

# Audit and Risk Committee Report

## Composition and Meetings

The Audit & Risk Committee (ARC) has three members, all of whom are non-executive directors and a majority of whom are independent, including the Chairman of the ARC. No alternate directors shall be a member of the ARC.

Ms Vimala A/P V.R. Menon is a Fellow of the Institute of Chartered Accountants in England and Wales, United Kingdom and a member of the Malaysian Institute of Accountants. The ARC, therefore, meets the requirement of Paragraph 15.09(1)(c)(i) of the Main Market Listing Requirements of Bursa Securities (MMLR), which stipulates that at least (1) member of the ARC must be a qualified accountant.

The Board of Directors (the Board) via the Nomination Committee (NC), reviews the terms of office and performance of the ARC and each of its members annually through an annual Board Committee effectiveness evaluation exercise to determine whether the ARC and its members have discharged their functions, duties and responsibilities in accordance to the Terms of Reference of the ARC.

The ARC held five (5) meetings during the financial year ended 31 December 2016. Details of the ARC members and the attendance of each member at ARC meetings are as follows:

Name	Designation	Meetings attended
Tan Sri Saw Choo Boon	Chairman, Independent Non-Executive Director	5/5
Tore Johnsen	Member, Non-Independent Non-Executive Director	5/5
Vimala A/P V.R. Menon	Member, Independent Non-Executive Director	5/5

The CEO, CFO and Head of Internal Audit attended all meetings of the ARC to make known their views on any matter under consideration by the ARC, or which, in their opinion, should be brought to the attention of the ARC. Relevant Management team members were invited to attend the meetings to provide further information or details on matters that were discussed.

Deliberations during the ARC meetings, including the issues tabled and rationale adopted for decisions were properly recorded. Minutes of the ARC meetings were tabled for confirmation at the following ARC meeting and subsequently presented to the Board for notation. The ARC Chairman reported to the Board the significant matters discussed at each ARC meeting.

## Summary of Work Performed

In early 2017, the Board through the NC assessed the effectiveness of the ARC performance for the financial year ended 31 December 2016 and was satisfied that it was operating in an effective manner.

Principal works performed by the ARC in 2016 were as follows:

### Financial results

- (a) Reviewed the unaudited quarterly financial results and audited annual financial statements of Digi before recommending them for approval by the Board, including:
  - (i) Deliberation on significant audit and accounting matters highlighted, comprising management's judgments, estimates or assessments made and sufficiency of disclosures in the financial statements; and
  - (ii) Discussion of significant financial matters at length to ensure compliance with accounting standards and policies.

## Audit and Risk Committee Report

### Related Party Transactions

- (a) Reviewed related party transactions and mandate for recurrent related party transactions to ensure compliance with MMLR and Digi's policies and procedures.

### Risk Management and Internal Control

- (a) Reviewed Digi's quarterly risk profile and discussed key risks highlighted including mitigating actions.
- (b) Evaluated the overall adequacy and effectiveness of the system of internal controls through review of the work performed by both internal and external auditors and in discussions with the Management.

### External Audit

- (a) Reviewed the scope of work of the external auditors confirming their independence and objectivity.
- (b) Reviewed external auditor's Management Letter together with Management's responses, in ensuring that appropriate actions have been taken.
- (c) Reviewed all non-audit services that were above 50% of the statutory audit fees for the financial year 2016 in which the external auditors may be called upon to perform. The amount incurred by Digi and on group basis in respect of audit fees and non-audit related fees for services rendered by the external auditors are disclosed in the Statement on Corporate Governance on page 66.
- (d) Had private meetings with the external auditors on two (2) occasions to ensure there were no restrictions on the scope of their audit and to discuss significant matters that arose during the course of audit.
- (e) Evaluated the effectiveness of the external auditors and made recommendations to the Board on their re-appointment, subject to the approval of Digi's shareholders at the general meeting.

### Internal Audit

- (a) Reviewed and approved the proposed revisions to the Internal Audit Charter.
- (b) Reviewed and approved the annual Audit Plan to ensure adequate scope and comprehensive coverage of Digi's activities.
- (c) Reviewed and deliberated on internal audit reports tabled during the year, the audit recommendations made and Management's response to these recommendations. Significant issues were discussed at length with the presence of relevant Management team members to ensure satisfactory response to address identified risks.
- (d) Monitored the implementation of mitigating actions by Management on outstanding issues on a quarterly basis to ensure that all key risks and control weaknesses were properly and timely addressed.
- (e) Had private meetings with the Head of Internal Audit for discussions on audit related matters and activities of the Internal Audit Department without the presence of Management.
- (f) Reviewed the Key Performance Indicators, performance, competency and resources of the Internal Audit functions to ensure that it has the required expertise and professionalism to discharge its duties.

### Compliance

- (a) Reviewed and monitored the results and status of actions of internal misconduct cases in accordance to Digi's Code of Conduct.
- (b) Reviewed the results of the Anti-Corruption risk assessment exercise performed in 2016.

### Other Matters

- (a) Reviewed and recommended to the Board the ARC Report, Statement on Corporate Governance and Statement on Risk Management and Internal Control for inclusion in the Annual Report.
- (b) Reviewed and recommended the declaration of interim dividend to the Board.

## Audit and Risk Committee Report

### Internal Audit Function

Internal Audit activities are carried out by the Internal Audit department led by the Head of Internal Audit who reports directly to the ARC. The ARC determines the adequacy of the scope, functions, competency and resources of the Internal Audit department, which comprises 7 members as at 31 December 2016 and ensures that it has the necessary authority to carry out its work. In 2016, the internal auditors attended various internal and external training programmes, aimed at maintaining and enhancing the desired competency levels.

The Internal audit department provides independent and reasonable assurance, as well as advisory services designed to add value and improve the operations of Digi. Its scope encompasses the examination and evaluation of the adequacy, integrity and effectiveness of Digi's overall system of internal control, risk management and governance. In order to maintain its independence and objectivity, the Internal Audit department has no operational responsibility and authority over the activities it audits.

The Internal Audit department practices risk-based auditing, which provides the flexibility needed to address current risks as well as potential future risks. This allows its resources and skills to be focused on ensuring alignment with business strategy and goals, thus maintaining relevance and ability to drive continuous improvements within Digi. Reviews are carried out based on the approved Audit Plan for 2016, which was developed using a risk-based approach and in line with Digi's strategic ambitions. The Audit Plan was assessed on a quarterly basis in alignment with the business and risk environment. Any deviations to the plan were reviewed and approved by the ARC on a quarterly basis.

In 2016, the Internal Audit department executed a total of 18 audits, including ad-hoc requests. The audits conducted covered a wide range of areas, which included amongst others, Procurement, Accounting and Financial activities, Asset Management, Network Delivery and Marketing, aimed at providing assurance over the adequacy and effectiveness of controls within the processes reviewed.

All audit findings were highlighted to relevant Management team members responsible for ensuring that corrective actions on reported weaknesses are taken within the required timeframe. Audit reports were issued to the ARC, quarterly incorporating findings and Management's remediation actions. An established system has been put in place to ensure all actions agreed by Management are followed up on and the status of implementation is reported to the ARC on quarterly basis.

The Internal Audit department complies with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and continues to maintain a quality assurance and improvement programme covering its internal audit processes, which is subject to an annual internal assessment and an external assessment by a certified body once in 5 years.

The total costs incurred for the Internal Audit department for the financial year 2016 was RM1,494,905 (2015: RM1,250,680).

The ARC Report is made in accordance with the resolution of the Board dated 13 March 2017.

### ARC Terms of Reference

The ARC Terms of Reference clearly set out the purpose, authority, composition and responsibilities of the ARC. The Terms of Reference seek to ensure that ARC members are aware of their roles and duties and also serve as a clear source of reference to all stakeholders. In order to ensure the continuous relevance of the Terms of Reference, the ARC conducts periodic review of the Terms of Reference when necessary. The full Terms of Reference are available to the public on the Company website at [digi.listedcompany.com/misc/factsheet](http://digi.listedcompany.com/misc/factsheet).