

Audit Committee Report As at 31 December 2016



The Board of Maxis is pleased to present the Audit Committee Report for the financial year ended 31 December 2016.

THE AUDIT COMMITTEE AT A GLANCE

Members	5 Non-Executive Members
Independent Members	Chairman + 2 Members
Meetings	6 meetings in 2016
Attendance Rate	Full attendance by all members

WHO WE ARE

NE – Non-Executive, **IN** – Independent, * – Chairman

No	Name	Status	Appointment	Meetings Attended	Full Profile
1	Robert Alan Nason *	NE, IN	20/4/2016	4/4	25
2	Robert William Boyle	NE, IN	Ceased as Chairman on 20/4/2016	2/2	NA
3	Tan Sri Mokhzani bin Mahathir	NE, IN	16/10/2009	6/6	26
4	Dato' Hamidah Naziadin	NE, IN	01/02/2014	6/6	26
5	Lim Ghee Keong	NE	08/05/2014	6/6	28
6	Mohammed Abdullah K. Alharbi	NE	13/10/2015	6/6	27

THE AC'S SKILLS AT A GLANCE

- All members are financially literate
- All members are able to read, analyse, interpret and understand financial statements
- All members have extensive business experience
- Each of the members has skill sets which make the AC effective as a team and give them the ability to effectively discharge their duties and responsibilities as members of the Committee
- Robert Alan Nason is a Fellow of CPA Australia meeting the requirement under the MMLR that an Audit Committee must have at least one member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967

SUMMARY OF ACTIVITIES OF THE COMMITTEE

The Committee's duties and responsibilities are set out in its Terms of Reference which are available on Maxis' website www.maxis.com.my/corp. During the financial year, the Committee reviewed and updated the Terms of Reference to be in line with the Statement on Risk Management and Internal Controls and an annual review was performed to ensure that they have been complied with in full. In the discharge of its duties and responsibilities, the Committee had undertaken the following major activities during the year:

Risk Management and Internal Control

- The Committee reviewed the quarterly status reports on Enterprise Risk Management activities within the Group presented by the management, which includes overall risk profile, changes and updates on the number of key risks, and the corresponding mitigating actions. The Committee also reviewed the risk methodology adopted in ensuring that key and high risks were identified and tracked;





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- Through the Internal Audit's reports on key internal audit findings and the external auditor's reports on work performed presented at the AC meetings, as well as through discussions with key senior management, the Committee evaluated the overall adequacy and effectiveness of the system of internal controls including information technology and network controls; the Group's financial; auditing and accounting organisations and personnel; and the Group's policies and compliance procedures with respect to business practices;

- During its meetings and discussions with key senior management, the Committee had consistently emphasised on information security and the Group's readiness to resist cyberattacks and online fraud. In its first quarterly meeting, the Committee deliberated mitigating actions implemented to address IT security gaps identified by the external auditor in the area of system access controls noted during the IT General Control Review conducted in 2015. The Committee also reviewed the Annual Security & Information System (SIS) report from Management, which includes updates on threat landscape and trends, IT security capabilities, IT security roadmap, past two-year security incidents and closure status of IT General Control issues identified by the external auditor;

- The Committee had also reviewed the summary of the defalcation cases investigated in 2015 and where relevant, requested Management to improve on the control environment to prevent further recurrences;

Financial Reporting

- In overseeing the Group's financial reporting, the Committee reviewed with the appropriate officers of

the Group, the quarterly financial results and annual audited financial statements of the Group, including related announcements, before recommending their approval and the release of the Group's financial results to Bursa Malaysia, to the Board. The quarterly financial results for Q1, Q2 and Q3 of 2016, which were prepared in compliance with the Malaysian Financial Reporting Standards ("MFRS"), were reviewed at the quarterly Committee meetings. During its first quarterly meeting, the Committee reviewed the draft audited financial statements for the financial year ending 31 December 2015;

- In reviewing the integrity of financial information, the Committee had deliberated with Management to ensure that the matters set out in Section 5 of the Audit Committee Terms of Reference ("Responsibilities" under the heading "Financial Reporting") as well as the following areas, where relevant, had been complied with:
 - I. Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR");
 - II. Provisions of the Companies Act, 1965 and other legal and regulatory requirements;
 - III. Malaysian Financial Reporting Standards issued by the Malaysian Accounting Standards Board;
- The Committee had also reviewed the status of accounting provisions and estimates, changes made to the reserves, change in accounting policies and significant judgmental accounting matters affecting its interim and audited financial statements;
- On quarterly basis, the management had given assurance to the Committee that related party transactions and mandate for recurrent related

party transactions ("RRPT") were in compliance with MMLR and the Group's policies and procedures. In addition, the Internal Audit presented its quarterly independent review results on the RRPT confirming that all RRPTs had been conducted in compliance with the said policies and procedures;

Overall Governance, Regulatory and other updates

- The Management and Company Secretary presented to the Committee for its review, the status and changes in material litigation, law and regulations, compliance with loan covenants and regulatory updates on the Group's business;

Internal Audit

- The Internal Audit function carried out its activities based on the risk-based Annual Audit Plan approved by the Committee. At its quarterly meetings, the Head of Internal Audit presented to the Committee for its deliberation, the progress of the Internal Audit Annual Audit Plan 2016, including the status of Internal Audit assignments, key findings from audit reports, audit recommendations by the internal auditors, results of investigations performed by the internal auditors and the representations made, and the corrective actions taken by Management in addressing and resolving issues and ensured that all issues were adequately addressed on a timely basis;
- An annual survey for evaluating the effectiveness of the Internal Audit function was carried out in December 2015 and the results were presented and reviewed by the Committee at its first quarterly meeting. The assessment covered three key categories of effectiveness aspects i.e. Positioning (Mandate & Strategy, Organisation & Structure,





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Stakeholders & Funding), People (Leadership, Competencies, Staffing Strategy, Culture and Reward & Appraisal) and Process (Risk Assessment & Planning, Execution and Reporting). During the same meeting, the Committee also reviewed the results of internal compliance assessments on the activities carried out by the Committee and the Internal Audit in 2015 against their respective Terms of Reference;

- During its last quarterly meeting for the year, the Committee reviewed and approved the Internal Audit Annual Audit Plan based on the three-year Internal Audit Roadmap (2015-2017), which reflected the changing risk landscape of the organisation and industry. A total of 40 audits had been planned for 2017 focusing on strategic areas namely business operations, technology and advisory audits. The Committee also reviewed the scope and coverage of the planned activities and ensured principal risk areas and key processes of the business (identified by the Enterprise Risk Management department and Internal Audit department) were adequately addressed in the plan;
- During the same meeting, Internal Audit presented for the Committee's approval the divisional KPIs for 2017 covering four strategic focuses: Operational, Customer, Innovation and Learning & Development. The KPIs were developed in continuation of the three-year roadmap introduced in 2015 but with more emphasis on improving usage of technology in auditing and strengthening the second line-of-defense functions;
- The Committee also reviewed the adequacy of the charter of the internal audit function and approved Internal Audit's proposals to enhance the charter in line with the International Professional Practices Framework ("IPPF") for Internal Auditing by the Institute of Internal Auditors ("IIA");

External Audit

- The Committee undertook an annual assessment of the suitability and independence of the external auditors and reviewed the level of compliance with the Maxis External Audit Independence policy for the work carried out by the auditors for the 12-month period ended on 31 December 2015. The compliance status was presented by Management to the Committee for its deliberation. The Internal Audit had also presented its independent review of the external auditor's independence status to the Committee confirming the assessment results by Management.
- The Committee reviewed the audit services and non-audit services provided by the external auditors and their corresponding incurred fees, which included tax compliance, regulatory compliance reporting, accounting consultation, and agreed-upon procedures as explained in Note 7 to the financial statements. The Committee had concluded that the auditors remained independent;
- At its quarterly meetings, the Committee deliberated on the results and issues arising from the external auditors' review of the half yearly financial results and audit of the year-end financial statements and the resolution of issues highlighted in their reports to the Committee;
- The Committee reviewed the external auditors' 2016 Audit Plan outlining their strategy, approach and proposed fees for the current financial year's statutory audit. The proposed Audit Plan and fees reviewed include non-recurring assurance related work for the financial year;

- The Committee reviewed the annual assessment conducted on the effectiveness of the external auditor and advised the management to work with the auditors in closing some gaps noted during the exercise. The assessment covered seven categories namely calibre of audit firm; quality process; audit team; scope; communications; governance and independence and audit fees.

Employee Share Option Scheme ("ESOS") and 'Long Term' Incentive Plan ("LTIP")

- The Committee reviewed and verified the results of the review performed by the Internal Audit that the ESOS and LTIP grants for the financial year in ensuring that the allocation to employees were as per the criteria approved, disclosed and established pursuant to ESOS and LTIP.

Others

- During the financial year, the Committee reviewed the Group's borrowing and hedging policies and satisfies itself on going concern and risk management implications. The Committee also reviewed the cash flow and forecast for 2017.

PROCEEDINGS OF THE AC MEETINGS

The Group's internal and external auditors and certain members of Senior Management Team attended all the Committee meetings by invitation.

The Committee also held one separate private session with internal auditors and external auditors respectively without the presence of the Management. Both the internal and external auditors have unfettered access to members of the Audit Committee including the Chairman anytime during the year.





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Deliberations during the Committee meetings were minuted. The Chairman of the Committee reported the proceedings of the Committee to the Board after every Committee Meeting. Minutes of the meetings were circulated to all members of the Board and significant issues were brought up and discussed at Board meetings.

TRAINING

The training attended by the Committee members during the financial year is reported under the Statement on Corporate Governance on page 54 to 67.

INTERNAL AUDIT FUNCTION

The Group has an independent internal audit function which reports directly to the Committee, the primary responsibility of which is to provide independent and objective assessment of the adequacy and effectiveness of the risk management, internal control and governance processes established by Management and/or the Board within the Group.

The internal audit team comprising 19 auditors is headed by Shafik Azlee Mashar, who has extensive experience in managing internal auditing functions within telecommunication, FMCG and banking organisations. The Head of the Internal Audit department reports directly to the Chairman of the Committee, and is responsible for enhancing the quality assurance and improvement programme of the internal audit function. Its effectiveness is monitored through continuous internal self-assessment and independent external assessment, and the results are communicated to the Committee.

The total costs incurred for the internal audit function for the financial year ended 31 December 2016 amounted to RM5.8 million (2015: RM4.0 million).

The internal audit function fully abides by the provisions of its charter. The internal audit charter is reviewed and approved by the Committee annually and complies fully with the Institute of Internal Auditors' International Professional Practices Framework.

The Audit Committee has regular dialogues and sessions with the Head of Internal Audit and team.

TERMS OF REFERENCE OF THE COMMITTEE

The terms of reference of the Committee can be viewed on the Company's website at www.maxis.com.my/corp

