

Board Audit Committee Report

Summary of the BAC's Key Activities in 2014

During the FY14, the BAC discharged its functions and carried out its duties as set out in the 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 SLT. The Group's risks were assessed from various control perspectives that included cultural, predictive, preventive and detective controls.
- In 2014, as per the previous years, all OpCos have been asked to assume the worst case scenarios and develop the necessary mitigation plans. A summary of the OpCos' top risks arising from this exercise was then tested against the Group's risk profile.
- Reviewed the implementation of Business Continuity Management (BCM) and IT Disaster Recovery Plan across the Group; including detailed reviews of BCM implementation in Celcom and Dialog.
- Reviewed the Group's Forex Strategy and the development of a structured Treasury Management function across the Group. Also commissioned a group-wide audit review on Treasury Management. This resulted in a new Treasury policy which addresses and minimises the Group's exposure to currency fluctuations.
- Commissioned a group-wide revenue assurance review.
- Reviewed information security action plans to mitigate information security risks across the Group, especially from cyber threats.
- Emphasised on the effective promotion and implementation of Uncompromising Integrity and Exceptional Performance (UIEP) values across the Group.
- Reviewed the implementation of the IT Transformation project, including the status of sunset systems; together with the associated lessons learnt. (Celcom)

- Reviewed the implementation of the Goods and Services Tax towards the 1 April 2015 roll out. (Celcom)
- Reviewed the statement of compliance by Management with the applicable laws and regulations. (XL)
- Reviewed the identification and mapping of assurance activities based on the 'Three Lines of Defence'. (Dialog)
- 110 internal audit reviews were completed across the Group.

Other recurring works include:

- Reviewed and recommended the Statement on Corporate Governance, Statement on Internal Control and BAC Report to the Board for approval.
- Reviewed on a quarterly basis the related party transactions entered into by Axiata pursuant to the shareholders mandate on RRPT procured at the 22nd AGM of the Company held on 28 May 2014 and the reporting of these transactions in the 2014 Annual Report.
- Reviewed the cash flow assumptions and working papers in order to determine the recoverability of major assets.
- Verified the allocation of 17,785,700 share options or share awards given to the Group's eligible employees in accordance with the Performance-Based ESOS and Share Scheme for FY14. The BAC was satisfied that the allocation of the said share options or share awards was in compliance with the criteria set out in the ESOS Bye-Laws and Share Scheme Committee.
- Held two private meetings with the external auditors on 19 February 2014 and 26 August 2014 without the presence of management and Internal Audit.
- Reviewed five business control incidents and identified cases of control weaknesses including fraud for sharing of lessons learnt within the Group to avoid similar incidents;
- Acknowledged 20 defalcation cases across the Group.
- Reviewed and recommended changes in Limits of Authority at one (1) OpCo for the Board's approval.

Composition and Meetings

In 2014, the Board Audit Committee (BAC), met five times on 19 February 2014, 27 May 2014, 26 August 2014, 5 November 2014 and 18 November 2014. The composition and the attendance record of the BAC members are listed below.

Name of Director	Status of Directorship/Qualifications	No. of Meetings Attended
David Lau Nai Pek (Chairman of the BAC)	Independent Non-Executive Director	5 out of 5
Datuk Azzat Kamaludin	Senior Independent Non-Executive Director	5 out of 5
Juan Villalonga Navarro	Independent Non-Executive Director	2 out of 5
Kenneth Shen	Non-Independent Non-Executive Director	5 out of 5

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 a former Chief Executive Officer of major banking institutions in Spain.

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 AGIA and headed by the Group Chief Internal Auditor (GCIA), who is independent and reports directly to the BAC.

The internal audit reporting structure within the Group has been organised whereby the audit department 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.

AGIA provides independent, objective assurance on areas of operations reviewed, and makes recommendations based on best practices 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.

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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 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 uncovered by Internal Audit.

Key audits that were completed in 2014 include:

- Treasury Management
- Telco Regulatory Management
- Infrastructure Management
- SAP ERP
- IT Development & Operations
- Win and Defend Initiative

The total cost incurred by AGIA last year, inclusive of all OpCos, was RM10.4 million.

There are a total of 50 internal auditors across the Group whilst AGIA at Corporate Centre has five 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 2014 is as follows:

Expertise Category	Percentage of total auditors
Finance	30%
IT/MIS	20%
Network/Engineering	18%
Marketing	16%
General/Others	16%

Professional Category	Percentage of total auditors
Professional Certification	
• CPA, ACCA, CA, CIMA	22%
• Certified Internal Auditor (CIA)	6%
• Certified IS Auditor (CISA)	16%
• Internship – CPA, ACCA, CA, CIMA	4%
• Internship – CIA/CISA	10%
• Institute of Internal Auditors Membership	40%
• Others	8%
Post Graduate	
• MBA and Masters	38%
• Internship – Masters	4%

APPENDIX 1

Terms of Reference – Key Summary

In performing its duties and discharging its responsibilities, the BAC is guided by the ToR. The key roles from the ToR are summarised below:

1.0 Function of the BAC

- 1.1 The primary function of the BAC is to implement and support the oversight function of the Board in relation to overseeing financial reporting and internal controls as set out in the Duties and Responsibilities herein
- 1.2 It is the objective of the BAC to assist the Board to assure the shareholders of Axiata that the Directors of Axiata comply with the specified financial standards and required disclosure policies developed and administered by Bursa Securities and other approved accounting standard bodies. In addition, the BAC needs to ensure consistency with Bursa Securities' commitment to encourage high standards of corporate disclosure and transparency. The BAC will continue to adopt best practices aimed at maintaining appropriate standards of corporate responsibility, integrity and accountability to Axiata's shareholders.

2.0 Composition of the BAC

- 2.1 The BAC must be composed of no fewer than three members, all of whom shall be Non-Executive Directors and the majority shall be Independent Non-Executive Directors.
- 2.2 Members of the BAC shall possess sound judgment, objectivity, management experience, integrity and knowledge of the industry. A member of the BAC shall excuse himself/herself from the meeting during discussions or deliberations of any matter which gives rise to an actual or perceived conflict of interest situation for him/her. This is to avoid BAC members from participating in matters that will create conflict of interests.

2.3 Members of the BAC shall be financially literate and at least one member of the BAC

- i. Must be a member of the Malaysian Institute of Accountants (MIA); or
- ii. If he/she is not a member of the MIA, he/she must have at least three years working experience and:
 - a. He/she must have passed the examination specified in Part I of the 1st Schedule of the Accountants Acts 1967; or
 - b. He/she must be a member of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Acts 1967; or
- iii. Have a degree/masters/doctorate in accounting or finance and at least three years post qualification experience in accounting or finance; or
- iv. Have at least seven years experience of being a Chief Financial Officer of a corporation or have the function of being primarily responsible for the management of the financial affairs of a corporation; or
- v. Fulfils other such requirements as may be prescribed or approved by Bursa Securities.

3.0 Duties and Responsibilities of the BAC

In carrying out its responsibilities, the BAC's policies and procedures remain flexible to changes in circumstances and conditions that are in compliance with legal and regulatory requirements.

The following are the main duties and responsibilities of the BAC:

3.1 Financial Reporting and Processes

- i. Review the quarterly interim results, half yearly results and annual financial statements of the Group prior to reporting and presenting to the Board for approval.
- ii. Review the financial statements of Axiata with the external auditors before the audited financial statements are presented to the Board for approval and report the same to the Board.

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- iii. Discuss problems and reservations arising from the interim and final audits and any matters the external auditors may wish to discuss (in the absence of management or the GCIA where necessary).
- iv. Propose best practices on disclosure of financial results and annual report of the Company in line with the principles set out in the Malaysian Code on Corporate Governance, other applicable laws, rules, directives and guidelines.
- v. Review the integrity of the Group's internal and external financial reporting processes and assess significant deficiencies and weaknesses in the design or operations of the Group's internal accounting procedures and controls, including review and assess management's follow up actions on the weaknesses of these procedures and controls as highlighted by the external auditors and internal auditors as per the external auditors' management letters.
- vi. Review and discuss with management the Group's major financial risk exposures, and initiatives taken to monitor and control such exposures over financial reporting which may cause adverse effect to management's ability to record, track changes, process and summarise financial information.

3.2 Independent External Auditors

- i. Consider and recommend to the Board, for it to put to the Company's shareholders for approval in General Meetings, the appointment (and the re-appointment) of a suitable accounting firm to act as external auditors including the audit fee payable thereof. Among the factors to be considered for the appointment are the independence, qualification, adequacy of experience and resources of the firm and the partners and resources assigned to the audit.

- ii. Consider any question of resignation (including review of any letter of resignation and report the same to the Board.) or dismissal. In the event of the dismissal of the external auditors, the BAC shall provide reason(s) for the dismissal for the Board's approval and the external auditors for their records.
- iii. Review whether there is a reason (supported by grounds) to believe that the external auditors are not suitable for reappointment and report the same to the Board.
- iv. Review the external auditors' audit plan before the audit commences and report the same to the Board.
- v. Discuss the nature, approach and scope of the audit before the audit commences and ensure co-ordination where more than one audit firm is involved.
- vi. Review the evaluation of the internal control system with the external auditors and report the same to the Board.
- vii. Be directly responsible for the compensation, evaluation and oversight of the external auditors or any other auditor preparing or issuing an audit report for the Group and, where appropriate, provide reports to the Board on the independence, terms of engagement and proposed fees of the external auditors.
- viii. Meet with the external auditors at least twice in the financial year (without the presence of other directors and employees, whenever deemed necessary) to discuss problems and reservations arising from the interim and final audits, and any matters the external auditors may wish to discuss.
- ix. Review the external auditors audit report, and report the same to the Board.
- x. Review the external auditors' management letter and management's response.

- xi. At least annually assess and report to the Board on the independence of the external auditors, obtaining from the external auditors a written statement delineating all relationships between the audit and the Group and delineating any other relationships that may adversely affect the independence of the external auditors.
- xii. Monitor the extent of non-audit work to be performed by the external auditors to ensure that the provision of non-audit services does not impair their independence or objectivity. This includes a pre-approval process for any such work and the hiring of employees or former employees of the external auditors.
- xiii. Resolve any disagreement between management and the external auditors regarding financial reporting.

3.3 Internal Audit Function

- i. Approve the Internal Audit Charter, which defines the independent purposes, authority, scope and responsibility of AGIA.
- ii. Discuss with the GCIA the annual internal audit scope, plans and objectives, resources, qualifications, independence, reporting structure and performance of AGIA.
- iii. Review and recommend the Internal Audit Business Plan, including the IA Plan and budget, for the Board's final approval, and review the results of the internal audit process. Where necessary the BAC is to ensure:
 - a. That appropriate action is taken on the recommendations of AGIA and reports the same to the Board.

- b. That AGIA's scope, functions, competence and resources are adequate and that it has the necessary authority to carry out its work and report the same to the Board; and
- c. That the goals and objectives of AGIA are commensurate with corporate goals.
- iv. Review any appraisal or assessment of the performance of the members of AGIA.
- v. The GCIA shall report directly to the BAC and shall be responsible for the regular review and appraisal of the effectiveness of the risk management, internal control and governance processes within the Group.
- vi. The Head of Internal Audit at the OpCos report functionally to the OpCo's BAC and on a dotted line basis to the GCIA for purposes of standardising the operations of internal audit in Axiata and its OpCos by furnishing reports to the GCIA in relation to matters including but not limited to, major control issues, audit reports, quarterly reports, and Minutes of OpCos BAC meetings.
- vii. Review internal audit results and reports from the GCIA including the reports on the Group's internal controls, and progress in remedying any material control deficiencies raised by AGIA.
- viii. Approve the appointment or termination of the GCIA and senior staff members of AGIA.
- ix. Take cognisance of resignations of the GCIA and staff members of AGIA and provide the resigning GCIA or staff members the opportunity to submit his/her reasons for resigning.

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- x. Annually review and appraise the performance of the GCIA, including the role and effectiveness of AGIA.
- xi. Be informed, referred to and agree on the initiation, commencement and mechanism of any disciplinary proceeding/investigation, including the nature and reasons for the said disciplinary proceeding/investigation, as well as the subsequent findings and proposed disciplinary actions against the GCIA. As an employee of the Group, the GCIA is subject to the Group's human resources policies and guidelines, including disciplinary proceedings/investigations and actions.
- xii. Ensure that AGIA be independent of the activities they audit and perform audits with impartiality, proficiency and due professional care. The Board or the BAC should determine the remit of AGIA.
- xiii. Discuss problems and reservations arising from the internal audit results, reports or any matters Internal Audit may wish to discuss in the absence of management where necessary.

3.4 Company Oversight

- i. Review the adequacy and integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, rules, directives and guidelines. Review the Company's policies and practices with respect to risk assessment and management. Consider major findings of internal investigations and management's response.
- ii. Review of management's ethics and compliance programmes in conjunction with the Company's code of business ethics; towards improving the work culture and behaviour

- iii. Review the performance in the Group, i.e. assessing and directing management's drive in improving culture and behaviour for ethics and compliance programme.
- iv. Monitor the process for dealing with complaints received by the Group regarding accounting issues, internal control matters or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- v. Consider and review any significant transactions, which are not within the normal course of business and any related party transactions and conflict of interest situations that may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management's integrity and report the same to the Board.
- vi. Verify the allocation of share options or awards given to the Group's eligible employees is in accordance with the criteria for the employees share option and share scheme and the Main LR at the end of each financial year.
- vii. Report promptly to Bursa Securities if the BAC views that a matter resulting in a breach of the Main LR reported by the BAC to the Board has not been satisfactorily resolved by the Board.

(For details of the ToR, please refer to our website)