

BOARD AUDIT COMMITTEE

Summary of the Board Audit Committee's Key Activities in 2016

During the Financial Year ended 2016 (FY16), the Board Audit Committee (BAC) discharged its functions and carried out its duties as set out in the Terms of Reference (ToR). Key activities undertaken by the BAC include the following:

Risks and Controls

- The Group's major business risks and remedial actions were reported and deliberated at the BAC each quarter, a summary of which was reported to the Board.
- Four (4) Group Risk Management Committee meetings were held with the Senior Leadership Team (SLT). The Group's risks were assessed from various control perspectives that included preventive and detective controls.
- Reviewed the proposed collaboration between Celcom Axiata Berhad, Celcom Mobile Sdn Bhd and Celcom Networks Sdn Bhd with Telekom Malaysia Berhad and Packet One Networks (Malaysia) Sdn Bhd.
- The BAC provided an initial review of the implementation of BEPS ("Base Erosion Profit Shifting") Action Point No. 13 by the Malaysian Inland Revenue Board ("IRB") with the introduction of the Country-by-Country Reporting ("CbCR") including Master file and Local file which came into effect on 1 January 2017. The first CbCR that Axiata is required to submit to IRB is no later than 31 December 2018. The implication is to ensure transparent reporting of related party transactions (i.e. management support services, financing activities, etc).
- Reviewed the group gearing status, portfolio rebalancing and funding proposals.
- Reviewed Ncell's tax issues, hedging progress and internal controls.
- Reviewed and approved the new capex governance process to improve efficiency and effectiveness of spending.
- Reviewed the proposed amendment on dividend policy to be approved at the Board.
- Reviewed the fraud and investigation function and mechanism across the Group. This is to strengthen and improve the overall whistle blower and fraud and investigation framework.
- Reviewed and approved the revised version of Internal Control Assurance Letter (ICAL) to be completed by all Operating Companies' (OpCos) Chief Executive Officers (CEO), Axiata's SLT and selected group finance personnel. The purpose of ICAL is to provide a self-assessment of the internal controls based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework.
- Commissioned and approved the establishment of the Group Cyber Security Steering Committee (CSSC). As part of the CSSC, the Cyber Security Operations Center (CSOC) has been established across the majority of OpCos and implementation of initiatives such as the Cyber Security Posture Assessment (CSPA). A current assessment and test on cybersecurity readiness is ongoing in four (4) out of the six (6) OpCos, with agreed actions to address all gaps.
- Reviewed integrated financial reporting and monitored corrective actions taken.
- Axiata BAC Chairman Forum was conducted on 11 April 2016 prioritising risks and action plans. The top priorities were cybersecurity, digitization of the core, mergers and acquisitions deal learnings and capex efficiency and governance process.
- A total of 105 internal audit reviews were completed across the Group.

Other recurring works include:

- Reviewed and recommended the Statement on Corporate Governance, Statement on Risk Management and Internal Control and BAC Report to the Board for approval.
- Reviewed the policy and limits of authority across the Group.
- Reviewed the financial results quarterly, half yearly and annually prior to the Board for approval.
- Reviewed impact of the new Companies Act and new IFRS standards on reporting.
- Reviewed the accounting impact and accounting entries arising from merger and acquisition deals and revised accounting policies when required.
- Reviewed the potential impairment exposure of major investments.
- Reviewed on a quarterly basis the related party transactions entered into by Axiata pursuant to the shareholders mandate on Recurrent Related Party Transactions (RRPT) procured at the 24th AGM of the Company held on 25 May 2016 and the reporting of these transactions in the 2016 Annual Report.
- During the financial year ended 31 December 2016, Axiata has granted a total of 5,338,000 shares under the Performance-Based Employee Share Options and Share Scheme (details provided under Notes 14 of the Audited Financial Statements) at the Share Reference Price of RM3.79 for 15 February Regular Stock Purchase (RSP) grant. The BAC has reviewed the allocation of the above shares granted to eligible employees (as defined in the Bye-Laws of the Performance-Based Employee Share Option and Share Scheme) and noted its compliance with the conditions for the allocation of share options/shares as approved.
- Held two (2) private meetings with the external auditors on 16 February 2016 and 23 August 2016 without the presence of management and Internal Audit. The topics that were discussed were the sufficiency and adequacy of information provided to external auditors to perform the audit, cooperation provided by the management and key matters noted from audits.
- Reviewed and approved appointment of external auditors, taking into consideration their competencies, commitments, objectivity and independence.
- Reviewed and approved the annual internal audit plan and budget.
- Assessed the quality of internal audit staff, experience, discipline and length of service.
- Reviewed 12 business control incidents and identified cases of control weaknesses including fraud for sharing of lessons learnt within the Group to avoid similar incidents.
- Acknowledged, reviewed and investigated 20 defalcation cases across the Group.

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Composition and Meetings

In 2016, the BAC, met six (6) times on 11 January 2016, 16 February 2016, 17 March 2016, 24 May 2016, 23 August 2016 and 23 November 2016. The composition and the attendance record of BAC members are listed below.

Name of Director	Status of Directorship/Qualifications	No. of Meetings Attended
David Lau Nai Pek (Chairman of BAC)	Independent Non-Executive Director	6 out of 6
Datuk Azzat Kamaludin	Senior Independent Non-Executive Director	6 out of 6
Juan Villalonga Navarro (Retired w.e.f. 25 May 2016)	Independent Non-Executive Director	1 out of 4
Kenneth Shen	Non-Independent Non-Executive Director	6 out of 6

Financial Literacy

The BAC is chaired by David Lau Nai Pek, who has more than 30 years' experience with the Royal Dutch Shell Group, leading financial organisations in various countries. David is also a member of the Malaysian Institute of Accountants and a member of the New Zealand Institute of Chartered Accountants.

Datuk Azzat Kamaludin has spent many years in the BACs and Boards of major companies in Malaysia and internationally.

Juan Villalonga was Chairman and Chief Executive Officer of a major telecommunications services provider in Spain. He was also the former Chief Executive Officer of major banking institutions in Spain. He has retired from BAC with effect from (w.e.f.) 25 May 2016.

Kenneth Shen has more than 25 years' experience in global investment, corporate finance, and mergers and acquisition gained in New York, Hong Kong, Qatar and Malaysia.

Group Internal Audit

The internal audit function is under the purview of Axiata Group Internal Auditors (AGIA) and headed by the Group Chief Internal Auditor (GCIA), who is independent and reports directly to the BAC and the CSSC.

The internal audit reporting structure within the Group has been organised whereby the audit departments of the OpCos report directly to the BAC of the respective OpCo with a dotted reporting line to the GCIA. AGIA has direct control and supervision over internal audit activities in OpCos that do not have an audit function. The GCIA also acts as the secretary to the BAC and CSSC.

AGIA provides independent, objective assurance on areas of operations reviewed, and makes recommendations that will improve and add value to the Group. AGIA identifies, coordinates and conducts global audits that are carried out throughout the Group and also provides standards, policies, guidelines and advice to the OpCos' audit function to standardise the internal audit activities within the Group.

AGIA adopts a systematic and disciplined approach to evaluate the adequacy and effectiveness of risk management, financial, operational, compliance and governance processes. Structured risk-based and strategic based approaches are adopted in identifying internal audit activities that are aligned with the Group's strategic plans to ensure that the risks facing the Group are adequately reviewed.

In addition, international standards and best practices are adopted to further enhance the relevancy and effectiveness of the internal audit activities. The areas of coverage include finance, sales, marketing, information and technology, billing, network, corporate governance, human resources, customer service and procurement. The audit reports of these assignments provide independent and objective assessment of the following:

- the adequacy, effectiveness and efficiency of the internal control systems to manage operations and safeguard the Group's assets and shareholders' value; and
- the adequacy and effectiveness of the risk management operations, governance and compliance functions to identify, manage and address potential risks facing the Group.

The internal audit reports are issued to management for their comments and to agree on action plans with deadlines to complete the necessary preventive and corrective actions. The reports are tabled at each OpCo's BAC and the summary of the key findings are presented to the BAC for due deliberation to ensure that management undertakes to carry out the agreed remedial actions. Members of management are invited to the BAC meetings from time to time, especially when major control weaknesses are highlighted by Internal Audit.

Key audits and reviews completed in 2016 were:

- Distributors Management
- SAP System (IT General Controls - Procure to Pay)
- Human Resource Management
- Follow up review on capex efficiency audit
- Follow up review on revenue assurance assessment
- Audit on Axiata Procurement Centre
- Audit on Ncell procurement

The total cost incurred by AGIA last year, inclusive of all OpCos, was RM13.4 million.

There are a total of 62 internal auditors across the Group whilst AGIA at Corporate Centre has six approved headcount and operates on a resource sharing basis with other OpCos' Internal Audit Divisions. All the internal auditors have tertiary qualifications and the level of expertise and professionalism within AGIA at the end of 2016 is as follows:

Expertise Category	Percentage of total auditors
Finance	60%
IT/MIS	40%

Professional Category	Percentage of total auditors
Professional Certification	
• CPA, ACCA, CA, CIMA	60%
• CIA	20%
• Certified IS Auditor	40%
• Institute of Internal Auditors Membership	60%
Post Graduate	
• MBA and Masters	20%