

BOARD AUDIT COMMITTEE REPORT

OVERVIEW

The Board Audit Committee is committed to its role in ensuring high corporate governance practices and providing oversight on EPF's financial reporting, risk management, and internal control systems.

MEMBERSHIP

The Board Audit Committee consists of the following members:

(a) For the term 1 June 2019 to 31 May 2021

Board Audit Committee Members	Representative
Khalid Haji Sufat	Chairman – Professionals
Dato' Siti Zauyah Mohd Desa <i>(Service completed on 14 November 2019)</i> Hazim Jamaluddin (Alternate Member) <i>(Service completed on 14 November 2019)</i>	Deputy Chairman – Government
Datuk Dr. Ting Ding Ing	Employers
Hadah Leen	Employees
Zainal Abidin Mohd Kassim	Professionals

(b) Previous term, from 1 June 2017 to 31 May 2019

Board Audit Committee Members	Representative
Datuk Thomas George M.S. George	Chairman – Professionals
Dato' Siti Zauyah Mohd Desa Hazim Jamaluddin (Alternate Member)	Deputy Chairman – Government
Datuk Abang Haji Abdul Karim Tun Abang Haji Openg	Employers
Hadah Leen	Employees
Khalid Haji Sufat	Professionals

MEETINGS

During the financial year 2019, the Board Audit Committee met nine times: four Special Board Audit Committee meetings, four Board Audit Committee meetings, and one Board Audit Committee meeting with the Auditor-General.

Deliberations at the Board Audit Committee meetings were robust and detailed. Minutes of the Board Audit Committee meetings held were provided to members of the Board Audit Committee. The Board was briefed on significant matters deliberated during the Board Audit Committee meetings.

Further details on the Board Audit Committee attendance have been set out in the Statement on Corporate Governance.

TERMS OF REFERENCE

The Board Audit Committee is governed by its own terms of reference. The terms of reference establish the authority, duties, and responsibilities of the Board Audit Committee, which were approved by the Board, and accessible via the EPF's official website at www.kwsp.gov.my.

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SUMMARY OF PRINCIPAL ACTIVITIES

During the financial year 2019, the Board Audit Committee carried out the following activities:

(a) Internal Audit

- (i) Reviewed and approved the annual audit plan to ensure adequate audit scope and comprehensive coverage of the EPF's activities as planned, based on risk assessment conducted;
- (ii) Reviewed and deliberated on internal audit reports tabled during the year, including recommendations made, root causes identified and the Management's response to these recommendations, as well as the timely mitigation actions taken by Management to improve the system of internal controls and its processes on the highlighted areas;
- (iii) Reviewed findings of investigations and other ad-hoc special reviews on specific areas of operations to ascertain the root cause of the issues and effectiveness of corrective actions taken to address weaknesses;
- (iv) Monitored corrective actions taken on outstanding audit issues to ensure all key risks and control lapses had been addressed;
- (v) Reviewed effectiveness of audit process and resource requirements for the year, and assessed the performance of the Internal Audit Department on a half-yearly basis and provided written feedback for improvements; and
- (vi) Reviewed and endorsed disclosures on the Statement on Internal Audit, and Statement of Risk Management and Internal Control for inclusion in the Annual Report.

(b) External Audit

- (i) Reviewed all areas of concerns identified by external auditors together with the Management's response to their findings;
- (ii) Met the Auditor-General on 29 April 2019 without the presence of the Management to discuss relevant issues and obtain feedback for improvements; and
- (iii) Met external auditors appointed by Auditor-General for the provision of audit services in the EPF on 26 November 2019, to discuss the scope of work and areas of audit emphasis for the year.

(c) Financial Reports

Reviewed quarterly unaudited financial results and annual audited financial statements of the EPF before recommending them for approval by the Board, focusing on:

- (i) The impact from changes in accounting policies and practices, to the financial statements;
- (ii) Significant matters highlighted and how these matters were addressed. These include financial reporting issues, judgements by the Management, and unusual events or transactions; and
- (iii) Compliance with applicable and approved accounting standards in Malaysia, and other legal regulatory requirements.

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(d) Related Party Transactions

Reviewed related party transactions as disclosed in the financial statements entered into by the EPF and its subsidiaries.

TRAINING

During the year, members of the Board Audit Committee attended the following training programmes, conferences, and seminars:

Course
Audit Committee Conference 2019: Meeting The New Expectations
IIA Malaysia National Conference 2019 – GRC 4.0: Are You Ready?
PNB Leadership Forum: Organisational Excellence From Governance To Performance
International Social Well-Being Conference 2019: Shaping Destiny - Between Hope and Extinction
International Directors Summit 2019: The Trust Compass – Resetting the Course
EPF Investment Seminar 2019: Inspiring A Greater Tomorrow
EPF Thought Leadership: FutureFit 2019
MIA International Accountants Conference 2019: Trust and Sustainability In A Digital Economy
Islamic Finance For Board of Directors (IF4BoD)
Financial Institution Directors Education (FIDE) Forum: Rethinking Strategy
FIDE Forum 4th Distinguished Board Leadership Series: Digital To The Core
BNM-FIDE Forum: Masterclass on Cybersecurity – Unseen Threats
FIDE Forum Dinner Talk: Digital Assets – Global Trends Legal Requirements and Opportunities for Financial Institutions
Corporate Liability Under MACC Act 2018: New Amendments – Implication to Directors
Corporate Governance: Enhancement – MACC Act Section 17A
Value-Based Intermediation
Board Strategy Session 2019

INTERNAL AUDIT FUNCTION

- (a) The Board Audit Committee is supported by the Internal Audit Department in the discharge of its duties and responsibilities. The Internal Audit Department reports directly to the Board Audit Committee on its activities based on the approved annual internal audit plan.
- (b) The Internal Audit Department provides independent, objective assurance and consulting services designed to improve and add value to the EPF's operations. The Internal Audit Department helps the EPF accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.
- (c) Further details on internal audit function have been set out in the Statement on Internal Audit.

STATEMENT ON INTERNAL AUDIT

The Internal Audit Department provides independent, objective assurance, and consulting services designed to improve and add value to the EPF's operations. The department helps the EPF accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

INDEPENDENCE AND OBJECTIVITY

The Head of Internal Audit Department reports functionally to the Board Audit Committee and administratively to the Chief Executive Officer. The internal audit activities are free from interference in determining the scope of internal auditing, performance of work and communication of results.

In the interest of protecting its independence, the department has no executive or managerial powers, authority, functions or duties except those relating to the management of internal audit functions. The department is also not responsible for the detailed development or implementation of new systems, plans, regulations, policies, or procedures.

SCOPE OF WORK

The Internal Audit Department's functions include the auditing of the financials, operations, compliance, and management of the EPF. Its scope of work, primarily, is to determine whether the EPF's risk management, internal control systems, management information systems and governance processes, as designed and represented by the Management, are adequate and functioning in a manner which ensures:

- (a) Risks are appropriately identified and managed;
- (b) Resources are acquired economically, and employed effectively and efficiently;
- (c) Assets are safeguarded;
- (d) Significant management, financial and operating information are accurate, reliable and timely;
- (e) Applicable laws and regulations, policies, standards and procedures are complied with; and
- (f) Established objectives and goals are achieved.

The Internal Audit Department's secondary scope of work encompasses the following:

- (a) Carrying out special investigations as requested by the Management / Board Audit Committee;
- (b) Coordinating with external auditors to ensure adequate audit coverage and minimal duplication of work; and
- (c) Participating as an observer in management committees set up to develop or implement new systems or processes. Such participation is limited to providing advice on control matters and does not preclude the Internal Audit Department from auditing the systems or processes.

STATEMENT ON INTERNAL AUDIT

The Internal Audit Department continues to adopt a risk-based audit plan approach, prioritising the internal audit activities according to the audit risk level. Audit engagements carried out have been prioritised based on the assessment of inherent risks, control risks and detection risks for each operation, function and information technology system.

In 2019, a total of 119 reports were presented to the Board Audit Committee.

Status of outstanding audit findings are reported to the Management on a quarterly basis and to the Board Audit Committee on a half-yearly basis. The Internal Audit Department continues to monitor the implementation of action plans as agreed by the Management.

INTERNAL AUDIT RESOURCES

The Board Audit Committee reviews and approves the department's human resource requirements to ensure the department is adequately equipped with competent internal auditors. As at 31 December 2019, the Internal Audit Department had a staff strength of 89 individuals from diverse background and qualifications, as follows:

Field of Expertise	No. of Auditors	Percentage
Finance and Accounting	59	66%
Information Technology	14	16%
Business Administration	14	16%
Engineering / Quantity Surveying	2	2%
Total	89	100%

PROFESSIONAL QUALIFICATIONS AND CONTINUOUS COMPETENCY DEVELOPMENT

The Internal Audit Department is committed to equip its auditors with sufficient knowledge, skills and competencies to discharge their duties and responsibilities. The internal auditors are also encouraged to obtain appropriate professional certifications and qualifications. To date, 19 of the internal auditors hold a total of 27 professional certifications and qualifications, such as Association of Chartered Certified Accountants (ACCA), Certified Practising Accountants (CPA) Australia, Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA) and Certified Fraud Examiner (CFE). These qualifications and professional memberships have been awarded by various recognised professional bodies.

STATEMENT ON INTERNAL AUDIT

During the year, the auditors underwent continuous training programmes to equip themselves with the requisite audit and product knowledge, soft skills on leadership, communication and negotiation skills to enhance their job performance and career prospects. The list of courses attended are as follows:

Course
(A) In-House Training
Certified Internal Auditor (Part 2)
Implementing Data Analytics in Internal Audit
MFRS 9 – Financial Instruments
Internal Audit Department Teambuilding
(B) External Training
IIA Malaysia National Conference 2019 – GRC 4.0: Are You Ready?
Cybersecurity, IT Assurance And Governance Conference (CIAG) 2019
Forensic Investigation And Fraud Analytics Conference
International Social Well-Being Conference 2019
Leadership Energy Summit Asia 2019
EPF Thought Leadership: FutureFit 2019
ICLIF's Women Of The World – Be The Change
Attachment Program at Aztec Financial Services (Luxembourg)
100 Common Problems In Construction Contract
Applied Data Analytics
Balanced Scorecard Refresher
Data Storytelling For Business
Effective IT Audit Techniques
Forex Derivatives
Global Fixed Income Academy
ISO 9001:2015 Internal Audit Training
Leadership Signature
Masterclass On Integrated Cybersecurity Management
MFRS 16 Leases – Transforming Assets and Liabilities
MFRS Update And Refresher
Management Conference 2019
Premier Shariah RFP Capstone Programme
Private Equity Academy
Real Estate Academy
Seminar On ISO/IEC 20000:2018 IT Service Management System (ITSMS) – Upgrading
Shaping Shared Leadership
Shariah RFP Course
Tea Talk Session: Project Management Review
The Art Of Storytelling
The Risk Management Audit
Winning In The Open Source World

QUALITY AND IMPROVEMENT PROGRAMMES

(a) The Internal Audit Department has established and maintained a quality assurance and improvement programme designed to evaluate the operations of the department. This programme includes periodic internal and external quality assessments and ongoing internal monitoring.

The internal assessments include:

- (i) Ongoing reviews of the performance of internal audit activities; and
- (ii) Peer reviews of the audit processes, procedures and documentation on a periodic basis.

(b) The Internal Audit Charter stipulates that a Quality Assurance Review by a qualified independent reviewer is required at least once every five (5) years.

(c) Based on the review by KPMG Management & Risk Consulting Sdn. Bhd., in 2014, the Internal Audit Department has generally conformed with all of the International Standards for the Professional Practice of Internal Auditing (IIA Standards) promulgated by the Institute of Internal Auditors.

(d) PricewaterhouseCoopers Risk Services Sdn. Bhd. was appointed to conduct Quality Assurance Review of the Internal Audit Department in February 2020.