risk model to identify and assess relevant risks facing the group at strategic, business and operational levels and is aligned to the group corporate governance policy and international best practice to safeguard the interests of stakeholders. The group's risk model is based on ISO 31000: 2009 – Risk Management Principles and Guidelines.

The risk assessment process also identifies areas of opportunity, for example: where effective risk management can be turned into a competitive advantage, or where taking certain risks could result in reward for the group. Any risk taken is considered within the group's risk appetite and tolerance levels, which are updated annually. Our process for identifying, assessing, and managing climate-related risks is integrated into our overall risk management.

The group's businesses have different market, operating and financial characteristics. Risk management responsibility and accountability, therefore, vests largely with business management structures. They report to the divisional finance and risk review committees, which are overseen by the group audit and risk committee. The group audit and risk committee formalise, standardises and monitors this process, guiding management and assessing their effectiveness in implementing the approved risk management framework.

The board determines the level of acceptable risk and requires operations to manage and report on risk accordingly. Issues and circumstances that could materially affect the group's reputation constitute unacceptable risk.

A system of internal control is implemented in all key operations and is tailored to each business's characteristics. It provides reasonable, rather than absolute, assurance that the group's business objectives will be achieved within prescribed risk tolerance levels. The associated risk areas and control processes are monitored and reported on across the group. Internal audit aligns its procedures with the risks identified. Formal feedback is provided to both divisional finance and risk review committees, as well as at quarterly risk committee meetings.

The group also maintains a comprehensive insurance programme to ensure that material financial consequences relating to risk events do not result in undue financial impact on group businesses.

In reviewing risk management reports and internal controls, the board has:
- Considered what the group's risks are and how they have been identified, evaluated and controlled.
- Assessed the effectiveness of the related risk management process, particularly reports of significant process failures or weaknesses.
- Considered if the necessary action is being taken timeously to rectify any significant failures or weaknesses.
- Considered whether results from the review process indicate the need for more extensive monitoring.

Risk management process

Our risk management process involves identifying both current and emerging risks to our direct operations, our suppliers, and the rest of our value chain. Our risk assessment process considers risks in the short (one to five years), medium (five to 10 years) and long (more than 10 years) term.

Risk identification and assessment are made by using both a bottom-up and a top-down approach. In terms of the bottom-up approach, the group companies are responsible for identifying risks to their business (both internal and external) and quantifying the potential impact of each risk. These risks are reported to the individual responsible for risk within each business – encompassing Market Access, Logistics Africa and Logistics International – and recorded in a business risk register. The management and individual responsible for risk within the business are responsible for identifying and assessing risks to the division. The business risk registers, containing predominantly operational risks, are reviewed on a quarterly basis by the businesses and then elevated to group level.

In terms of the top-down approach, the group risk executive is responsible for identifying risks at group level and quantifying the potential impact of each risk. Group level risks include risks to our reputation and brand. Risk identification is informed by reviewing the current and future business environment in which we operate.

The business risk registers and the group level risks are reported to the group audit and risk committee, which assists the board in recognising material risks and ensuring that the requisite risk management culture, practices, policies and systems are implemented and functioning effectively. Business management is responsible for the development and implementation of plans to mitigate business level risks and the monitoring of the implementation of these plans. The group risk executive is responsible for managing risks at a group level and for ensuring that the business level risks are being adequately addressed.

Risks are assessed in terms of impact and likelihood on a scale of 1 to 10, with 1 being no impact and not anticipated to occur and 10 being catastrophic impact and certain to occur in the reporting period. The impact and likelihood ratings are combined so that each risk is given an inherent and residual risk rating of low, moderate, high or critical. All risks with a residual risk rating of moderate to critical are considered substantive and need to be addressed. These risks may harm the objectives and functions of the companies, resulting in loss of effectiveness and reputation. They may also have prolonged negative impact and extensive consequences, possibly leading to the collapse of the business if not addressed.

Key group risks

Imperial has identified key group level risk categories in addition to business and industry-specific risks identified by the operating entities.

The group strives to realise opportunities through the manner in which it addresses each risk. The risk categories are discussed in the integrated report, together with key mitigating actions and are linked to the group's material issues.

Read more about our risk management approach in our integrated report online.

Internal controls

The board is:
- Accountable for the process of risk management and the systems of internal control which are reviewed regularly for effectiveness.
- Accountable for establishing appropriate risk and control policies and communicating these throughout the group.
- Satisfied that there is an effective process in place for identifying, evaluating and managing the group's significant risks.
- Satisfied that the system of internal control is effective and that group-wide strategies are in place to mitigate the consequences and impact of the group's significant risks to an acceptable level.

Internal financial controls and financial reporting

The board acknowledges its responsibility for instituting internal control systems that provide reasonable assurance that:
- Assets are safeguarded against material loss.
- Transactions are properly authorised and recorded.
- Proper accounting records are maintained to ensure reasonable reliability and integrity of financial and operational information, including the annual financial statements.

Internal controls also provide assurance that the group's resources are utilised efficiently and that the activities of the group comply with applicable laws and regulations.

Financial results are reported monthly to the business executive committees and quarterly to the divisional boards and the Imperial board. Each business prepares detailed monthly management accounts, as well as budgets and a three-year plan, which are approved by the board. Performance against budgets is monitored and variances analysed. Profit and cash flow forecasts are reviewed, and material changes analysed.

A comprehensive system enables management to monitor trends and measure the productive use of capital. Accounting policies are disseminated throughout the group and monitored to ensure compliance.

Internal audit

The internal audit department's responsibilities are set out in a written charter approved by the board. Internal audit is an independent, objective assurance and consulting activity established to support and improve the group's operations. It follows a systematic, disciplined approach to evaluate and improve the adequacy and effectiveness of risk management, control and governance processes.

The group internal audit executive, based at the group's corporate head office, co-ordinates internal audit activities and reports administratively to the CFO and functionally to the chairman of the audit committee, and has unrestricted access to the group CEO and audit committee chairman.

The group internal audit executive reports formally at all audit committee meetings during the year. The audit plan for the group and its businesses use a risk-based approach and is approved by the group audit committee. The group internal audit executive also attends and co-ordinates the activities of all quarterly divisional finance and risk review committees and attends all group risk committee meetings.

Internal audit has confirmed that nothing has come to its attention to indicate that there was any material breakdown in the system of internal or financial control in the group during the year. This conclusion is based on the internal audit work it performed in terms of the approved combined internal audit plan for the year, the scope of work, the results of evaluations and the overall audit opinion ratings for the audited areas, together with feedback on follow-up audits.

The risk management maturity self-assessment conducted during the year at business and group level confirmed the sound implementation of risk management across the group, as well as the high degree to which management had embraced risk management.

Combined assurance

The group's combined assurance model ensures:
- The completeness of the group-wide inherent risk profile.
- That key mitigation factors and processes are documented and aligned to the group's risk management model.
- An adequate level of assessment of the control environment by assurance providers, both internal and external.

The combined assurance model aligns with the group's integrated governance model, with key assurance provider roles overlapped, which strengthens the robustness of assurance across key elements.

King IV principle demonstrated:

Principle 11: Risk and opportunity governance

Principle 15: Assurance