

STATEMENT ON CORPORATE GOVERNANCE

At the EPF, we strive to keep up with the latest developments in corporate governance. The EPF believes that a sound corporate governance framework promotes strong leadership by the Board of Directors and good management practices, which in turn contributes to enhancing accountability, transparency and long-term success of a company. The EPF continues to regard best governance practices as integral to protecting the interest of all stakeholders and its reputation.

As a trustee with assets of more than RM791.48 billion, governance and sustainability are critical in ensuring the alignment of interests between the EPF as a long-term investor with its fiduciary duties, the Government in its supervisory and developmental role, and its contributing members as beneficiaries. The EPF, as Malaysia's largest retirement savings fund, is striving to be at the forefront in championing sustainable investing while incorporating Environmental, Social and Governance (ESG) in its investment considerations.

In addition, the importance of maintaining the integrity of the organisation and individuals is always emphasised in the EPF's affairs with its stakeholders. Our employees are reminded to make the EPF's Code of Ethics, enforced on 1 January 2017, as a guide in their day-to-day tasks.

During the year, we focused our efforts in raising awareness on corporate governance and adoption of good corporate governance practices. These initiatives include:

- **Malaysian Code for Institutional Investors ("Code")**

On 24 January 2017, the EPF became a signatory to the Malaysian Code for Institutional Investors ("Code") as part of its efforts to promote good corporate governance in Malaysia. The industry-driven Code, which consists of six principles, aims to promote effective stewardship by Institutional Investors such as disclosure of stewardship policy, monitoring and engagement with investee companies and managing conflict of interest. As at end 2017, 17 institutions became signatories to the Code. The nomination of Deputy Chief Executive Officer (Investment) of the EPF as Vice-Chairman to the Institutional Council Board further reinforced the EPF's commitment towards the development of good corporate governance in Malaysia.

- **Code of Ethics**

The EPF Code of Ethics was enforced on 1 January 2017, and this code aims to maintain stakeholders' confidence towards the EPF in managing their retirement savings with trust, transparency and integrity.

- **Anti-Corruption Statement**

The EPF adheres to the principle of Zero Tolerance against corruption in all the activities that lead to it. This Anti-Corruption Statement was introduced to demonstrate the EPF's commitment to becoming a corruption-free organisation in its operations and business dealings.

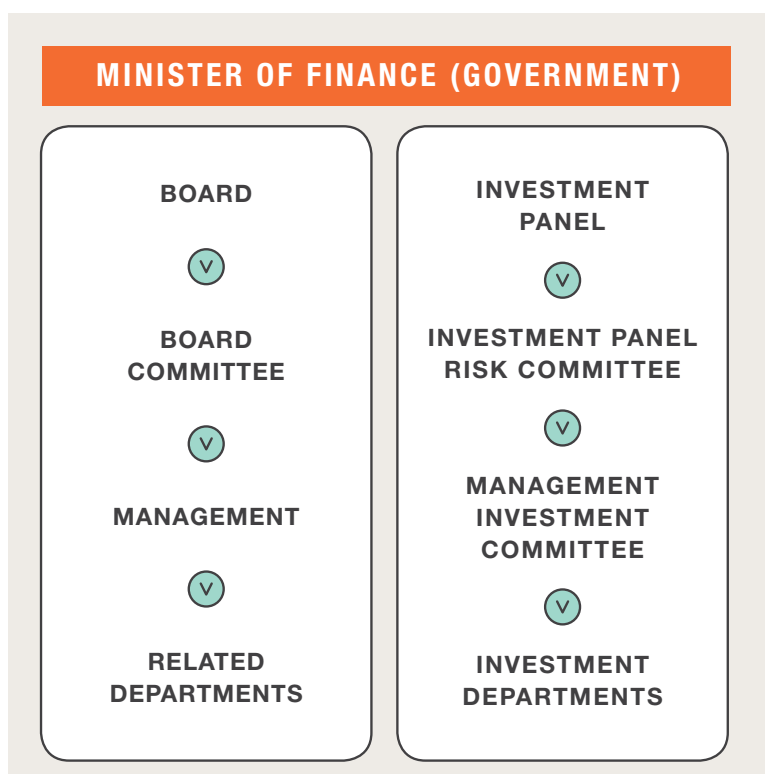
- **Organisational Integrity Assessment**

The outcome of Organisational Integrity Assessment conducted by the Malaysian Institute of Integrity (INTEGRITI) in end 2016 was announced in October 2017. The score of 78.42 per cent demonstrated that the EPF integrity level was at a commendable level vis-à-vis other corporate organisations in the country. The findings will be used as a basis for implementing integrity-related programmes throughout the EPF.

- **Memorandum of Understanding with the Malaysian Institute of Integrity**

The EPF signed a Memorandum of Understanding with the Malaysian Institute of Integrity (INTEGRITI) to enhance integrity in the EPF. The technical and professional assistance from INTEGRITI will help the EPF in strengthening its integrity efforts more efficiently and systematically.

BOARD AND INVESTMENT PANEL



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BOARD AND INVESTMENT PANEL APPOINTMENT PROCESS

The Board Members and the Investment Panel, as well as the Chief Executive Officer (CEO), are appointed by the Minister of Finance. The Minister appoints only those with proven track records of integrity, competency and reliability to undertake their obligations effectively. Appointments are for a two-year term to recognise the importance of introducing fresh perspectives. The Minister of Finance also reviews the performance and effectiveness of members of the Board and Investment Panel.

BOARD AND INVESTMENT PANEL COMPOSITION

The EPF Act 1991 dictates that its Board membership should not be more than 20 persons, inclusive of the Chairman and CEO. In 2017, there were 18 members on the Board representing various stakeholders, which include:

- (i) The Chairman;
- (ii) Five members representing the Government, including a representative of the Ministry of Finance as Deputy Chairman;
- (iii) Four members representing Employers;
- (iv) Four members representing Employees;
- (v) Three professional members from various backgrounds; and
- (vi) The CEO as an ex-officio member.

The Board Members and Investment Panel members consist of individuals with distinguished achievements, diverse skills, competencies and experiences.

The Investment Panel, headed by the Chairman, comprises seven members:

- (i) The Chairman;
- (ii) One representative from the Ministry of Finance as Deputy Chairman;
- (iii) One representative from Bank Negara Malaysia;
- (iv) Three professional members; and
- (v) The CEO as an ex-officio member.

ROLES AND RESPONSIBILITIES OF THE BOARD MEMBERS AND INVESTMENT PANEL

The Board assumes a number of specific responsibilities such as overseeing the implementation of policies related to the operations of the EPF, identifying key risk areas and taking appropriate steps to manage these risks, as well as reviewing the adequacy and integrity of the internal control systems.

The EPF Act 1991 provides for the establishment of an Investment Panel to impart strategic directions on investment-related issues. The Investment Panel determines and approves investment activities in line with existing guidelines, policies on risk control and asset allocation.

The Board relies on the integrity and due diligence of senior management, external auditors and advisors to oversee the EPF's overall performance and attainment of its objectives, key operational initiatives, financial plans and annual budget, major investments, divestment and funding proposals, financial performance reviews, risk management and corporate governance practices.

Chairman and CEO

The roles and responsibilities of the Chairman and CEO are kept separate in accordance with best practices and to ensure appropriate balance of power and supervision of the management, increased accountability and greater independence.

The Chairman leads and ensures effective and comprehensive discussion on matters brought to the Board, including strategic issues as well as business planning. The Chairman ensures that the Board's decisions are translated into executive action.

The CEO's primary role is to effectively manage the EPF's operations in accordance with its strategies and policies and provide close oversight, guidance, advice and leadership to senior management.

Board and Investment Panel Effectiveness Evaluation (BEE/IPEE)

The EPF carries out Board and Investment Panel Effectiveness Evaluation to assess the performance of the Board, the Investment Panel, Audit Committee, Board Risk Management Committee, Strategy Committee, and the Investment Panel Risk Committee, including the Chairman and CEO. This is in addition to the self and peer evaluation of the directors. The BEE/IPEE comprises an overall evaluation of the effectiveness of the Board and Investment Panel. The review is carried out once in every two years by an independent professional body.

Board Diversity

In line with good governance practice, the EPF is committed to ensuring diversity for efficient functioning of the Board. The Board endeavours to bring together diverse range of experiences, skills, knowledge, industry backgrounds, ethnicity and gender to optimally achieve its investment objectives and governance performance.

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Board Attendance

A total of seven Board and 21 Investment Panel meetings were held in 2017. Details of members' attendance at these meetings are as follows:

	Board	Board Audit Committee	Board Risk Management Committee	Finance and Development Committee	Strategy Committee	Personnel, Appointment and Services Committee	Board Disciplinary Committee	Board Disciplinary Appeal	Procurement Board
Tan Sri Samsudin Osman (Chairman)	6/7	-	-	4/4	-	-	-	3/3	-
Datuk Siti Zauyah Md Desa (Deputy Chairman) Hazim Jamaluddin (Alternate Member)	7/7	8/8	-	4/4	-	-	-	-	-
Dato' Sri Adenan Ab Rahman (Completed service on 5 October 2017) Dato' Mohamed Elias Abu Bakar (Alternate Member) (Completed service on 5 October 2017)	3/5	-	-	-	-	-	4/4	-	-
Tan Sri Zainal Rahim Seman (Appointed with effect from 1 June 2017) Dato' Mohtar Mohd Abdul Rahman (Alternate Member)	3/4	-	-	-	-	2/2	-	2/2	-
Tan Sri Datuk Amar Hj Mohamad Morshidi Abdul Ghani Datu Dr Sabariah Putit (Alternate Member)	2/7	-	3/4	-	-	-	3/4	-	-
Tan Sri Haji Sukarti Wakiman Datuk Hj Nordin Siman (Alternate Member)	3/7	-	-	-	-	3/4	-	-	-
Tan Sri Azman Shah Haron Datuk Mohd Hasnol Ayub	5/7 7/7	- -	4/4 -	3/3 -	- -	- 2/4	3/4 -	- 2/3	- 4/4
Datuk Abang Haji Abdul Karim Tun Abang Haji Openg Tan Sri Dr Lim Wee Chai	6/7 3/7	7/8 -	- 1/2	- -	3/3 2/3	- -	- -	3/3 -	4/5 -
Datuk Lok Yim Pheng (Completed service on 31 May 2017) Dato' Abdul Halim Mansor (Appointed with effect from January 2017)	3/3 6/6	4/4 -	- -	- -	1/1 3/3	- -	- -	1/1 2/2	4/5 3/3
Tuan Hj Adnan Mat (Appointed with effect from 1 June 2017) Hadiah Leen Catherine Jikunan	4/4 6/7 6/7	- 4/4 -	- - 3/4	3/3 1/1 -	- 2/2 -	- - 4/4	- 3/4 -	- - 2/3	4/4 4/4 -
Tuan Haji Md Ja'far Abdul Carrim (Completed service on 31 May 2017) Khalid Hj Sufat (Appointed with effect from 1 June 2017)	3/3 4/4	- 4/4	1/2 -	1/1 3/3	1/1 -	- -	- -	1/1 -	5/5 4/4
Datuk Thomas George M.S George Zainal Abidin Kassim	7/7 7/7	8/8 4/4	- 1/2	- -	2/2 3/3	4/4 -	3/3 1/1	2/2 -	5/5 -
Ex-Officio									
Datuk Shahril Ridza Ridzuan	7/7	-	4/4	4/4	3/3	4/4	-	-	9/9

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	Investment Panel	Investment Panel Risk Committee
Tan Sri Samsudin Osman (Chairman)	20/21	-
Datuk Ahmad Badri Mohd Zahir	16/21	-
Dato' Bakarudin Ishak (Completed service on 20 January 2017)	1/1	-
Dr Sukudhew Singh (Appointed with effect on 2 May 2017 and completed service on 31 December 2017)	8/12	-
Dato' Sri Mohamed Nazir Abdul Razak (Completed service on 31 May 2017)	3/9	2/2
David Lau Nai Pek	14/21	4/4
Rossana Annizah Ahmad Rashid	16/21	3/4
Dato' Md Agil Mohd Natt (Appointed with effect from 1 June 2017)	14/15	2/2
Datuk Shahril Ridza Ridzuan (Ex-Officio)	21/21	4/4

BOARD AND INVESTMENT PANEL MEMBERS REMUNERATION

Board members are paid a monthly honorarium and attendance allowance for each meeting attended. Details of remuneration of each Board member during the financial year are as follows:

Honorarium and Attendance Allowance of Board and Investment Panel Members

Allowance	Board/Investment Panel/ Board Audit Committee/Board Risk Management Committee/ Investment Panel Risk Committee/Board Disiplinary Appeal Committee				Other Board Committees (RM)
	Board (RM)	Investment Panel (RM)	(RM)		
Honorarium (per month)	5,000	5,000			
Chairman of Meeting	-	-	2,000		1,500
Meeting Attendance - Including Alternate Members	-	-	1,500		1,300

For 2017, the total honorarium and allowance paid to the Board and Investment Panel members was RM1,886,100.00.

Emolument of Top Management

Emolument (RM)

Chief Executive Officer and Deputy Chief Executive Officers

6,851,694.37

QUALITY AND SUPPLY OF INFORMATION TO THE BOARD

To assist the Board in discharging its duties and to keep members abreast of the EPF's operational and financial performance, key issues, challenges and opportunities, the management releases adequate operations and investment reports as well as financial statements to the Board on a regular and timely basis.

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BOARD AND INVESTMENT PANEL COMMITTEES

The Board and Investment Panel have established various Board/Investment Panel Committees to oversee specific matters pertaining to organisational operations. Each committee operates within clearly defined terms of reference.

Committee	Composition	Function
Board Audit Committee	Five members, including the Chairman	<ul style="list-style-type: none"> Assists the Board in evaluating the effectiveness of internal controls, risk management (except in making investment decisions) and governance processes. Oversees the financial reporting process and reporting quality of the annual and interim financial statements. Reviews the appropriateness of the EPF's accounting policies and changes thereto. Held eight meetings in 2017 to deliberate on the reports of the internal and external auditors, review matters including the internal audit functions and audit plan for the year. Maintains a formal and professional relationship with the external auditors and convened two meetings with external auditors in 2017 without the presence of the management.
Board Risk Management Committee	Five members, including the Chairman	<ul style="list-style-type: none"> Responsible for assisting the Board to oversee all operational risk management activities (except for making investment decisions). Held four meetings in 2017.
Investment Panel Risk Committee	Four members, including the Chairman	<ul style="list-style-type: none"> Oversees investment risk, which includes recommending the aggregate risk appetite for the Investment Panel to sign off, approving risk management policies and limits, reviewing risk exposure and providing direction in relation to risk management practices within the investment functions. Held four meetings in 2017.
Finance and Development Committee	Six members, including the Chairman	<ul style="list-style-type: none"> Responsible for approving additional budget of not more than five per cent from the total annual budget approved by the Board. Assists the Board in approving matters relating to financial impact such as write-offs of loss other than related with investments. Held four meetings in 2017.
Strategic Committee	Eight members, including the Chairman	<ul style="list-style-type: none"> Reviews in detail proposed amendments and policy changes related to the EPF Schemes. Endorses any recommendations and policy changes to the Board for approval. Held three meetings in 2017.
Personnel, Appointment and Services Committee	Six members, including the Chairman	<ul style="list-style-type: none"> Assists the Board to consider and approve matters relating to employment, which includes employment terms and conditions. Held four meetings in 2017.
Board Disciplinary Committee	Five members, including the Chairman	<ul style="list-style-type: none"> Responsible for any disciplinary proceedings and imposes penalties on employees as provided for under the EPF Rules and Regulations (Conduct and Discipline) 1993. Held four meetings in 2017.

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Board Committee	Composition	Function
Board Disciplinary Appeal Committee	Seven members, including the Chairman	<ul style="list-style-type: none"> • Considers any appeal by employees against the decisions made by the Disciplinary Committee. • Held three meetings in 2017.
Procurement Board	Five members, including the Chairman	<ul style="list-style-type: none"> • Responsible for matters relating to the procurement of works, services and supply of goods. • Held eight meetings in 2017.

MANAGEMENT COMMITTEES

Apart from the main Board and Investment Panel committees, other management committees have been established and report directly to the CEO or relevant key senior management members.

Management Investment Committee

- Recommends investment activities to the Investment Panel in line with the EPF's guidelines, policies on risk control and asset allocation.
- Consists of 13 members, including the CEO (or Deputy CEO (Investment) in the absence of the CEO) as Chairman.
- Held 49 meetings in 2017.

Management Procurement Committee

- Responsible for matters relating to procurement of works, services and supply of goods.
- Consists of key senior management, including the CEO as Chairman.
- Held 12 meetings in 2017.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide a clear, accurate and comprehensive assessment of the EPF's financial performance and prospects through the annual financial statement. This is in addition to providing transparent and up-to-date disclosures on the EPF's financial performance and prospects through quarterly announcement of results to stakeholders. Refer to page 108 of the Annual Report.

Risk Management and Internal Control

The Board and management are fully committed to a robust internal control system, procedures and policies to ensure stakeholders' interests and the EPF's assets are safeguarded. The Statement on Risk Management and Internal Control is on pages 44 to 47 of this Annual Report, providing an overview of the state of internal control system within the EPF.

Corporate Responsibility

The EPF believes that there should be a balance between value creation and corporate responsibility.

COMMUNICATION WITH STAKEHOLDERS

The EPF believes that communication with stakeholders forms an important part of the corporate governance framework and acknowledges the need to be transparent to its stakeholders. The EPF discloses quarterly reports on its investment activities, comprising information on asset allocation, revenue generated from each asset class and total fund size. It also discloses the top 30 equity investments on a quarterly basis to ensure transparency and provide stakeholders with information on the EPF's holdings in public listed companies in Malaysia.

The EPF continues to hold dialogues with its investee companies. In 2017, the EPF management visited 37 companies (local: 21 overseas: 16). The EPF also attended and voted actively in 105 annual general meetings (AGM) and 31 extraordinary general meetings (EGM) of its investee companies.

As the EPF becomes more active in overseeing its investments, it has appointed nominees on the boards of listed and unlisted companies. As at 31 December 2017, the EPF has nominees in 12 listed companies and 42 unlisted companies.

STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

Simpanan Shariah provides an option for members to have their EPF savings managed in accordance with the shariah principles based on provisions under the EPF Act 1991, Regulations, Rules and any other related requirements in force from time to time. The registration for Simpanan Shariah was open to members starting 8 August 2016.

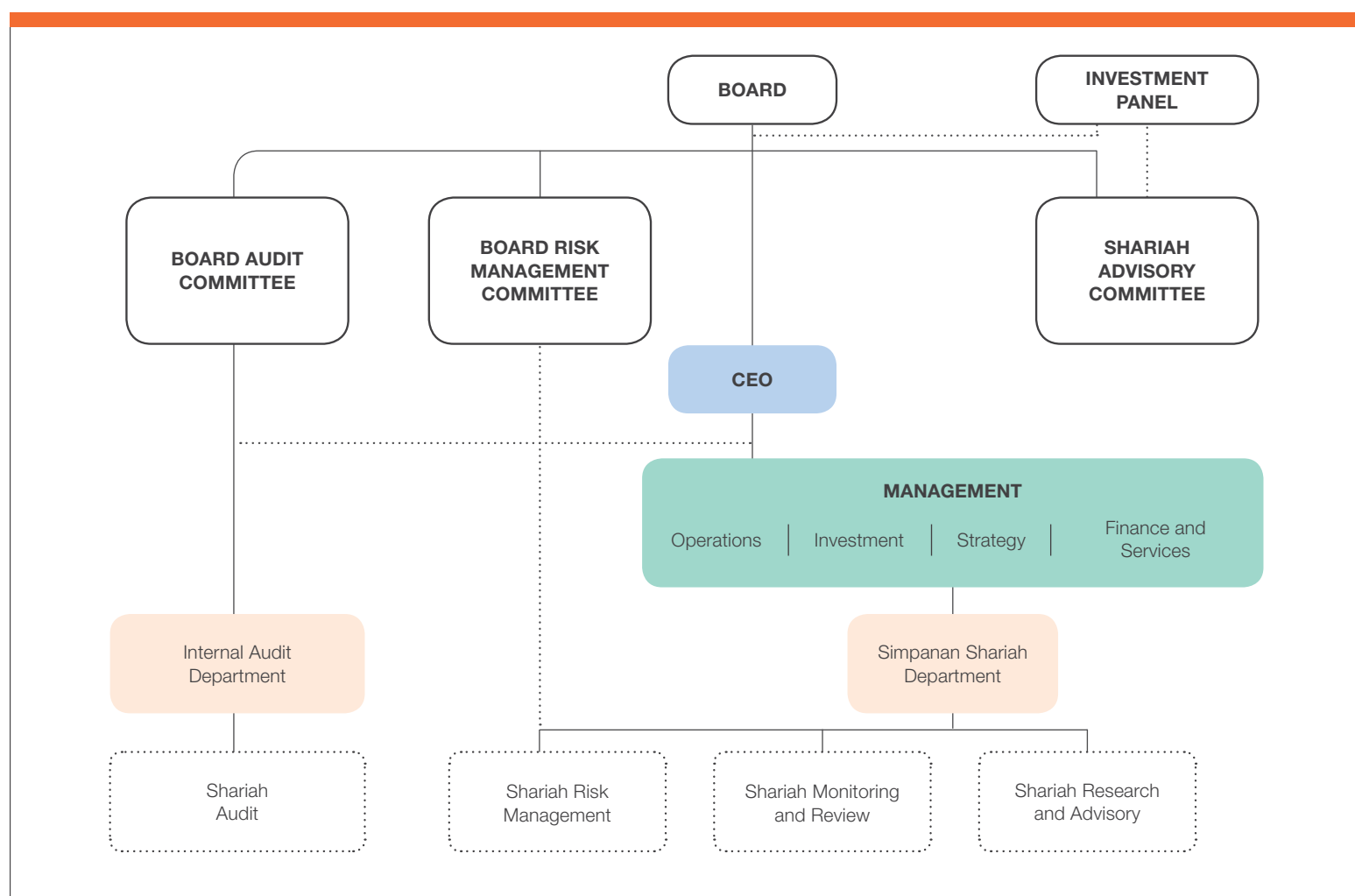
For members who have successfully registered on or before 23 December 2016, their Simpanan Shariah account took effect on 1 January 2017.

In order for the EPF to offer Simpanan Shariah, the EPF Act 1991 was amended to include establishment, functions and membership of the Shariah Advisory Committee (SAC), reference to SAC, dividend declaration and election of Simpanan Shariah account. The amended Act came into force on 1 August 2016. The Board has also included rules in relation to Simpanan Shariah account i.e. the EPF Rules (Simpanan Shariah Account) 2016 which came into effect on 1 August 2016.

Shariah Governance Structure

Apart from adopting good corporate governance practices, the EPF has also established a shariah governance framework to ensure that the operations and investments of Simpanan Shariah comply with the shariah principles.

The shariah governance structure under the framework is as described below:



STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

Component	Function in respect of Simpanan Shariah
Board	<ul style="list-style-type: none"> To establish the SAC as the authority on shariah matters, for the purposes of advising the Board and Investment Panel in ensuring that the management of Simpanan Shariah complies with the shariah principles. To refer to the SAC on any matters relating to shariah and that which requires the ascertainment of shariah principles. The advice given by the SAC shall be binding on the Board. To establish a shariah compliance framework as described below.
Investment Panel	<ul style="list-style-type: none"> To refer to the SAC on any investment matters relating to shariah and that which requires the ascertainment of shariah principles. The advice given by the SAC shall be binding on the Investment Panel.
Shariah Advisory Committee	<ul style="list-style-type: none"> To ascertain the application of shariah principles on any matters relating to Simpanan Shariah. To advise the Board and Investment Panel on any shariah-related matters and the application of shariah principles related to Simpanan Shariah. To verify and approve any shariah compliance report in relation to the management of Simpanan Shariah for the EPF Annual Report.
Management	<ul style="list-style-type: none"> To ensure that the operations and investments of Simpanan Shariah adhere strictly to the shariah principles by referring to the SAC for advice on all shariah-related matters and implementing all SAC rulings.
Shariah Compliance Framework	<p>There are four functions established by the Board under the framework:</p> <ul style="list-style-type: none"> Shariah Research and Advisory: Responsible for conducting shariah research and providing shariah advice. Shariah Monitoring and Review: Responsible for shariah compliance monitoring and review for the purpose of continuous assessment on the degree of shariah compliance. Shariah Risk Management: Responsible for the management of shariah non-compliance risk for the purpose of mitigating any possible shariah non-compliance. Shariah Audit: Responsible for shariah auditing for the purpose of independent periodical assessment and objective assurance on the degree of shariah compliance.

APPOINTMENT OF SAC MEMBERS

The Board shall appoint no less than three persons who are qualified in shariah, or who have knowledge or experience in shariah and in banking, finance, law or other related disciplines.

The Board also stipulates that the SAC members must have minimum five years' experience relating to Islamic finance, and that two-third of its members must have at least a Degree in shariah, which includes Islamic Commercial Law (*Fiqh Muamalat*) or Principles of Islamic Jurisprudence (*Usul Fiqh*).

In 2017, the SAC consists of five members qualified in shariah and of eminent scholars in Islamic banking and finance locally and globally. Each appointment is for a two-year term and the appointee(s) may be reappointed.

STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

SAC MEETING ATTENDANCE

A total of 14 SAC meetings (including three special meetings) were held in 2017. Details of SAC members' attendance are as follows:

SAC Members	Meeting Attendance
Prof. Dr Mohamad Akram Laldin (Chairman)	14/14
Assoc. Prof. Dr Aznan Hasan (Deputy Chairman)	13/14
Dr Zaharuddin Abdul Rahman	14/14
Prof. Dr Engku Rabiah Adawiah Engku Ali	14/14
Dr Kamaruzaman Noordin	14/14

SAC HONORARIUM AND ALLOWANCES

In 2017, the SAC members are paid a monthly honorarium and allowance for each meeting attended as follows:

- a) Honorarium (per month): RM5,000.00
- b) Meeting Attendance: RM1,500.00

ACCESS TO INFORMATION AND DOCUMENTATION

To assist the SAC in discharging its responsibilities, the EPF Management provides access to all necessary information and documents that are needed for the SAC to submit periodic reports relating to shariah compliance.

SHARIAH POLICIES FOR SIMPANAN SHARIAH

The shariah governance framework is constructed based on detailed policies and procedures that include the required steps needed to ensure that the execution of each shariah-compliant transaction complies with the shariah requirements. The SAC has formulated shariah policies for Simpanan Shariah with respect to its operations, investment, finance and treatment of shariah non-compliant income, which include:

1. Shariah Contract For Simpanan Shariah

The shariah contract for Simpanan Shariah is based on the Wakalah contract, where the Board is appointed and entrusted to act on members' behalf to manage and invest all credits (savings) in members' account in accordance with the shariah principles.

2. Shariah-Compliant Investment

In addition to ethical investment practices, which refrain from investing in sectors that manufacture and promote alcohol, gambling, adult entertainment and military weapons, among others, all investment assets will undergo the shariah screening process based on shariah criteria and guidelines set by the SAC, that serve to eliminate non-shariah compliant elements such as *riba* (interest/usury), *gharar* (uncertainty in contract), *maysir* (gambling) and other prohibited elements such as non-halal goods and services.

To ensure end-to-end shariah compliance of its investments, the SAC has set forth shariah policies on compliance and monitoring of shariah-compliant investments, which will be updated from time to time.

As at 31 December 2017, a total of 48 per cent or about RM376 billion of EPF investment assets are shariah-compliant. As members' savings balance in Simpanan Shariah is smaller than the total EPF shariah-compliant investment assets, both Simpanan Shariah and Simpanan Konvensional will jointly invest in the shariah portfolio. The shariah income derived from the shariah portfolio is allocated to Simpanan Shariah in proportion to its share in the said portfolio.

3. Reclassification Of Shariah-Compliant Investment

EPF investments such as listed and private equities, real estates and infrastructure are subject to periodic shariah screening to review the shariah status of such investments.

For investment in listed equities, shariah screening will be conducted based on the result of the periodic review by the Shariah Advisory

STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

Council of the Securities Commission Malaysia (SAC SC) on domestic equities and the relevant shariah index providers for global equities.

For investments in private equities, real estates and infrastructure, shariah screening will be conducted internally on an annual basis based on shariah screening criteria and guidelines set by the SAC (SAC Shariah Screening).

As a result of the shariah screening, if any of the above investments were excluded from the SAC SC's list of shariah-compliant securities or relevant shariah indices or have failed the SAC Shariah Screening as the case may be, such investments will be reclassified as shariah non-compliant investments and will be transferred from shariah Portfolio to non-shariah portfolio.

However, if any of the investments in the non-shariah portfolio passed the shariah screening based on the SAC SC's list of shariah-compliant securities or relevant shariah indices or the SAC Shariah Screening as the case may be, such investments will be reclassified as shariah-compliant investments and will be transferred from non-shariah portfolio to shariah portfolio.

For shariah mandate managed by external fund managers, any shariah-compliant instruments reclassified as shariah non-compliant will be disposed according to the guidelines set by the SAC SC.

4. Treatment Of Shariah Non-Compliant Income

In 2017, most of the shariah non-compliant income were derived from excess gain due to reclassification of shariah-compliant equities into shariah non-compliant equities, interest income from foreign conventional account of shariah-compliant investments and late payment charges.

Late payment charges and/or dividend are imposed on employers for late payment of contributions and other parties for late payment of any financial obligation due and payable to EPF, to safeguard the

interest of EPF members. With regards to Simpanan Shariah, the SAC allows such charges to be imposed as deterrent and penalty to defaulters either in the form of *ta'widh* (compensation) or *gharamah* (penalty at the rate above the *ta'widh* rate). The *ta'widh* amount as endorsed by the SAC, may be recognised as shariah-compliant income, while any excess amount will be recorded as shariah non-compliant income.

Any transactions suspected to be shariah non-compliant will also be reported and escalated to the SAC for their deliberation and conclusion to determine if any shariah requirements had been breached.

The SAC has resolved that the shariah non-compliant income can only be utilised for allowable expenses i.e. charitable activities such as payment of death benefit, incapacitation benefit and invocation cost and any excess shariah non-compliant income may be utilised for operating expenditure and indirect investment expenditure.

5. Dividend

In accordance with shariah contract of Wakalah, the Board will declare annual dividend for Simpanan Shariah according to the actual performance of EPF's shariah-compliant investments i.e. realised shariah-compliant investment income and non-investment income after netting off expenses, allocated to Simpanan Shariah in proportion to its share in the EPF shariah-compliant investment assets.

SHARIAH ADVISORY COMMITTEE REPORT

In the name of Allah, the most Beneficent, the most Merciful.

All praise be to Allah and peace be upon the Prophet Muhammad, his family, his Companions, and those who followed them.

We, members of the Shariah Advisory Committee of the EPF (SAC), have reviewed the operations and investments of the EPF in relation to EPF Simpanan Shariah for the year ended 31 December 2017, to form an opinion as to whether the scheme has complied with the Shariah principles and rulings made by us on all Shariah-related matters. We hereby submit our report for the financial year ended 31 December 2017:

- 1) We have advised the Board and Investment Panel on all Shariah-related matters presented to us in relation to the operations and investment of EPF Simpanan Shariah in order to ensure compliance with applicable Shariah principles as well as the relevant local and global Shariah rulings and standards recognised by us.
- 2) The Management of the EPF is responsible for ensuring that the EPF Simpanan Shariah is managed in accordance with Shariah principles by referring to the SAC for advice on any Shariah-related matters and implementing all Shariah rulings and policies set forth by the SAC.
- 3) In advising the EPF on Shariah-related matters, we have obtained all information and explanation from the EPF management, which we consider necessary to form any Shariah rulings.
- 4) We are also supported by the Shariah research and advisory as well as Shariah monitoring and review functions in the day-to-day oversight of Shariah compliance in the management and investment of EPF Simpanan Shariah. In addition, the internal audit evaluates the internal control system and compliance with policies and procedures advised by the SAC, on a regular basis.
- 5) There were 14 SAC meetings (including three special meetings) being held throughout the year ended 31 December 2017, where we have:
 - a) Reviewed and deliberated on Shariah issues relating to Shariah-compliant investment proposals as well as Shariah compliance screening and that of relevant documents;
 - b) Reviewed and deliberated on Shariah issues relating to the operational aspects of EPF Simpanan Shariah, including proposed enhancements to the EPF scheme;
 - c) Set out Shariah compliance policies and guidelines relating to investment and operations of EPF Simpanan Shariah, including financial reporting; and
 - d) Received and reviewed monthly reports on the reclassification of Shariah-compliant investments and non-Shariah compliant income.
- 6) We have received and deliberated on the Shariah monitoring and review report as well as the Shariah auditing conducted by the Simpanan Shariah Department and the Internal Audit Department. We acknowledge that appropriate efforts have been taken to rectify the gaps identified, and management actions were taken to prevent similar gaps from recurring. Among the reports that were presented to us are as follows:
 - (i) Shariah review report on the reclassification of Shariah status on EPF investments, Shariah-compliant equity investments and Shariah non-compliant income; and
 - (ii) Shariah audit report on the operational and system's readiness for the implementation of EPF Simpanan Shariah, validation of total Shariah-compliant investment assets as at 31 December 2016 and the result of yearly audit on the Simpanan Shariah Department together with recommendations for improvement.
- 7) In our opinion:
 - a) The contracts, transactions and dealings entered into by the Board in relation to EPF Simpanan Shariah throughout the year ended 31 December 2017 that we have reviewed, were in compliance with Shariah principles;
 - b) The allocation of profits and losses relating to investment of the EPF Simpanan Shariah as disclosed in Note 36.3 to the Financial Statement conforms to the basis that had been endorsed by us in accordance with Shariah principles; and
 - c) All income earned by EPF Simpanan Shariah from sources or means prohibited by Shariah principles amounting to RM51.324 million as disclosed under Note 36.4 to the Financial Statements has been used for charitable activities such as payment of death benefit, incapacitation benefit and invocation cost.

We, members of the SAC, hereby confirm that EPF Simpanan Shariah for the year ended 31 December 2017 has been managed in conformity with Shariah principles.

On behalf of the SAC,



Name : **Prof. Dr Mohamad Akram Bin Laldin**
 Title : Chairman of SAC
 Date : 20 February 2018

On behalf of the SAC,



Name : **Assoc. Prof. Dr Aznan Bin Hasan**
 Title : Deputy Chairman of SAC
 Date : 20 February 2018

RISK MANAGEMENT

“No one can deny that the risk landscape is changing fast. Every day, we can see headlines that remind us how fast the future is approaching and sometimes, we can “feel” new risks and response strategies waiting for us just around every corner. The outlines of new opportunities and new challenges for risk leaders — all organisational leaders — are already visible.” — **JAMES LIM TUANG OOI**

KEY RISK MANAGEMENT PRIORITIES IN 2017

In 2017, the Risk Management Department provided its continuous support to EPF by:

- Cultivating the organisation risk culture through communication and networking approaches to cascade risk management knowledge and awareness as being the strong foundation of good risk management practices.
- Enhancing the EPF’s risk management capabilities and resources to strengthen operational efficiency in monitoring and managing new and emerging risks.
- Enhancing risk models and analytics through effective EPF risk controls and policies against market occurrences.
- Ensuring the EPF is able to withstand the impact of adverse market movements to meet the EPF’s obligations to stakeholders.

KEY RISK MANAGEMENT PRIORITIES IN 2018

The Risk Management Department, as in the previous years, will continue to support EPF in achieving its Mission by:

- Strengthening operational risk process and providing enabling levers to facilitate efficient and value added risk management activities across the lines of defence.
- Continuing to achieve organisational sustainability by implementing independent assessment on the level of maturity of the enterprise-wide risk management and ensuring the relevancies of the organisation in withstanding the evolving domestic and global environment.
- Expanding and improving risk reporting by integrating with performance reporting to enable better decision-making for the EPF to optimise its return while preserving the value of members’ savings.

1.0 OVERVIEW

The modern, interconnected business world demands a modern vision of what risk means. The complexity of modern risk demands us to use data to identify, navigate and decide. The application of big data analytics, pre-emptive and forward-looking risk management practices, such as scenario analysis to anticipate the potential impact of future threats to an organisation and provide sufficient time for remedial actions to be taken is highly recommended.

Acknowledging this, the EPF embraces risk management as an integral component of its investments, operations and decision-making process. With its commitment to implement sound risk management practices and governance, the EPF is able to sustain excellent performance in line with its Mission to safeguard members’ savings and deliver excellent services. Whether the risk relates to strategy, credit, market, liquidity or operations, the EPF continues to leverage on its robust risk management culture and integrated risk management framework to take advantage

of potential opportunities in order to counter all possible threats. The EPF adopts a proactive approach in identifying and managing risks in the face of uncertainty in the operating environment and volatilities in the financial market.

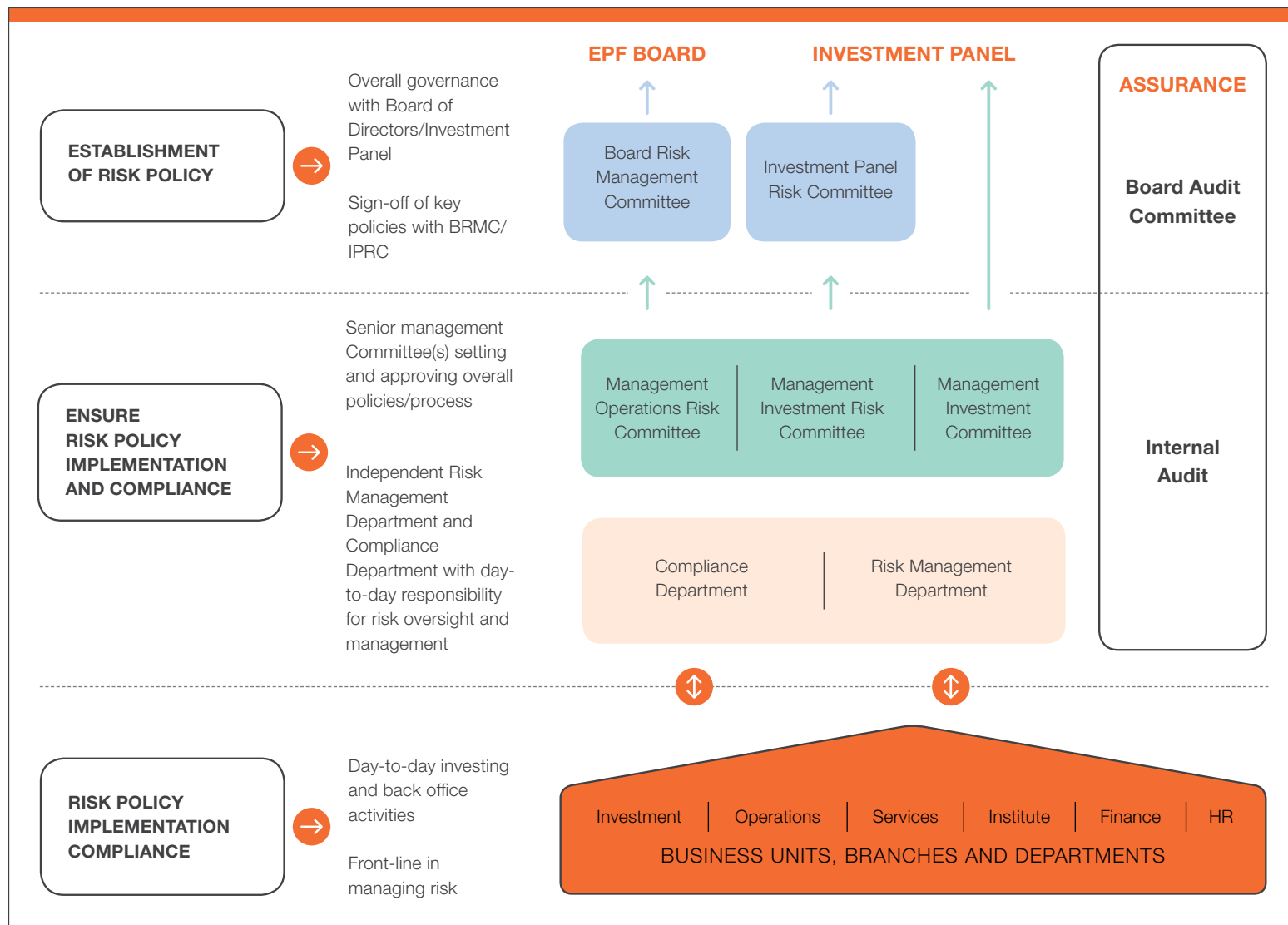
The Risk Appetite Statements define the level of risks that the EPF is willing to tolerate and form the basis of the allocation of funds for investment. The asset allocation is regularly reviewed to ensure that funds are invested within the EPF’s risk appetite.

2.0 RISK MANAGEMENT GOVERNANCE STRUCTURE

The EPF adopts the “top-down” and “bottom-up” approach in its Risk Management Governance structure where departments, branches and management constantly engage in healthy and productive discussions on key risk matters and processes, which create a robust risk-practising culture. To further support its risk governance structure, formal policy and procedures are developed in addressing all key risk areas.

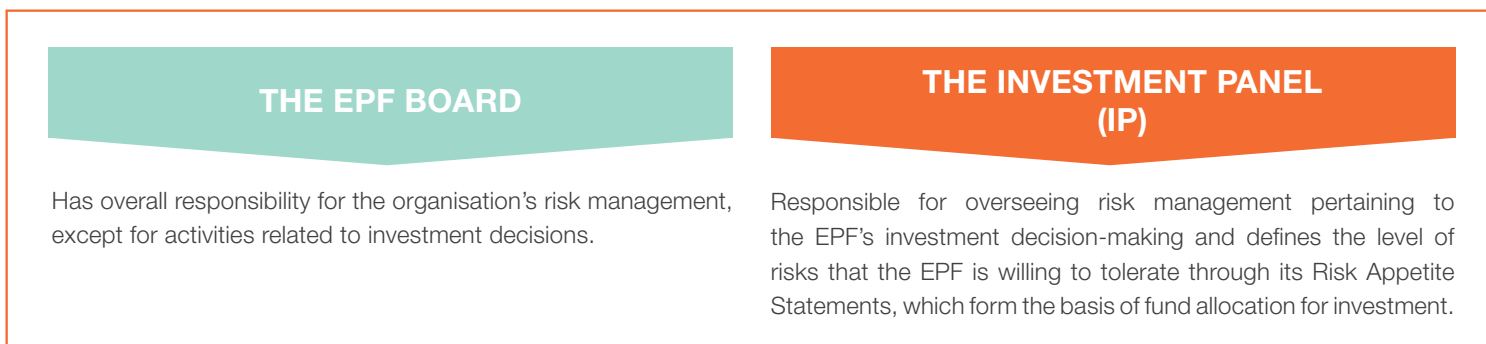
RISK MANAGEMENT

The structure below shows the EPF Risk Governance Structure which consists of three lines of defence.



3.0 THE BOARD AND INVESTMENT PANEL

The EPF’s risk management structure provides clear lines of responsibility and accountability for the risk management processes and outlines the principal risk management and control responsibilities:



RISK MANAGEMENT

BOARD RISK MANAGEMENT COMMITTEE AND INVESTMENT PANEL RISK COMMITTEE

Board Risk Management Committee (BRMC)	Responsible for assisting the Board in overseeing all operational risk management activities, except for activities pertaining to making investment decision and ensuring that the risk management process is in place and functioning effectively.
Investment Panel Risk Committee (IPRC)	Responsible for assisting the Investment Panel in recommending the risk appetite and appropriate allocation of risk 'budget'. The IPRC is delegated with the responsibility to review and approve appropriate risk measurement, policies, processes and limits to ensure their continued effectiveness.

DEDICATED COMMITTEES

Management Operations Risk Committee (MORC)	Oversees, implements and executes the EPF's operational risk management (which includes strategies, culture, structure, people and processes) and to ensure that the risk management framework is implemented effectively throughout the organisation.
Management Risk Committee (MRC)	Responsible for developing and reviewing risk policies and appropriate limits for managing the EPF's investment risks.
Management Investment Committee (MIC)	Responsible for evaluating and recommending investment proposals to the Investment Panel. It also evaluates and recommends investment strategies and performance of external fund managers.
Risk Management Department (RMD)	Supports the MIC, MRC, MORC, IPRC, BRMC and Investment Panel in all risk management matters covering investment risk, operational risk, risk measurement, independent assessment, monitoring and reporting of risk exposures.
Investment Compliance Department	Responsible for monitoring and compliance of all investment related risk policies and limits.
Business Units, Branches and Departments	<p>Responsible for managing risks in their respective functions on a day-to-day basis as well as for escalating significant potential risks to the MORC via the Risk Management Department. Among the principal roles and responsibilities of the business units are:</p> <ul style="list-style-type: none"> • Identify, assess and manage risks; • Constantly review their risk profiles to ensure relevancy and appropriateness; • Update the risk status and level of risk management and controls; • Develop and implement action plans to manage risks; • Adhere to risk management practices and guidelines.

RISK MANAGEMENT

4.0 INVESTMENT RISK MANAGEMENT

There are four key elements of investment risk management:

- Investment Risk Management Framework
- Market Risk Management
- Credit Risk Management
- Liquidity Risk Management

4.1 INVESTMENT RISK MANAGEMENT FRAMEWORK

The Investment Risk Management Framework governs the EPF's investment processes and ensures that effective risk management controls and procedures are in place with regards to investment decision-making.

This framework provides an approach to managing and anticipating both existing and potential risks arising from the EPF's investment portfolio and enables the EPF to have a structured process to measure, assess, monitor and manage its portfolio risks. This ensures the EPF optimises its returns on risk-taking activities within the risk appetite level as approved by the Board.

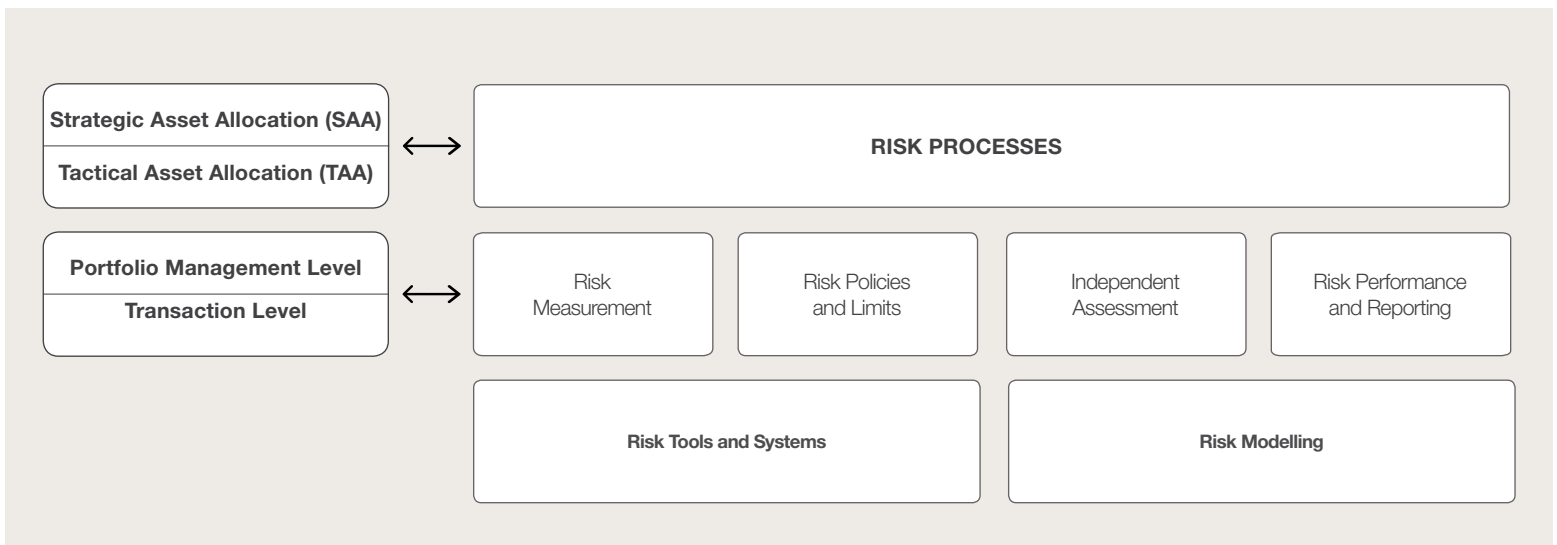
4.2 MARKET RISK MANAGEMENT

Market risk is the risk of loss from changes in the value of portfolios and financial instruments due to movements in interest rates, foreign exchange and equity prices.

The Investment Risk Management framework is illustrated in the chart below.

The objective of market risk management in the EPF is to ensure that the risk exposures undertaken by the EPF are within its risk appetite. This is done through an annual review of various policies and limits, periodic reports to monitor market risk at portfolio level for each asset class and independent validation performed on the underlying risk methodology:

- Name, ownership, country and sector concentration limits - to ensure appropriate diversification of risk exposures.
- Value-at-Risk (VaR) – a statistical measure of the potential losses that could occur as a result of movements in market rates and prices over a specified time horizon within a given confidence level.
- Duration – to manage the sensitivity of the price of a fixed income investment arising from interest rate movement.
- Tracking error – a standard deviation of the portfolio's excess returns relative to a benchmark in measuring and benchmarking the performance of the portfolio.
- Backtesting – a validation process performed to check the accuracy of the risk methodology used in computing VaR for both fixed income and equity portfolios.
- Stress testing – an exercise conducted to capture the potential market risk exposure of 'what-if' scenarios. It incorporates factors such as correlation, volatility and returns at different levels.



RISK MANAGEMENT

4.3 CREDIT RISK MANAGEMENT

Credit Risk is the risk of loss caused by a counterparty's or an obligor's failure to meet its payment obligations. Exposure to credit risk arises from the EPF's investing activities in fixed income and real estate. In fixed income activities, credit risk arises from the possibility that the obligors are not able to fulfil their obligation on or before their respective repayment due date. In real estate activities, credit risk arises when counterparties, such as the EPF's investment property tenants are not able to fulfil their rental obligations. Credit risk may also arise where the downgrading of a counterparty's rating causes the fair value of the investment to fall.

The EPF's credit risk management involves thorough credit analysis and prudent underwriting standards and the EPF reviews and updates its credit underwriting standards to commensurate with industry best practices.

At the portfolio level, the following credit risk management has been put in place to manage credit risk exposure:

- Credit risk limits and Management Action Triggers (MATs) incorporating minimum broad credit criteria for investment including name concentration and counterparty exposures.
- Credit portfolio system to measure credit risk of the relevant portfolios using Credit Value-at-Risk (CVaR).
- Periodic review of existing internal credit rating templates for obligors to ensure their relevance.
- Strong credit awareness/culture across the investment personnel in the EPF through active engagement with the investment personnel at all levels.

At the transaction level, the following credit risk management has been put in place to manage credit risk:

- Independent risk assessment is conducted for every new investment proposal presented to the Management Investment Committee and Investment Panel meetings for decision.
- Close monitoring of changes to existing investments via assessments on an ad-hoc as well as periodic basis.
- Credit rating tool to measure the creditworthiness or Probability of Default (PD) of the obligors is as follows:
 - i. Corporate Rating Template which provides internal risk rating for corporate obligors.
 - ii. Financial institution rating template which provides internal risk rating for financial institution obligors.

- iii. Credit tool which measures the Expected Default Frequency (EDF) or Probability of Default (PD) to provide early warning signals for the EPF's close monitoring of respective obligors.

4.4 LIQUIDITY RISK MANAGEMENT

Liquidity risk relates to the inability of the EPF to meet its financial commitments and obligations when they fall due. The EPF's liquidity risk is limited as all contributions are mandated by the EPF Act 1991 through the deduction of salaries and members are allowed to make withdrawals under the pre-retirement and retirement schemes. The EPF manages its liquidity requirements through:

- Monitoring of its daily cash flow and projecting monthly cash flow on a rolling 12-month basis.
- Allocating three per cent of its asset's value for short-term instruments in the form of cash and placements in financial institutions in order to meet members' withdrawals and other financial commitments and obligations.
- Diversifying its investment portfolio by setting the concentration limits on name, sector and asset type.

Over the medium and longer term, the EPF is able to meet its liquidity requirements through its holdings of liquid investments such as publicly traded equities and available-of-sale fixed income securities. The maturity profile of the EPF's asset and liability is also monitored within a stipulated level. The Group and the EPF's financial liabilities are categorised into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date.

5.0 OPERATIONAL RISK MANAGEMENT

The key elements of operational risk management are as follows:

- Operational Risk Management Framework
- Operational Risk Management Methodology and Process
- Corporate Risk Scorecard
- Business Continuity Management

5.1 OPERATIONAL RISK MANAGEMENT FRAMEWORK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or/and from external events. At the EPF, Operational Risk Management (ORM) supports and enhances the EPF's activities in all of its operational areas as ORM is an integral part of the EPF's decision-making process and corporate culture.

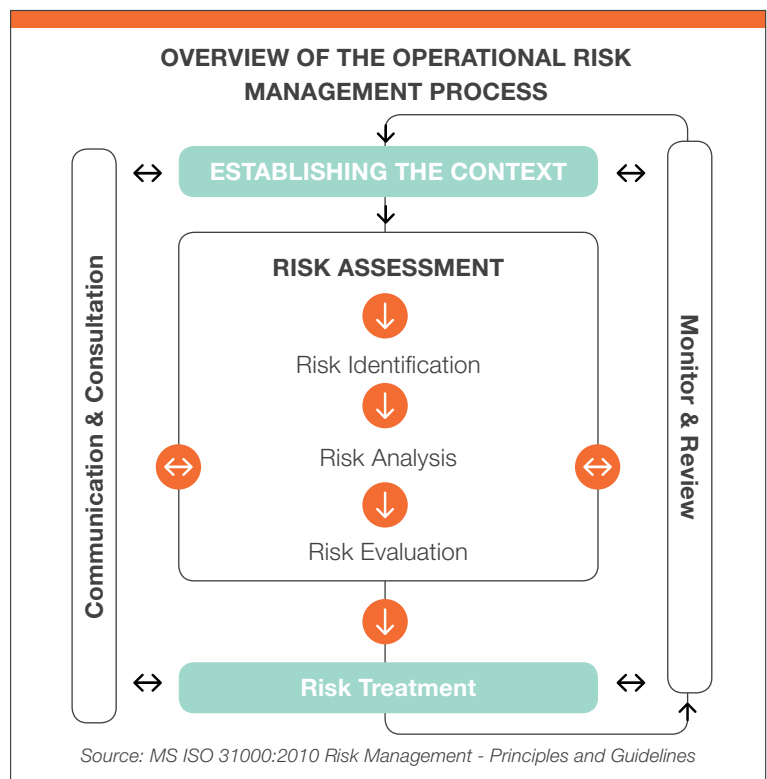
RISK MANAGEMENT

The MS ISO 31000:2010 Risk Management – Principles and Guidelines, a global risk management standard sets the policies, principles, processes and methodologies in managing operational risks. The EPF adopts the standard as a main practice guide in its framework, which is reviewed on a regular basis to ensure its continued application and relevance.

5.2 OPERATIONAL RISK MANAGEMENT METHODOLOGY AND PROCESS

The main elements of the operational risk management process is as follows:

- Establishing the context: Articulates the organisation’s objectives and defines the external and internal parameters to be taken into account when managing risks.
- Risk assessment: Overall process of risk identification, risk analysis and risk evaluation.
- Risk treatment: Actions to be taken to prevent, detect or manage the Net Risks to an acceptable level.
- Communication and consultation: The two-way dialogue between the Risk Management Department and stakeholders about the existence, nature, form, severity, or acceptability of risks.
- Monitoring and review: Both activities are planned and are an integral part of the risk management process that involves regular checking or surveillance.



5.3 CORPORATE RISK SCORECARD

The Corporate Risk Scorecard (CRS) methodology incorporates the Risk and Control Self-Assessment (RCSA) module which allows employees to self-assess and update their risk profiles. The CRS is implemented through the Operational Risk (ORM) System, which records the ownership and details of risks, controls, management actions and incorporates changes to the risk scorecard. All business units use the risk scorecard as a tool to manage their risks effectively.

Access to the ORM system is provided on an enterprise-wide basis so that all Risk Scorecard Owners, Risk Owners, Control Owners and Management Action (MA) Owners can undertake RCSA activities effectively. A total of 101 risk scorecards were in place in 2017, comprising one CEO risk scorecard, three DCEO risk scorecards, one CFO scorecard, 29 department risk scorecards and 68 branches risk scorecards.

Risks in EPF are monitored and managed through ownership from the line management.

The assurance process is implemented through the Corporate Digital Assurance (CDA) process.

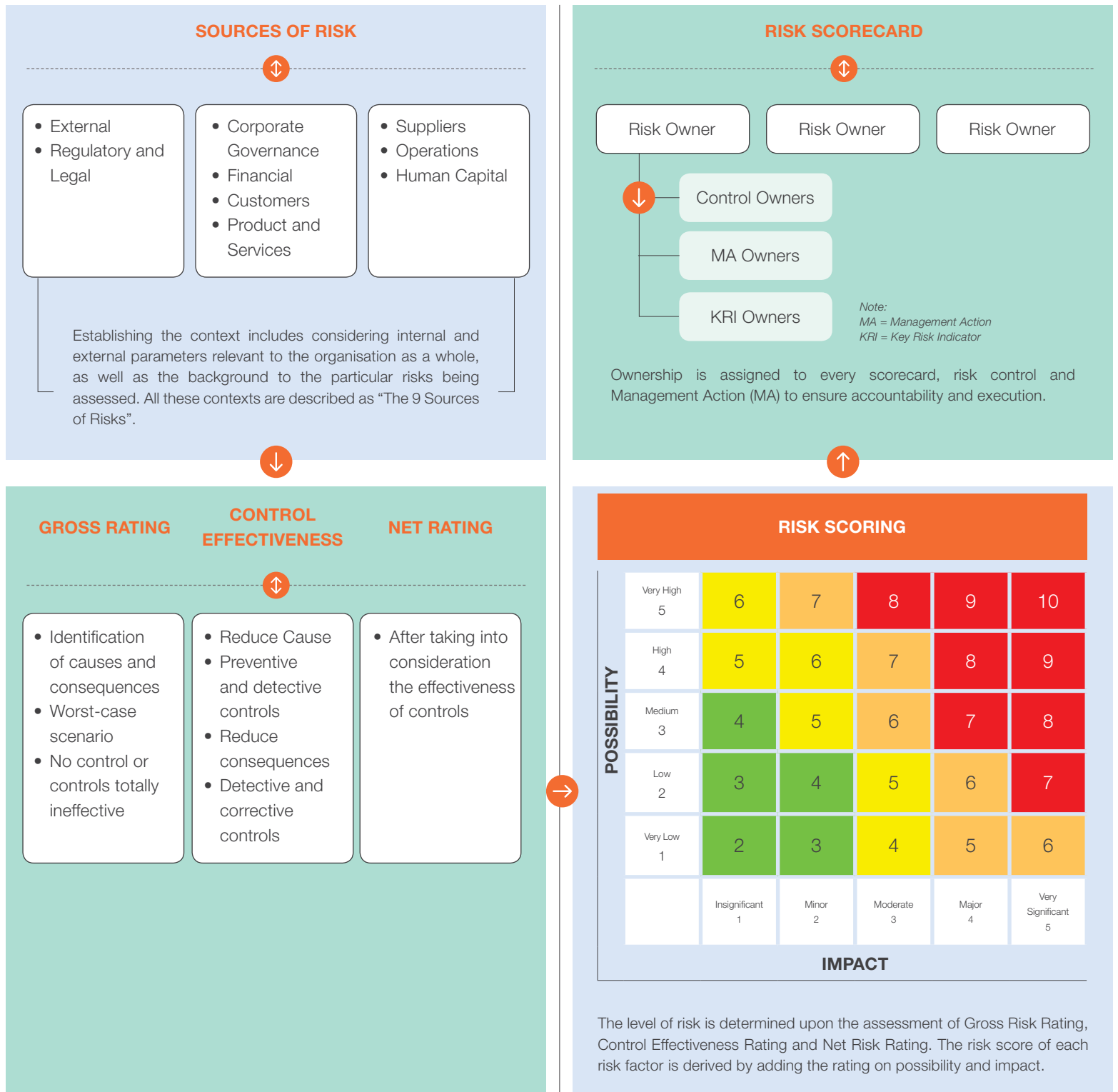
Owners of scorecard, risk, control and MA are required to provide digital assurance six times a year to the Management to prove that they have been managing risks within their profiles appropriately.

Key Risk Indicators (KRIs) identified in the risk scorecards act as an early warning system, enabling the EPF to monitor potential risks before they escalate into serious concerns.

The Risk Management Department reports and highlights risk management related issues in the MORC, BRMC and the EPF Board for their information and/or decision-making on a periodic basis.

RISK MANAGEMENT

Corporate Risk Scorecard Methodology:



RISK MANAGEMENT

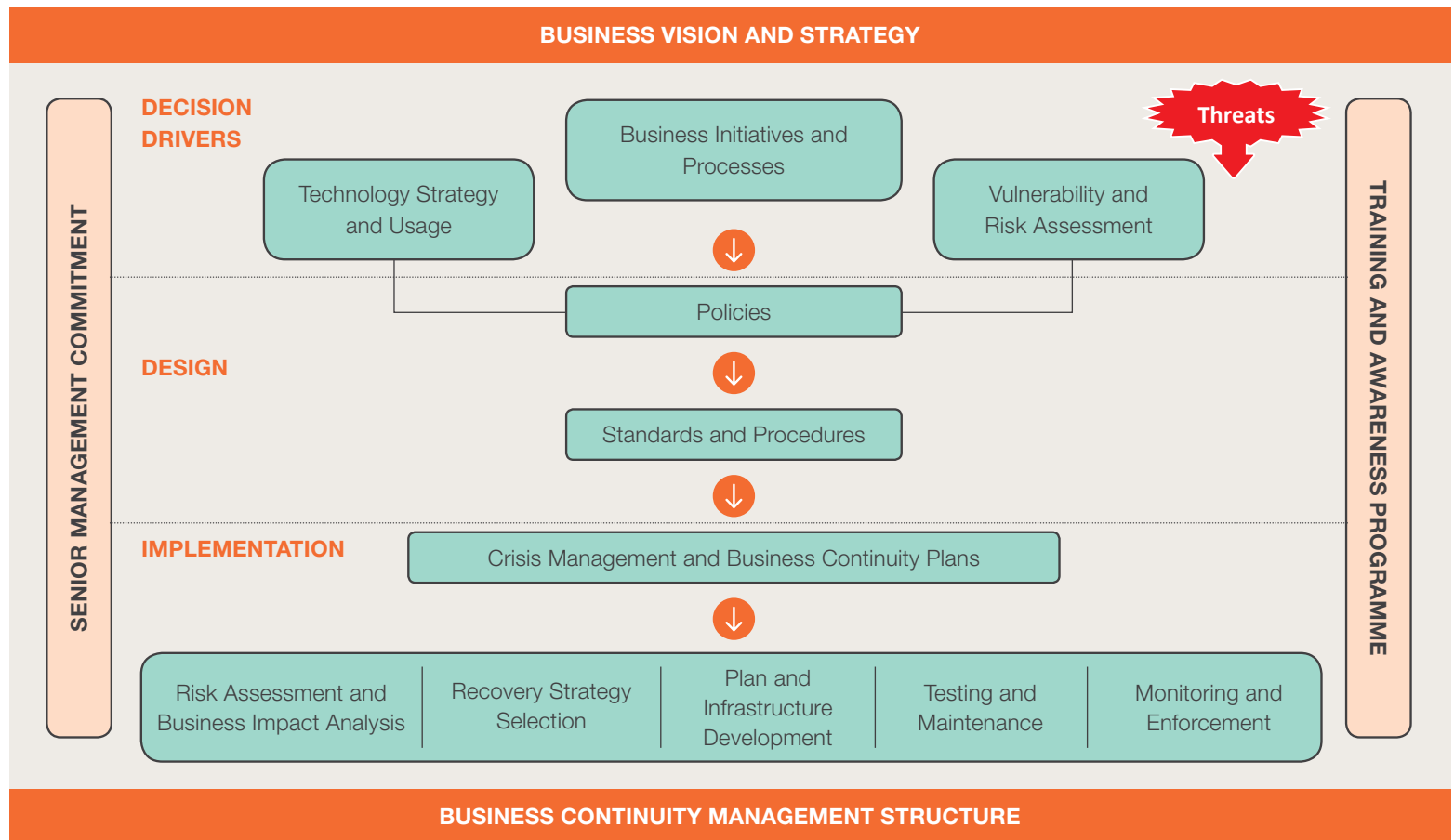
5.4 OPERATIONAL RISK MANAGEMENT KEY INITIATIVES IN 2017

- Reporting of Incidents, Key Risk Indicator (KRI) and Trigger Value to alert, monitor risks and raise red flags and taking appropriate actions to mitigate the risks.
- Appointed a consultant to perform independent Risk Maturity Assessment to assess the maturity level of both operational and investment risk management in the EPF.
- Facilitated departments in the EPF to prepare for ISO 9001:2015 Quality Management System certification.
- Reviewed Operation Manuals for departments in the EPF to ensure sufficient controls are in place to address operational risks.

6.0 BUSINESS CONTINUITY MANAGEMENT

The Business Continuity Plan (BCP) Framework serves to develop a well-coordinated and consistent BCP that would allow the EPF to respond effectively to business disruption, resume essential operations within required time-frames and minimise the cost of damage and interruptions to business operations from the aftermath of a disaster.

The illustration below shows the components of the EPF's Business Continuity Management (BCM) Framework:



RISK MANAGEMENT

The implementation of BCP in the EPF is based on these three components:

HUMAN RESOURCE READINESS	The development of knowledge and skills in managing disasters. Implementation is through training on BCP readiness, tutorials, and ‘walkthroughs’, call trees, crisis simulation exercises and BCM i-learning.
INFRASTRUCTURE READINESS	The testing of the system and equipment to ensure optimal readiness and functionality in the event of a disaster.
PLAN READINESS	The readiness of BCP to ensure the plan is up-to-date and revised continuously based on current work functions.

Management of communication during disaster is very crucial to the EPF. Therefore, more emphasis was on communications to ensure they are conducted smoothly and information shared is accurate and fast. Constant communication and engagement has enabled our staff to understand and commit to their roles during a crisis or disaster as well as knowing what actions to take once the recovery plan is activated.

The EPF continues to work with the relevant authorities to enhance staff's knowledge and skills in managing disasters.

To further enhance the EPF's readiness in facing disaster, crisis simulation exercises will be conducted randomly at 68 branches annually. In 2017, two crisis simulation exercises were carried out to evaluate the branch's readiness in handling customers and IT system recovery. The evaluation of both exercises and key recommendations were presented to the Board and Management, and shared among the EPF staff for their learning experience.

7.0 TECHNOLOGY RISK MANAGEMENT

Increasing the resiliency and security of our IT systems and infrastructure have always been one of the key priorities in the EPF. The Risk Management Department has taken proactive action by setting up the Technology Risk Management section to provide technical support and integrate robust Investment Risk systems to enhance risk analytical and reporting capability continuously within the user community.

The department also provides independent risk assessment to enterprise-wide IT systems and projects, and recommends effective security controls to mitigate risks for better protection of mission-critical IT systems that store, process and transmit sensitive information. This team is part of the Cyber Security Maturity Programme where they monitor and assist from the risk perspective for Information Risk Management, Business Continuity Management, and Legal and Compliance domains.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The EPF has issued this Statement in accordance with the Statement on Risk Management and Internal Control - Guidelines for Directors of Listed Issuers (the Guidelines) issued by an industry-led task force supported by Bursa Malaysia and the Securities Commission Malaysia. This is to promote good corporate governance, as the Guidelines are not a requirement for the EPF.

The Guidelines are in line with Principle B of the Malaysian Code on Corporate Governance issued in April 2017, which states that the Board should establish an effective risk management and internal control framework.

RESPONSIBILITY

The Board acknowledges its overall responsibility for the adequacy and effectiveness of the EPF's risk management and internal control framework.

The EPF's risk management framework is designed to identify, analyse and evaluate significant risks that hinder the achievement of the organisation's policies and objectives. Accordingly, the internal control system is in place to manage rather than to eliminate those risks. It can, therefore, only provide reasonable and not absolute assurance.

Three committees have been delegated with the responsibility of overseeing the adequacy and effectiveness of the EPF's risk management and internal control framework:

Committee	Responsibility
Board Audit Committee (BAC)	The internal controls, governance processes and risk management, except for risk management activities related to investment decision-making.
Board Risk Management Committee (BRMC)	Risk management activities, except activities in making investment decisions.
Investment Panel Risk Committee (IPRC)	Investment risk management matters covering risk appetite, risk measurement, policies and limits, except activities involving investment operations. Further information on IPRC is provided in the Statement on Investment Risk Management in the Annual Report.

Management's Role

- Identifying relevant risks in achieving the EPF's objectives and strategies.
- Designing, implementing and monitoring the risk management and internal control framework in accordance with the EPF's strategic vision and overall risk appetite.
- Identifying changes to risks or emerging risks, taking appropriate action and keeping the Board informed on a timely basis.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The EPF has in place an effective risk management and internal control framework as part of its good corporate governance practice.

The key systems and processes that the Board has established for the purpose of reviewing the adequacy and effectiveness of the risk management and internal control framework are as follows:

Risk Management Framework

The Board has adopted an Operational Risk Management (ORM) Framework based on the MS ISO 31000:2010 Risk Management – Principles and Guidelines, which outlines the principles, policies and processes in managing the EPF’s operational risks.

The EPF has established clear lines of responsibility and accountability for the risk management process as well as outlined the principal risk and control responsibilities under the risk management structure.

- (a) The Board Risk Management Committee (BRMC) oversees all operational risk management activities and ensures that appropriate risk management processes are in place and functioning effectively. The Committee reviews and recommends risk management strategies and assesses the adequacy of the risk management framework.
- (b) The BRMC is assisted by the Management Operational Risk Committee (MORC), which reviews the risk management framework and ensures that it is implemented effectively throughout the organisation.

The EPF adopts the Three Lines of Defence Model. The departments and branches, being the first line of defence, are responsible for ensuring that a risk control environment is established and operating effectively as part of day-to-day operations.

The second line of defence is the Risk Management Department, which develops the risk management framework, policies, methodologies and tools for the management of key risks in the organisation. A detailed scope of work regarding the risk management function is provided in the Risk Management section in the Annual Report.

The Internal Audit Department, being the third line of defence, provides the Board Audit Committee with independent and reasonable assurance on the adequacy and effectiveness of the risk management and internal control framework.

The Risk Management Governance Structure is provided in the Risk Management section in the Annual Report.

Internal Control Framework

The framework is based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control Integrated Framework, an internationally recognised benchmark on risk management and internal controls.

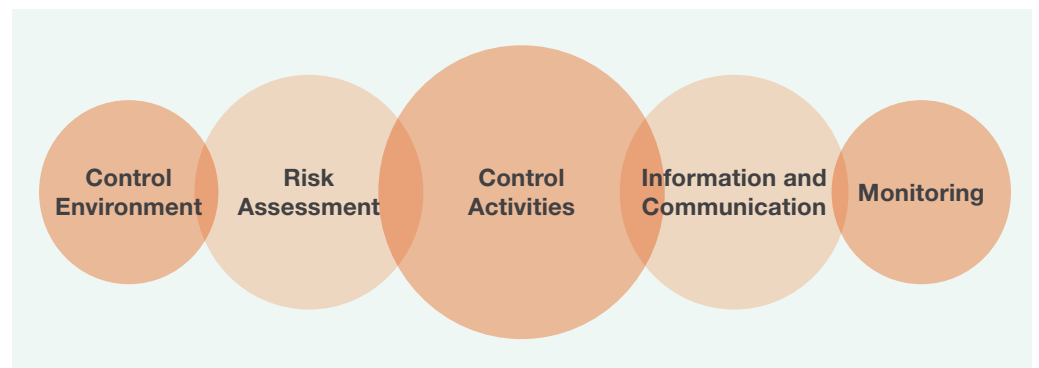
The Board Audit Committee assists the Board in evaluating the effectiveness of the internal controls, risk management (except risk management activities in making investment decisions, which come under the purview of the Investment Panel) and governance processes of the EPF. It reviews internal control issues identified in reports prepared by the internal and external auditors, and evaluates the effectiveness and adequacy of the internal control system, operational risk management and governance processes. It further reviews the internal audit function with particular emphasis on the internal audit’s independence, scope, resources and quality of internal audits.

Details of the activities undertaken by the Committee are set out in the Board Audit Committee Report of the Annual Report.

The Internal Audit Department reviews the key activities of the EPF’s businesses based on the annual internal audit plan as approved by the Board Audit Committee. A detailed scope of work of the Internal Audit Function is provided in the Statement on Internal Audit in the Annual Report.

KEY ELEMENTS OF INTERNAL CONTROL

Key elements of internal control in place within the EPF are as follows:



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Control Environment

The control environment sets the tone of an organisation, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Relevant key activities include:

- [Terms of Reference](#)
Clearly defined terms of reference on the roles and responsibilities of all Board committees and the Investment Panel, as stated in the Statement on Corporate Governance.
- [Organisational Structure](#)
The structure has clearly defined lines of accountability, delegation of responsibility and levels of authorisation for all aspects of the business. Management committees meet on a regular basis to identify, discuss and resolve operational, financial, investment and key management issues and periodically report to the Board, Investment Panel and its respective committees.
- [Human Resource Policies and Procedures](#)
Proper guidelines within the organisation for hiring and termination of staff, staff training programmes, annual performance appraisals and other relevant procedures to ensure that employees are competent and adequately trained in carrying out their responsibilities.
- [Culture of Integrity](#)
Entrusted with managing members' savings, various programmes and initiatives are in place to inculcate and uphold the culture of integrity, such as timely declarations of assets by staff, declarations of conflict of interest in both procurement and investment processes as well as a no-gift policy. The EPF has adopted an Anti-Corruption Statement and implemented a zero-tolerance policy on corruption and unethical behaviour in its operations. The Corporate Integrity Pledge is a commitment by the EPF to uphold integrity, which is essential to create a business and operating environment that is transparent and in line with global best practices in governance.
- [Code of Ethics](#)
The EPF Code of Ethics provides guidance to employees in carrying out their duties and responsibilities, consistent with the EPF's Vision, Mission and Shared Values. The Code serves to clarify ethical behaviours in line with the relevant laws, policies and procedures.

Risk Assessment

Risk assessment involves a dynamic and ongoing process of identifying and assessing risks that may hinder the achievement of objectives. Relevant key activities include:

- [Corporate Risk Scorecard \(CRS\)](#)
The Corporate Risk Scorecard (CRS) methodology is a detailed risk management approach where risks are identified based on internal and external sources, and are analysed, evaluated, treated and monitored. The CRS allows for continuous Risk and Control Self-Assessment (RCSA) to be performed so employees can self-assess and update their risk profiles.

Control Activities

Control activities are policies and procedures that ensure management directives are carried out effectively. This includes necessary actions taken to mitigate the risks that hinder the achievement of the organisation's objectives. Relevant key activities include:

- [Business Performance Management](#)
The EPF uses the Balanced Scorecard (BSC) methodology to operationalise its strategies, aligned to its Vision and Mission and to drive performance. The business performance is measured through a set of Key Performance Indicators (KPIs), integrated with risk management to enable the EPF to identify and monitor key risks impacting its business objectives.
- [Five-Year Rolling Plan](#)
The EPF's Rolling Plan incorporates pertinent outcomes, key priorities and strategic initiatives to be implemented for the next five years to meet both the immediate and medium- to long-term objectives of the organisation. It is reviewed by the relevant management committees and approved by the Board.
- [Risk Culture Index](#)
The Risk Culture Index is incorporated as a KPI in departments and branches with the objective to enhance risk management practices in the EPF.
- [Policies and Procedures](#)
Policies and procedures to ensure compliance with internal controls (such as segregation of duties, independent checks, verification processes and system access controls) as set out in operation manuals, guidelines and directives issued by the EPF are updated regularly and signed off by the respective Heads of Departments, Deputy CEOs and the CEO. Policy guidelines and delegated authority limits are also imposed on the Management with regards to the day-to-day operations.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- [Information Technology \(IT\) Security Management](#)
IT security management in EPF is based on ISO 27001 Information Security Management System; an international standard which describes the features of an effective information security management system. The framework and security policy, which covers the IT security management system, outlines the appropriate controls and procedures to ensure confidentiality, integrity and protection of information and system applications. The EPF security architecture and design are constantly reviewed and improved to strengthen cyber security controls and mitigate key cyber risks.
- [Chinese Wall Policy](#)
The Chinese Wall Policy and its procedures are issued to safeguard against any compromise on the tenets of integrity, transparency and accountability by controlling, restricting and managing the flow of price-sensitive information.
- [Business Continuity Management \(BCM\)](#)
The BCM plans and systems are continuously monitored, tested and communicated to all levels to ensure that the organisation is prepared in the event of a crisis or disaster.
- [Insurance Coverage](#)
Adequate insurance coverage of major assets is in place to ensure the EPF's assets are protected against incidents that could result in material loss.
- [Shariah Governance Framework](#)
The EPF has established a Shariah Governance Framework to ensure strict adherence to Shariah requirements in managing Simpanan Shariah. The framework outlines the Shariah governance structure and policies as detailed out in the Statement on Shariah Governance for EPF Simpanan Shariah in the Annual Report.

Information and Communication

Information and Communication support all other control components by communicating control responsibilities to employees and by providing information in a form and timeframe that allow people to carry out their duties. Relevant key activities include:

- [Fraud Control Management Plan](#)
The Fraud Management Committee oversees the EPF's overall approach on fraud control under the Fraud Control Management Plan, which includes Anti-Fraud and Whistleblower Protection Policies.
- [Communication of Operational Risk Management \(ORM\)](#)
The ORM principles, framework and processes adopted by the EPF are communicated to all employees for better understanding of the practices adopted.

Monitoring

Ongoing monitoring and evaluation of the effectiveness of internal controls are built into business processes at different levels of the organisation. Relevant key activities include:

- [Operational Risk Management System](#)
An integrated operational risk management system is used to monitor and manage the EPF's risk exposure. Key risks are identified and the effectiveness of internal control is assessed and electronically confirmed by the respective departments and branches on a timely basis. Where the mitigated risks are not within acceptable levels, individual action plans will be identified and implementation monitored to reduce the gap.
- [Regular reporting](#)
Adequate processes are in place to discuss issues on risk management and internal control deficiencies, which are reported regularly to the Management through various committees. The Management evaluates and communicates to parties responsible for taking corrective action in a timely manner.
- [Monitoring Activities by Internal Audit](#)
The results of all audit engagements are reported to the Board Audit Committee (BAC) and communicated to the Management. The Internal Audit Department maintains a follow-up process to monitor and help ensure all the agreed audit observations and resolutions have been promptly addressed.
- [Quality Management Standard](#)
All the EPF's core processes comply with the MS ISO 9001:2015 Quality Management System.

ASSURANCE ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board is of the opinion that the EPF's risk management and internal control framework are effective to safeguard the interests of members. The Board's review of the effectiveness of the risk management and system of internal control is supported by:

- The Board Risk Management Committee, which meets a minimum of four times a year to oversee risk management activities.
- The Board Audit Committee, which meets a minimum of four times a year and reviews the areas of concerns and recommendations identified by the internal auditor and the Auditor-General.
- The Auditor-General's issuance of the annual audit certificate on the financial statements.
- The Management's assurance that the EPF's risk management and internal control framework is operating adequately and effectively in all material aspects.

This statement is made in accordance with the resolution of members of the Board dated 27 February 2018.

BOARD AUDIT COMMITTEE REPORT

1. MEMBERSHIP

The Board Audit Committee consists of the following members:

a) For the term from 1 June 2017 to 31 May 2019

No.	Board Audit Committee Members	Representative
i.	Datuk Thomas George M.S. George	Chairman – Professionals
ii.	Dato' Siti Zauyah Md Desa Hazim Jamaluddin (Alternate Member)	Deputy Chairman – Government
iii.	Datuk Abang Haji Abdul Karim Tun Abang Haji Openg	Employers
iv.	Hadah Leen	Employees
v.	Khalid Hj. Sufat	Professionals

b) Previous term, from 1 June 2015 to 31 May 2017

No.	Board Audit Committee Members	Representative
i.	Datuk Thomas George M.S. George	Chairman – Professionals
ii.	Dato' Siti Zauyah Md Desa (appointed on 4 April 2016) Dr Yusof Ismail (Alternate Member) (appointed on 15 May 2016) The late Datuk Dr Sundaran Annamalai (completed service on 16 December 2015) Datuk Ahmad Badri Mohd Zahir (Alternate Member) (completed service on 16 December 2015)	Deputy Chairman – Government
iii.	Datuk Abang Haji Abdul Karim Tun Abang Haji Openg	Employers
iv.	Datuk Lok Yim Pheng	Employees
v.	Zainal Abidin Kassim	Professionals

2. MEETINGS

The Board Audit Committee holds meetings at least four times a year. In addition, it meets with external auditors at least twice a year in the absence of the Management.

During the financial year 2017, the Board Audit Committee met 10 times (four Special Board Audit Committee meetings, four Board Audit Committee meetings and two Board Audit Committee meetings 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 will be briefed on the significant matters deliberated during the Board Audit Committee meetings.

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

BOARD AUDIT COMMITTEE REPORT

3. TERMS OF REFERENCE

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

4. SUMMARY OF PRINCIPAL ACTIVITIES

During the financial year 2017, the Board Audit Committee carried out the following activities:

4.1 Internal Audit

4.1.1 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.

4.1.2 Reviewed the internal audit reports tabled during the year, the recommendations made, root causes identified and the Management's response to these recommendations. Where appropriate, the Board Audit Committee directed the Management to rectify and improve the adequacy of the internal control procedures and workflow processes based on the internal auditors' recommendations and suggestions for improvement.

4.1.3 Reviewed findings of investigations and other ad-hoc special reviews on specific areas of operations to ascertain the root cause of the issues and the effectiveness of corrective actions taken to address weaknesses.

4.1.4 Monitored the corrective actions taken on outstanding audit issues to ensure all key risks and control lapses had been addressed.

4.1.5 Reviewed the effectiveness of the 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.

4.1.6 Reviewed and endorsed the disclosures on the Statement on Internal Audit and Statement of Risk Management and Internal Control for inclusion in the Annual Report.

4.2 External Audit

4.2.1 Reviewed all the areas of concerns identified by the external auditors together with the Management's response to their findings.

4.2.2 Met the external auditors twice during the year without the presence of the Management to discuss relevant issues and obtain feedback for improvements.

4.3 Financial Reports

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

- The impact due to changes to accounting policies and practices to the financial statements;
- Significant matters highlighted, including financial reporting issues, significant judgments made by the management, significant and unusual events or transactions, and how these matters are being addressed; and
- Compliance with the applicable approved accounting standards in Malaysia and other legal regulatory requirements.

4.4 Related Party Transactions

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

BOARD AUDIT COMMITTEE REPORT

5. TRAINING

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

No.	Course
1.	International Social Security Conference 2017: Future of Work: Preparing for Tomorrow Today
2.	Corporate Directors Advanced Programme (CDAP) – Financial Language In The Boardroom
3.	Directors Onboarding Programme – Corporate Governance Expectations
4.	IIA International Conference 2017: L.I.V.E. the Global Experience
5.	IIA Malaysia National Conference 2017: Internal Audit: Poised For The Future
6.	Fintech And Digital Economy Conference 2017
7.	Compliance Conference 2017
8.	Social Protection Seminar: Population Aging and Its Impact On The Socioeconomic System In Japan: Lessons For Developing Countries
9.	Population Aging and Its Impact On Intergenerational Transfer In Japan And Selected Asian Countries Seminar
10.	EPF Investment Seminar 2017
11.	EPF Retirement Talks In Sarawak For Board Members
12.	MFRS 9 – Financial Instruments
13.	Fintech: Opportunities For The Financial Services Industry In Malaysia
14.	Economic Forum
15.	Anti-Money Laundering/Banking Secrecy
16.	Cyber Security And Digital Transformation
17.	Leveraging Technology For Growth
18.	Update On Shariah Governance
19.	Halal Pharmaceuticals And Informed Choice
20.	Thought Leadership Session
21.	Board Strategy Session
22.	Dialogue: Value-Based Intermediation
23.	Outward Mindset: Leadership And Self-Betrayal

6. INTERNAL AUDIT FUNCTION

- 6.1 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.
- 6.2 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 the risk management, internal control and governance processes.
- 6.3 Further details of the internal audit function have been set out in the Statement on Internal Audit.

STATEMENT ON INTERNAL AUDIT

1. OVERVIEW

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.

2. 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, performing of work and communication of results.

In the interest of protecting its independent status, the department has no executive or managerial powers, authorities, 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.

3. SCOPE OF WORK

3.1 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 to ensure:

- 3.1.1 risks are appropriately identified and managed;
- 3.1.2 resources are acquired economically, and employed effectively and efficiently;
- 3.1.3 assets are safeguarded;
- 3.1.4 significant management, financial and operating information are accurate, reliable and timely;
- 3.1.5 applicable laws and regulations, policies, standards and procedures are complied with; and
- 3.1.6 established objectives and goals are achieved.

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

- 3.2.1 carrying out special investigations as requested by the Management/Board Audit Committee;
- 3.2.2 coordinating with external auditors to ensure adequate audit coverage and minimal duplication of work; and
- 3.2.3 participating as an observer in selected 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.

3.3 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.

3.4 In 2017, a total of 120 reports were presented to the Board Audit Committee.

4. 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. All internal audit activities in 2017 were performed by a group of 87 internal auditors from various background and competencies, as follows:

No.	Field of Expertise	No. of Auditors	Percentage
1.	Finance and Accounting	55	64%
2.	Information Technology	15	17%
3.	Business Administration	15	17%
4.	Engineering/Quantity Surveying	2	2%
Total		87	100%

STATEMENT ON INTERNAL AUDIT

5. PROFESSIONAL QUALIFICATIONS AND CONTINUOUS COMPETENCY DEVELOPMENT

The Internal Audit Department is committed to equip our 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, 15 of our internal auditors hold a total of 22 professional certifications and qualifications between them, such as Association of Chartered Certified Accountants (ACCA), Certified Practising Accountants (CPA) Australia, Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA) and Certified Ethical Hacker (CEH). These qualifications have been awarded by various recognised professional bodies.

In 2017, the internal auditors attended 7,868 hours of external and internal training, seminars and workshops in multiple technical disciplines and internal soft skills training on leadership, communication and negotiation to enhance their job performance and career prospects. The list of courses attended are as follows:

No. Course**(A) In-House Training**

1. Advanced Audit Tools and Techniques for Non-Executives
2. Audit Manager Tools and Techniques
3. IT Audit Tools and Techniques
4. Advanced Shariah Audit and Compliance Review
5. Financial Auditing and Investment Accounting – MFRS 9 Financial Instruments

(B) External Training

1. IIA International Conference 2017: L.I.V.E. the Global Experience
2. IIA Malaysia National Conference 2017: Internal Audit: Poised For The Future
3. Leadership Energy Summit Asia 2017
4. International Social Security Conference 2017
5. EPF Risk Management Seminar 2017
6. Finance Seminar
7. Certified Internal Auditor Review Seminar
8. Managing Procurement Fraud Risk With Effective Internal Controls
9. Workshop on Contractual Claims and Evaluation

No. Course**(B) External Training**

10. Private Equity Academy
11. Real Estate Academy
12. Business Intelligence and Analytics
13. SAP Application Control Review
14. ISO/IEC 20000 for Auditors
15. CQI & IRCA Certified ISO 9001:2015 Lead Auditor
16. ISO Internal Audit Training
17. Simulation Lean Six Sigma Tools and Techniques
18. Strategic Workshop
19. Strategic Leadership Alignment

6. QUALITY AND IMPROVEMENT PROGRAMMES

6.1 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:

- 6.1.1 ongoing reviews of the performance of internal audit activities; and
- 6.1.2 peer reviews of the audit processes, procedures and documentation on a periodic basis.

6.2 The Internal Audit Charter stipulates that a Quality Assurance Review by a qualified independent reviewer is required at least once every five years. The last Quality Assurance Review of the Internal Audit Department was carried out in 2014.

6.3 Based on the review by KPMG Management and Risk Consulting Sdn. Bhd., 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.

6.4 The next Quality Assurance Review by a qualified independent reviewer is scheduled to be held in 2019.

STATEMENT ON INVESTMENT RISK MANAGEMENT

RESPONSIBILITY

In accordance with Section 18 (1) of the Employees Provident Fund Act 1991, the Investment Panel is responsible for matters pertaining to the EPF's investments and acknowledges responsibility for the investment risk management framework. The framework is designed to provide reasonable assurance and to mitigate rather than to eliminate the risk of misstatement or loss in carrying out the organisation's investment policies and objectives.

INVESTMENT RISK MANAGEMENT FRAMEWORK

The EPF's investment risk management framework encompasses the organisation's governance structure, risk appetite, asset allocation, policies and processes. It is reviewed regularly to ensure relevance and effectiveness.

INVESTMENT RISK MANAGEMENT STRUCTURE

The Investment Panel is responsible for overseeing risk management pertaining to the EPF's investment decision making.

The Investment Panel Risk Committee (IPRC) is responsible for assisting the IP in recommending the risk appetite and appropriate allocation of the risk 'budget'. The IPRC regularly reviews the risk measurement, policies, processes and limits to ensure their continued effectiveness.

The IPRC is assisted by the Management Risk Committee (MRC) to monitor and review risk management activities.

The Risk Management Department supports the MRC, IPRC and IP in risk management related matters covering independent measurement and credit assessment, monitoring and reporting of the EPF's investment risk exposures.

RISK CONTROLS

The Risk Appetite Statements, as approved by the Investment Panel, broadly outline the levels of risk that the EPF is willing to tolerate and form the basis of the allocation of funds for investment. Asset allocation reviews are regularly conducted to ensure funds are invested within the EPF's risk appetite.

Various policies and limits are in place to ensure risks are adequately mitigated for each asset class. Risk and Performance Systems have been installed and continuously enhanced to ensure that risks are systematically measured and monitored.

CONCLUSION

The Investment Panel is of the opinion that the investment risk management practices in place are effective to safeguard the EPF's investments. The Investment Panel is supported by the IPRC, which meets a minimum of four times a year to review the risk and compliance reports from the management.

This statement has been made in accordance with the resolution of members of the Investment Panel dated 20 February 2018.