

AUDIT AND RISK COMMITTEE REPORT

Composition and Terms of Reference

The Audit and Risk Committee (ARC) has four (4) members, all of whom are Non-Executive Directors and a majority of whom are independent, including the Chair of the ARC. No alternate Directors shall be a member of the ARC. This meets the requirements of Paragraph 15.09(1)(a) and (b) of the Main Market Listing Requirements of Bursa Securities (MMLR). The ARC comprises the following:

Chair

Tan Sri Saw Choo Boon, Senior Independent Non-Executive Director

Members

Vimala V.R. Menon, Independent Non-Executive Director

Yasmin Binti Aladad Khan, Independent Non-Executive Director

Torstein Pedersen, Non-Independent Non-Executive Director

Vimala 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 MMLR, which stipulates that at least one (1) member of the ARC must be a qualified accountant.

During the financial year ended 31 December 2017, Yasmin Binti Aladad Khan was appointed as an additional member of the ARC effective 12 December 2017. Other changes in the composition of the ARC included the resignation of Tore Johnsen as an ARC member following his resignation as a Director of the Company, and the appointment of Torstein Pedersen as a Director and a member of the ARC on 23 January 2018.

The Board of Directors (the Board), via the Nomination Committee (NC), annually reviews the terms of office and performance of the ARC and its members through an effectiveness evaluation exercise. This is to determine whether the ARC and its members have discharged their functions, duties and responsibilities in accordance to the ARC's Terms of Reference. In early 2018, the NC assessed the ARC's performance for the financial year ended 31 December 2017 and was satisfied that it was operating in an effective manner.

The ARC's Terms of Reference clearly sets 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. The ARC's Terms of Reference is accessible in the Corporate Governance section of Digi's website at www.digi.com.my/investors.

Summary of Activities of the ARC

The ARC held five (5) meetings during the financial year ended 31 December 2017. The attendance of each member at ARC meetings are detailed as follows:

Name	Designation	Meetings attended
Tan Sri Saw Choo Boon	Chair, Senior Independent Non-Executive Director	5/5
Vimala V.R. Menon	Member, Independent Non-Executive Director	5/5
Tore Johnsen (resigned on 23 January 2018)	Member, Non-Independent Non-Executive Director	5/5

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C O N T I N U E D

The CEO, CFO and Head of Internal Audit attended all ARC meetings 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.

All 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 Chair of the ARC reported to the Board on the activities and significant matters discussed at each ARC meeting.

During the year under review, the ARC carried out the following activities:

Risk Management and Internal Control

- (a) Reviewed the quarterly risk reports and discussed significant risks highlighted, including adequacy of mitigating actions in place.
- (b) Discussed the revised Enterprise Risk Management process where improvements were made to ensure holistic risk identification and reporting processes.
- (c) Evaluated the overall adequacy and effectiveness of internal controls through review of the work performed by both internal and external auditors, other assurance providers within Digi, and discussions with Management.

Internal Audit

- (a) Reviewed and approved the proposed revisions to the Internal Audit Charter in line with the International Professional Practices Framework (IPPF) by the Institute of Internal Auditors (IIA).
- (b) Provided input on key areas to be included as part of the annual Internal Audit Plan. Deliberated and approved the risk-based Internal Audit Plan to ensure adequate scope and comprehensive coverage of Digi's activities. Monitored the progress of the approved Internal Audit Plan, including the status of the planned reviews and approved changes to the Internal Audit Plan due to changes in business and/or risk environment.
- (c) Reviewed and deliberated on internal audit reports, the audit recommendations 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. Additional presentations were made at the request of the ARC to ensure adequate actions were taken in addressing the issues raised.
- (d) Monitored the implementation of corrective action plans agreed by Management on outstanding audit findings on a quarterly basis to ensure that all actions have been implemented on a timely basis in the related areas.
- (e) Held private meetings on 8 August 2017 and 12 December 2017 with the Head of Internal Audit, without the presence of Management, to review the Internal Audit function. This is to assure itself of the soundness of internal control systems and activities of the Internal Audit Department, and to provide guidance on ad hoc matters arising from on-going internal audit reviews.
- (f) Reviewed the effectiveness of the Internal Audit function through evaluation of its performance and competency, and monitoring the sufficiency of resources and costs, to ensure that it has the required expertise and professionalism to discharge its duties.

Compliance

- (a) Monitored the status of internal misconduct cases reported on a quarterly basis, including on-going investigations, in accordance with Digi's Code of Conduct and Governing Documents.
- (b) Deliberated on the results of the compliance cases and directed Management to implement and/or enhance controls to prevent recurrence, including conducting education programmes to increase awareness.
- (c) Reviewed the results of the anti-corruption risk assessment performed in 2017 in determining the materiality of exposure.

Financial Reporting

- (a) Reviewed Digi's unaudited quarterly financial results and audited annual financial statements, and related announcements, before recommending them for the Board's approval, 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 internal accounting policies and Malaysian Financial Reporting Standards (MFRS), focusing on MFRS 9, MFRS 15, and MFRS 16.

External Audit

- (a) Reviewed the scope of work of the external auditors confirming their independence and objectivity.
- (b) Reviewed external auditors' Management Letter together with Management's responses, to ensure that appropriate actions have been taken.
- (c) Monitored on a quarterly basis, all non-audit services and fees incurred in which the external auditors were engaged, taking into account external auditors' independence and objectivity. 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 is disclosed in Note 7 to the financial statements and in the Additional Compliance Information in page 87.
- (d) Met privately with the external auditors at the ARC meetings held on 23 January 2017 and 16 October 2017 to ensure there were no restrictions to the scope of their audit and to discuss significant matters that arose during the course of audit.
- (e) Evaluated the performance 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.

Related Party Transactions

- (a) Reviewed related party transactions as disclosed in the financial statements and performed quarterly monitoring of the mandate for recurrent related party transactions to ensure compliance with the MMLR and Digi's policies and procedures.

Other Activities

- (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 the proposed dividend payout on a quarterly basis, taking into consideration the cash flow requirements before recommending for the Board's approval.

Internal Audit Function

The Internal Audit Department reports functionally to the ARC, and carries out its activities with the purpose of enhancing and protecting organisational value. The department provides risk-based and objective assurance, advice and insight to the Board and Management on Digi's internal control, risk management and governance system. 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 comprises six (6) members, led by Jenny Koay Chia Yin, who has over 17 years of experience in operational risk management and internal audit, in various multi-national companies, and has a Certification in Risk Management Assurance (CRMA). To further preserve the independence of the Internal Audit function, the Head of Internal Audit's performance is appraised by the Chair of the ARC.

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C O N T I N U E D

The Internal Audit function is guided by its Internal Audit Charter, which is reviewed and approved annually by the ARC. 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 last external assessment was performed by a qualified, independent assessor in 2015. The results of the assessments are presented and discussed with the ARC.

In 2017, the Internal Audit Department executed a total of 16 reviews, including advisory services. The reviews covered business priority and key risk areas, focusing on the efficiency and effectiveness of governance and controls within IT operations, network site acquisition and implementation, and finance operations. The Internal Audit Department had also conducted reviews in relation to compliance with internal policies and regulatory requirements.

Internal Audit staff are required to perform an annual declaration on the adherence to the Code of Ethics, and any non-compliance and/or conflicts are reported to either the Head of Internal Audit or Chair of the ARC. There were no such occurrences for the year under review.

The total costs incurred for the Internal Audit Department in respect of the financial year ended 31 December 2017 amounted to RM1.1million (2016: RM1.5million).

The ARC Report is made in accordance with the resolution of the Board dated 15 March 2018.