

# Statement on Risk Management and Internal Control

In accordance with Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities), the Board of Directors of listed companies are required to include in their annual report, a “statement about the state of risk management and internal control of the listed issuer as a group”. The revised Malaysian Code on Corporate Governance 2012 issued by Securities Commission Malaysia requires the Board to establish a sound risk management framework and internal control system. Digi’s Board of Directors (the Board) is pleased to provide the following statement that is prepared in accordance with the “Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers” endorsed by Bursa Securities which outlines the nature and scope of risk management and internal control within Digi during the financial year under review.

## Responsibilities and Accountabilities

The Board acknowledges its responsibility for establishing and overseeing Digi’s risk management framework and internal control systems. The risk management framework is designed to identify, assess and manage risks that may impede the achievement of business objectives and strategies. The Board also acknowledges that the internal control systems are designed to manage and minimise, rather than eliminate occurrences of material misstatement, financial loss or fraud.

The Board, through the Audit & Risk Committee (ARC), ensures that the risk management and internal control practices are adequately implemented within Digi, and observes that measures are taken in areas identified for improvement, as part of Management’s continued efforts to strengthen Digi’s risk management and internal control system.

Management is responsible for implementing Board-approved policies and procedures on risk management and internal controls by identifying and evaluating risks faced and monitoring the achievement of business goals and objectives within the risk appetite parameters.

## Risk Management

Digi has a Risk Management framework in place to identify, evaluate and manage significant risks that may affect the achievement of Digi’s business objectives. An established structured process has been set-up for this purpose where significant risks are reviewed and reported at the Risk Management Forum and ARC meetings on a regular basis. Continuous effort is being taken to enhance the effectiveness of the risk management process.

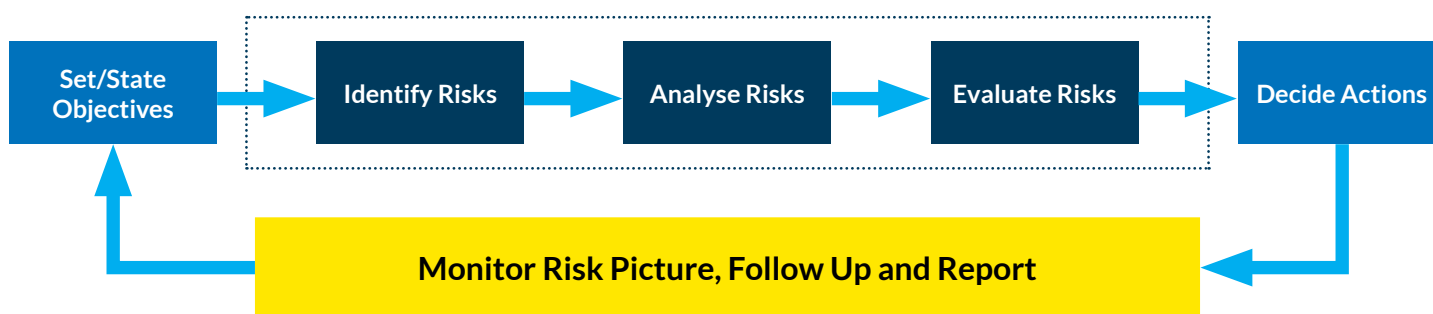
The overall scope of risk management process encompasses, inter alia, strategic, financial, operational, network, information systems, health, safety, security and environment (HSSE), employees and regulatory matters.

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Risk management responsibilities are defined in the framework where the Board takes an oversight role while the Digi Management Team (DMT) drives risk response and evaluates the organisation's risk profile on a regular basis. The Risk Management team provides support to facilitate risk identification, assessment, monitoring and reporting. Details of risk management responsibilities are depicted in the diagram below:



The risk management cycle is depicted in the process flow diagram.



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## Control Environment and Structure

The following sets out the control environment and its key elements within Digi, which have been in place throughout the financial year, and up to the date of the Directors' Report:



### 1. Control Activities

- **Policies and Procedures**

Digi has documented policies and procedures designed to assist and guide operations to implement various requirements as prescribed by law and/or considered best practices. This also ensures consistency in practice whilst providing guidance and direction for proper management and governance of operations and business activities. These policies and procedures are communicated company-wide and made available on the intranet for employees.

- **Profitability Assurance**

The Profitability Assurance function carried out by the Business Planning department firstly ensures that revenue leakage is minimised by implementing adequate controls and processes through optimal revenue management framework. It covers the cycle of identification, assessment, mitigation and monitoring. Digi has in place automated controls to ensure that usage and profile integrity between the network, mediation, rating and billing is assured and adequately controlled. Key issues and mitigation actions are reported to the DMT on a monthly basis. Processes and controls within the revenue cycle are reviewed regularly to ensure its effectiveness and efficiency. In addition to assuring minimal revenue leakage, the Profitability Assurance team also monitors site and store profitability, providing key feedback to optimise the management of Digi's key assets.

- **Security**

The Security department is in charge of compliance investigations, fraud management, authority requests, information security and physical security.

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The Fraud Management function manages and mitigates the risk of relevant fraud and fraud losses. Some of the key activities involve developing and designing internal fraud controls and these controls are regularly reviewed to ensure relevance and effectiveness. Measures and continuous actions are taken to ensure telecommunication fraud is minimised and the requirement for preventive controls are embedded into the business processes.

The Information Security and Physical Security functions are responsible for achieving and maintaining confidentiality, integrity and availability of information, and information processing facilities, including telecommunication systems and infrastructure, and to protect against cyber-crime, fraudulent activities, information loss and other security risks and threats.

- **Controls over Financial Reporting**

The Controls over Financial Reporting (CFR) function in the Accounting and Financial Reporting department plays an important role in evaluating and improving effectiveness of key controls surrounding Digi's financial reporting process. Its primary objective is to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements. Review on internal control over financial reporting is performed in accordance to Digi's Internal Control over Financial Reporting Framework, which requires assessment on significant accounts and processes based on materiality level, testing and evaluation of the design and operational effectiveness of internal controls included in the scope. The function has a robust and continuous monitoring routine to follow up on unaddressed risks and non-operating controls, including periodic reporting to DMT and the ARC on status of controls on financial reporting processes.

## 2. Authority

- **Organisation Structure**

There is a defined organisational structure with clear lines of reporting and responsibility to ensure proper segregation of duties, assignment of authority and accountability within Digi.

As part of Digi's aim to drive end-to-end customer focus and delivery, and enable deeper collaboration and faster execution, the Sales and Marketing divisions were consolidated in April 2016 and led by the Chief Marketing Officer.

Additionally, a new division, Digi-X, was formed in May 2016 which is responsible for building digitally adjacent businesses and core competencies in the digital arena. This division is led by the Chief Digital Officer.

- **Board and Management Committees**

Board Committees have been set up to assist the Board to perform its oversight function, namely the ARC, Nomination Committee, and Remuneration Committee. These Board Committees have been delegated specific responsibilities all of which are governed by clearly defined terms of reference. The roles and responsibilities of the ARC are detailed in the Audit & Risk Committee Report, whilst those of the other two committees are detailed in the Statement on Corporate Governance and the NC Report.

Various Management Committees comprising key DMT members have been established to oversee the areas of business operations assigned to them under their respective documented mandates. The Committees are:

- The Vendor and Investment Committee governs the approval process regarding material capital investments and operating expenditure for Digi including the review and approval of the vendor evaluation criteria and vendor selection. The Commercial Forum governs the decision-making process for commercial issues, and is managed by Marketing.
- The Regulatory Steering Committee provides direction and makes decisions on regulatory matters and/or related topics that have a significant impact on Digi. The Risk Management Forum reviews and deliberates on the significant risks reported across Digi and makes decisions on the coordinated action plans necessary to mitigate risks. The monthly Forum is chaired by the CFO with DMT as members of the Forum.

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- **Assignment of Authority**

Digi has an established Delegation Authority Matrix (DAM) to provide a framework of authority and accountability. The DAM outlines approval authority for strategic, capital and operational expenditure. The DAM is reviewed and approved by the Board in line with changes in business needs.

### 3. Ethics and Compliance

- **Code of Conduct**

The Code of Conduct is a vital and integral part of Digi's governance regime that defines the core principles and ethical standards in conducting business and engagements with all key stakeholders, and compliance with the law and regulations. The Code of Conduct applies to the members of the Board, employees and those acting on behalf of Digi. All employees are required to sign and confirm that they have read, understood and will adhere to the Code of Conduct. Communication channels are established through which concerns on non-adherence to the Code of Conduct can be safely reported.

- **Legal and Compliance**

The Legal department is mandated to manage and address Digi's legal affairs and mitigate legal risks in the performance of its daily business. It plays a key role in identifying, evaluating and formulating strategies on legal risks.

The Ethics & Compliance Officer supports the CEO and the Board in ensuring that:

- The Code of Conduct reflects good business practices and relevant laws, regulations and widely recognised treaties.
- The Code of Conduct is implemented consistently and effectively through sharing of knowledge and measures for quality assurance.
- Compliance incidents are consistently and effectively managed.

Reports on material breaches of the Code of Conduct are made to the ARC on a quarterly basis.

### 4. Monitoring

- **Board and Management Committees**

- DMT meetings are held on a weekly basis to identify, discuss, approve and resolve strategic, operational, financial and key management issues pertaining to Digi's day-to-day business. Significant changes in the business and the external environment are reported by the DMT to the Board on an ongoing basis and/or during Board meetings.
- Digi's performance management model provides a comprehensive review of business performance, which includes a review of actual performance against targets.
- Quarterly financial results and other information are provided to the ARC to monitor and evaluate business performance.
- The ARC monitors significant internal and external audit issues to ensure they are promptly addressed and resolved.

- **Internal Audit Function**

The Internal Audit department assists both the Board and the ARC by conducting appropriate reviews of key business processes to assess the adequacy and effectiveness of internal control and risk management, and compliance with regulations and Digi's policies and procedures. To ensure independence from Management, the Internal Audit department reports directly to the ARC. The purpose, authority and responsibility of the Internal Audit department are reflected in the Internal Audit Charter, which is reviewed and approved by the ARC annually.

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Audit reviews are carried out on areas that are identified through a risk-based approach, in line with Digi's objectives and policies. Adjustments are made to the audit coverage as required, with any amendments to the Audit Plan being presented to the ARC for approval.

The audit reports, including significant findings and recommendations for improvements, and management's responses to the recommendations, are highlighted to DMT and on a quarterly basis reported to the ARC. Status of actions taken by management to address improvement areas highlighted are also monitored and followed up until closure. The Internal Audit's activities and practices conform with The Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.

Further information on the Internal Audit department's activities is detailed in the Audit & Risk Committee Report on page 77 of this Annual Report.

### Review of this Statement by External Auditors

The external auditors have performed limited assurance procedures on this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide (RPG) 5 (Revised), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants (MIA) for inclusion in the Annual Report of the Group for the year ended 31 December 2016, and reported to the Board that nothing has come to their attention that cause them to believe the statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Guidelines, nor is the Statement factually inaccurate.

RPG 5 does not require 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 Directors and management thereon. The report from the external auditor was made solely for, and directed solely to the Board of Directors in connection with their compliance with the listing requirements of Bursa Malaysia Securities Berhad and for no other purposes or parties. The external auditors do not assume responsibility to any person other than the Board of Directors in respect of any aspect of this report.

### Conclusion

The Board is of the view that the risk management and internal control practices and processes in place for the year under review and up to the date of this report are sound and sufficient to safeguard the shareholders' investment, the interests of customers, regulators and employees, and Digi's assets, and have received the same assurance from both the CEO and CFO.