

Live Life Now

BELANJAWANKU for



MARRIED COUPLE (WITHOUT CHILDREN)

FOOD RM870	HOUSING RM870	HEALTHCARE RM70
TRANSPORT RM1,020	UTILITIES RM290	SAVINGS RM400
PERSONAL CARE RM100	AD HOC / ONE-OFF RM300	SOCIAL PARTICIPATION RM200
DISCRETIONARY EXPENSES RM300	RM4,420	
	BUDGET ESTIMATE / MONTH	



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OUR GOVERNANCE

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STATEMENT ON CORPORATE GOVERNANCE

We believe a sound corporate governance framework supported by strong leadership and good management practices contribute to enhanced accountability and transparency. We will continue to focus our efforts in raising awareness and the adoption of good corporate governance. As Malaysia’s largest retirement fund with investment assets totaling RM833.76 billion, we strive to be at the forefront in championing sustainable investments by incorporating Environmental, Social and Governance (ESG) principles in our investment considerations.

We continued our efforts in 2018 to raise awareness on corporate governance and adoption of good corporate governance practices. These initiatives include:

No Gift Policy

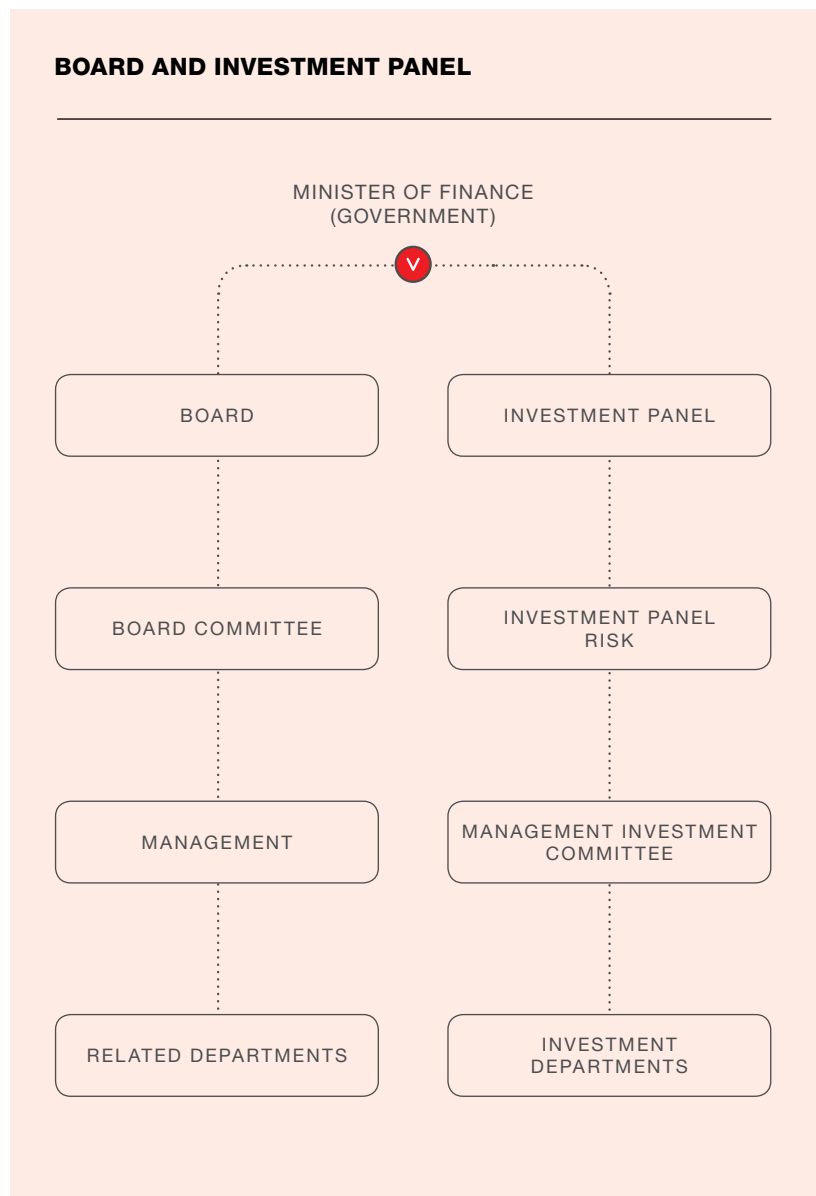
The EPF re-launched its No Gift Policy on March 5, 2018. The policy has been reviewed to further strengthen EPF’s internal controls and integrity within the EPF. Some of the guidelines in the Policy are designed to prevent situations in which bribery and corrupt practices may take root. The EPF is strongly committed to this Policy, which outlines EPF’s position on preventing and prohibiting any form of bribery. The EPF will not tolerate the receiving or giving of gifts, either directly or indirectly, by any EPF personnel with the intention to corrupt, or as an inducement for the organisation for an EPF staff to improperly perform his/her duties or obligations. This is critical to avoid any negative perception that would impact EPF’s reputation and credibility or be in violation of anti-bribery and corruption laws.

Conflict of Interest Policy

The Conflict of Interest Policy took effect on March 9, 2018. The objective was to maintain stakeholders’ confidence in the ability of the EPF to manage members’ retirement savings with trust, transparency, professionalism and integrity. The Policy is a guide to sustain good governance for EPF operations and business transactions.

Raid Protocol

The Protocol is a guidance for departments and branches to prepare for any possible raid by the authorities. It provides information on how raids are carried out so that employees will remain calm and cooperative. The protocol also provides guidelines that will assist employees who may be directly or indirectly involved in a raid to understand their individual roles and expectations. This guide was presented at the EPF Management Conference on 20 April 2018 and is for internal use only.



STATEMENT ON CORPORATE GOVERNANCE

BOARD AND INVESTMENT PANEL APPOINTMENT PROCESS

Members of the Board and the Investment Panel, as well as the Chief Executive Officer (CEO), are appointed by the Minister of Finance. The Minister appoints only those who have proven track records of integrity, competency and reliability to undertake their obligations effectively. Appointments are for a two-year term.

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 2018, there were 18 members on the EPF Board representing various stakeholders which include:-

1. The Chairman
2. Five members representing the Government, including a representative of the Ministry of Finance as Deputy Chairman
3. Four members representing Employers
4. Four members representing Employees
5. Three professional members from various backgrounds
6. The CEO as an ex-officio member

The Investment Panel, headed by the Chairman of the EPF Board, comprises seven members:-

1. The Chairman
2. One representative from the Ministry of Finance as Deputy Chairman
3. One representative from Bank Negara Malaysia
4. Three professional members
5. The CEO as an ex-officio member

The EPF Board committee and Investment Panel members consist of individuals with distinguished achievement, diverse skills, competencies and experience.

ROLES AND RESPONSIBILITIES OF THE BOARD 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 Chief Executive Officer

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, Investment Panel Risk Committee, including the Chairman and CEO. This is in addition to the self and peer evaluation of the directors. BEE/IPEE comprises of 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 the efficient functioning of the Board. The Board endeavors to bring together the diverse range of experience, skills, knowledge, industry backgrounds, ethnicity and gender to optimally achieve its investment objectives and governance performance.

STATEMENT ON
CORPORATE GOVERNANCE

Board Attendance

A total of nine Board and 21 Investment Panel meetings were held in 2018. 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 COMMITTEE	PROCUREMENT BOARD
Tan Sri Samsudin Osman (<i>Chairman</i>)	9/9	-	-	4/4	-	-	-	1/1	-
Datuk Siti Zauyah Md Desa (<i>Deputy Chairman</i>) En. Hazim Jamaluddin (<i>Alternate Member</i>)	6/9	6/9	-	2/4	-	-	-	-	-
Tan Sri Zainal Rahim Seman (<i>Service completed on 31 May 2018</i>) Dato' Mohtar Mohd Abdul Rahman (<i>Alternate Member</i>) (<i>Service completed on 31 May 2018</i>)	-	-	-	-	-	1/1	-	-	-
Datuk Seri Borhan Dolah (<i>Appointed with effect from 8 October 2018</i>)	2/2	-	-	-	-	1/1	-	-	-
Dato' Dr Mohd Gazali Abas (<i>Service completed on 20 June 2018</i>) Dato' Mohamed Elias Abu Bakar (<i>Service completed on 20 June 2018</i>)	3/4	-	-	-	-	-	1/1	-	-
Dato' Amir Omar (<i>Appointed with effect on 4 November 2018</i>)	1/2	-	-	-	-	-	1/1	-	-
Tan Sri Datuk Amar Hj Mohamad Morshidi Abdul Ghani <i>Datu Dr. Sabariah Putit (Alternate Member)</i>	2/9	-	-	-	-	-	2/4	-	-
Tan Sri Haji Sukarti Wakiman (<i>Service completed on 8 July 2018</i>) Datuk Hj Nordin Siman (<i>Alternate Member</i>) (<i>Service completed on 8 July 2018</i>)	1/3	-	-	-	-	-	-	-	-
Datuk Seri Panglima Hashim Pajjan (<i>Appointed with effect on 4 November 2018</i>) Datuk Hj Nordin Siman (<i>Alternate Member</i>) (<i>Appointed with effect on 4 November 2018</i>)	1/2	-	-	-	-	1/1	-	-	-
Tan Sri Azman Shah Haron	7/9	-	4/4	3/3	-	-	3/4	-	-
Datuk Mohd Hasnol Ayub	4/9	-	-	1/1	-	2/4	-	2/3	4/4
Datuk Abang Haji Abdul Karim Tun Abang Haji Openg	6/9	7/8	-	-	3/3	-	-	3/3	4/5
Tan Sri Dr Lim Wee Chai	4/9	-	1/2	-	2/3	-	-	-	-
Dato' Abdul Halim Mansor	9/9	-	-	-	1/2	-	-	1/1	-
Tuan Hj. Adnan Mat	9/9	-	-	4/4	-	-	-	-	6/7
Hadah Leen	6/9	8/9	-	-	1/2	-	4/4	-	5/7
Catherine Jikunan	7/9	-	4/4	-	-	2/3	-	1/1	-
Datuk Thomas George A/L M.S George	8/9	9/9	-	-	2/2	3/3	-	1/1	-
Khalid Hj. Sufat	9/9	8/9	-	4/4	-	-	-	-	7/7
Zainal Abidin Mohd Kassim	8/9	-	3/4	-	2/2	-	4/4	-	-
EX-OFFICIO									
Datuk Shahril Ridza Ridzuan (<i>Service completed on 17 August 2018</i>)	5/5	-	2/2	2/2	2/2	1/1	-	-	4/4
Tunku Alizakri Raja Muhammad Alias (<i>Appointed with effect on 20 August 2018</i>)	4/4	-	2/2	2/2	-	2/2	-	-	3/3

STATEMENT ON CORPORATE GOVERNANCE

	INVESTMENT PANEL	INVESTMENT PANEL RISK COMMITTEE
	ATTENDED	ATTENDED
Tan Sri Samsudin Osman (<i>Chairman</i>)	21/21	-
Datuk Ahmad Badri Mohd Zahir	9/21	-
Jessica Chew Chiang Lian (<i>Appointed with effect on 1 March 2018 and service completed on 5 October 2018</i>)	9/14	-
Adnan Zaylani Mohamad Zahid (<i>Appointed with effect on 4 November 2018</i>)	2/2	-
David Lau Nai Pek	17/21	2/2
Rossana Annizah Ahmad Rashid	19/21	2/2
Dato' Md Agil Mohd Natt	20/21	2/2
Datuk Shahril Ridza Ridzuan (<i>Ex-Officio</i>)	14/14	1/1
Tunku Alizakri Raja Muhammad Alias	7/7	1/1

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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 (RM)	INVESTMENT PANEL (RM)	BOARD/INVESTMENT PANEL/BOARD AUDIT COMMITTEE/BOARD RISK MANAGEMENT COMMITTEE/INVESTMENT PANEL RISK COMMITTEE/BOARD DISCIPLINARY APPEAL COMMITTEE (RM)	OTHER BOARD COMMITTEE COMMITTEES (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 the year 2018, the total honorarium and allowances paid to the Board and Investment Panel members was RM1,851,842.00.

Emolument of Top Management

POSITION	EMOLUMENT (RM)
Chief Executive Officer and Deputy Chief Executive Officers	6,047,420.33

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.

STATEMENT ON CORPORATE GOVERNANCE

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.

BOARD COMMITTEE	COMPOSITION	FUNCTION
Audit Committee	Five members, including the Chairman	<ul style="list-style-type: none"> Assists the Board in evaluating the effectiveness of the internal controls, risk management (except in making investment decisions) and governance processes. Oversees the financial reporting process and quality of financial reporting of the annual and interim financial statements. Reviews the appropriateness of the EPF's accounting policies and changes to these. Held nine meetings in 2018 to deliberate on the reports of the internal and external auditors, review matters including the internal audit functions and the audit plan for the year. Maintains a formal and professional relationship with external auditors and convened two meetings with external auditors in 2018 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 2018.
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 function. Held two meetings in 2018.
Finance and Development Committee	Six members, including the Chairman	<ul style="list-style-type: none"> Responsible for approving additional budget of not more than 5% 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 Investment related matters. Held four meetings in 2018.
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 Scheme. Endorses any recommendations and policy changes to the Board for approval. Held two meetings in 2018.
Personnel, Appointment and Services Committee	Six members, including the Chairman	<ul style="list-style-type: none"> Assists the Board in considering and approving matters on employment, which includes employment terms and conditions. Held three meetings in 2018.
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 under the EPF Rules and Regulations (Conduct and Discipline) 1993. Held four meetings in 2018.
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 Committees. Held one meeting in 2018.
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 seven meetings in 2018.

STATEMENT ON CORPORATE GOVERNANCE

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 COMMITTEE	FUNCTION
Management Investment Committee	<ul style="list-style-type: none"> • Recommends investment activities to the Investment Panel in line with the EPF's guidelines, policies on risk control and asset allocation. • Consists of 11 members, including the Chief Executive Officer (or Deputy Chief Executive Officer- Investment in the absence of the CEO) as Chairman. • Held 54 meetings in 2018.
Management Procurement Committee	<ul style="list-style-type: none"> • Responsible for matters relating to procurement of works, services and supply of goods. • Consists of key senior management, including the Chief Executive Officer as Chairman. • Held 12 meetings in 2018.

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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 114 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 page 52 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 2018, the management visited 31 companies (18 local and 13 overseas). The EPF also attended and voted actively in 121 annual general meetings (AGM) and 39 extraordinary general meetings (EGM) of its investee companies.

As the EPF becomes more active in overseeing its investments, the organisation has appointed nominees on the boards of listed and unlisted companies. As at 31 Disember 2018, the EPF has nominees in 10 listed companies and 24 unlisted companies.

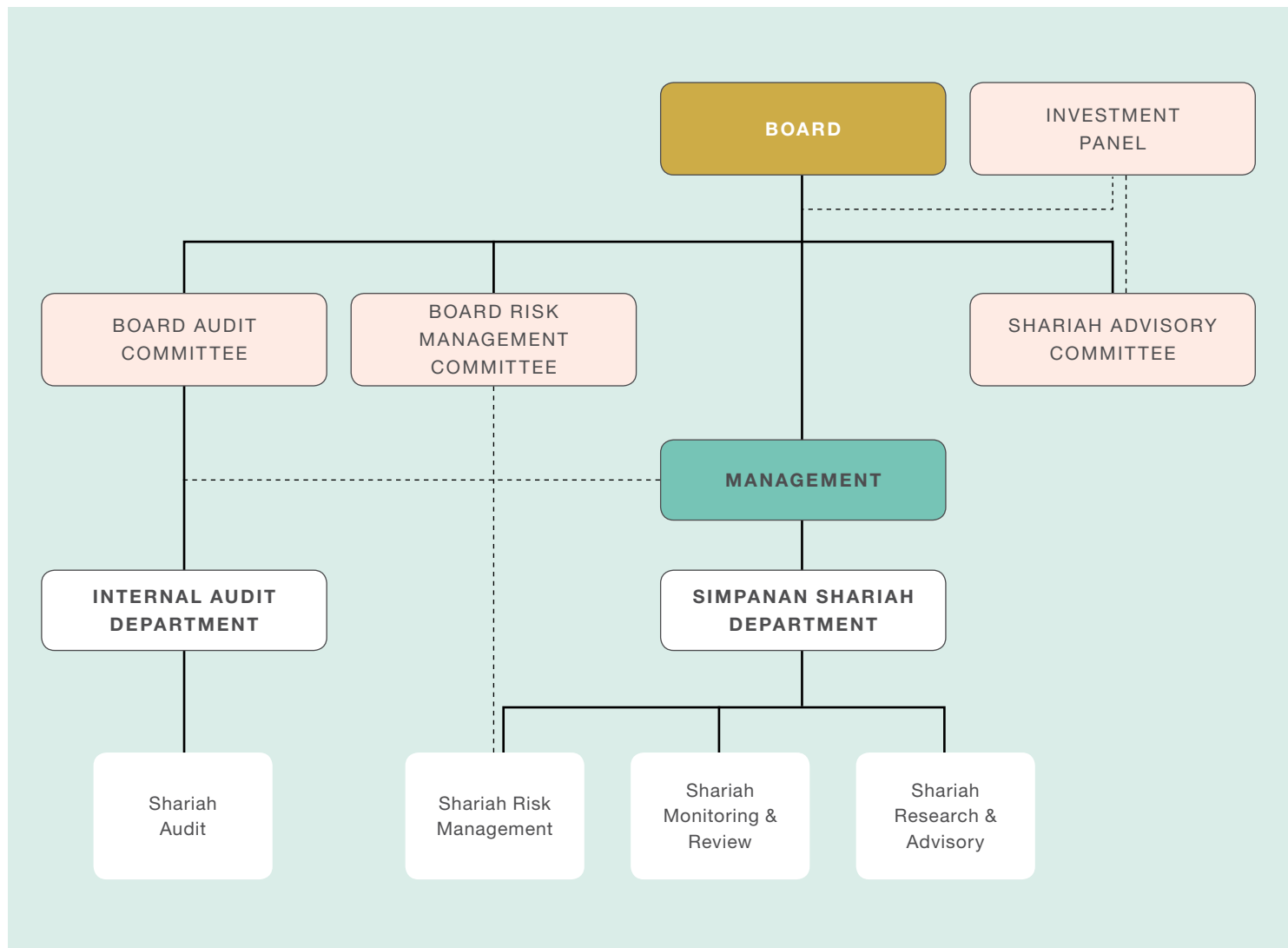
STATEMENT ON SHARIAH GOVERNANCE FOR EPF SIMPANAN SHARIAH

The EPF Simpanan Shariah is a members' savings option managed and invested in accordance with Shariah principles.

A Shariah governance framework has been established to govern the Shariah compliance aspects of EPF Simpanan Shariah to ensure that the fund is managed in accordance with the Shariah principles as required under Section 43A of the EPF Act 1991.

SHARIAH GOVERNANCE STRUCTURE

The EPF Shariah governance structure is as described below:



STATEMENT ON SHARIAH GOVERNANCE FOR EPF SIMPANAN SHARIAH

COMPONENT	FUNCTION IN RESPECT OF EPF SIMPANAN SHARIAH
Board	<ul style="list-style-type: none"> Establishes the Shariah Advisory Committee (SAC) as the authority for the ascertainment of Shariah matters, for the purpose of advising the Board and Investment Panel in ensuring that the management of EPF Simpanan Shariah complies with Shariah principles. Refers to the SAC on any matters relating to Shariah and that which require the ascertainment of Shariah principles. The advice given by the SAC shall be binding on the Board. Establishes a Shariah compliance framework as described below.
Investment Panel	<ul style="list-style-type: none"> Refers to the SAC on any investment matter relating to Shariah and that which require 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"> Ascertain the application of Shariah principles on any matters relating to EPF Simpanan Shariah. Advise the Board and Investment Panel on any Shariah-related matters and the application of Shariah principles related to EPF Simpanan Shariah. Verify and approve any Shariah compliance report in relation to the management of EPF Simpanan Shariah for the EPF Annual Report.
Management	<ul style="list-style-type: none"> Ensure that the operations and investments of EPF 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 based on the EPF Operational Risk Management Framework. Shariah audit; responsible for Shariah auditing for the purpose of independent periodical assessment and objective assurance on the degree of Shariah compliance.

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APPOINTMENT OF SAC MEMBERS

The Board appoints not less than three persons as SAC members who are qualified in Shariah, or who have knowledge or experience in Shariah and in banking, finance, law or such other related disciplines.

The Board also stipulates that the SAC members must have a minimum of five years' experience in Islamic finance, and that two-thirds 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*). Each appointment is for a two-year term and the appointee(s) may be reappointed.

In 2018, the Board has reappointed five SAC members, including the Chairman of SAC, who are qualified in Shariah and of eminent scholars in Islamic banking and finance locally and globally.

STATEMENT ON SHARIAH GOVERNANCE FOR EPF SIMPANAN SHARIAH

SAC MEETING ATTENDANCE

A total of 13 SAC meetings, including one special meeting, were held in 2018. Details of SAC members' attendance are as follows:

SAC MEMBERS	MEETING ATTENDANCE
Prof. Dr Mohamad Akram Laldin (Chairman)	13/13
Assoc. Prof. Dr Aznan Hasan (Deputy Chairman)	13/13
Dr Zaharuddin Abdul Rahman	12/13
Prof. Dr Engku Rabiah Adawiah Engku Ali	13/13
Dr Kamaruzaman Noordin	13/13

The EPF Management has appointed the EPF Legal Department as SAC Secretariat.

SAC HONORARIUM AND ALLOWANCES

SAC members are paid a monthly honorarium and allowance for each meeting attended in 2018 as follows:

- Honorarium (per month): RM5,000
- Meeting attendance: RM1,500

ACCESS TO INFORMATION AND DOCUMENTS

To assist the SAC in discharging its functions, the EPF management provides the SAC access to all necessary information and documents, and the SAC shall safeguard the confidentiality of such information and documents.

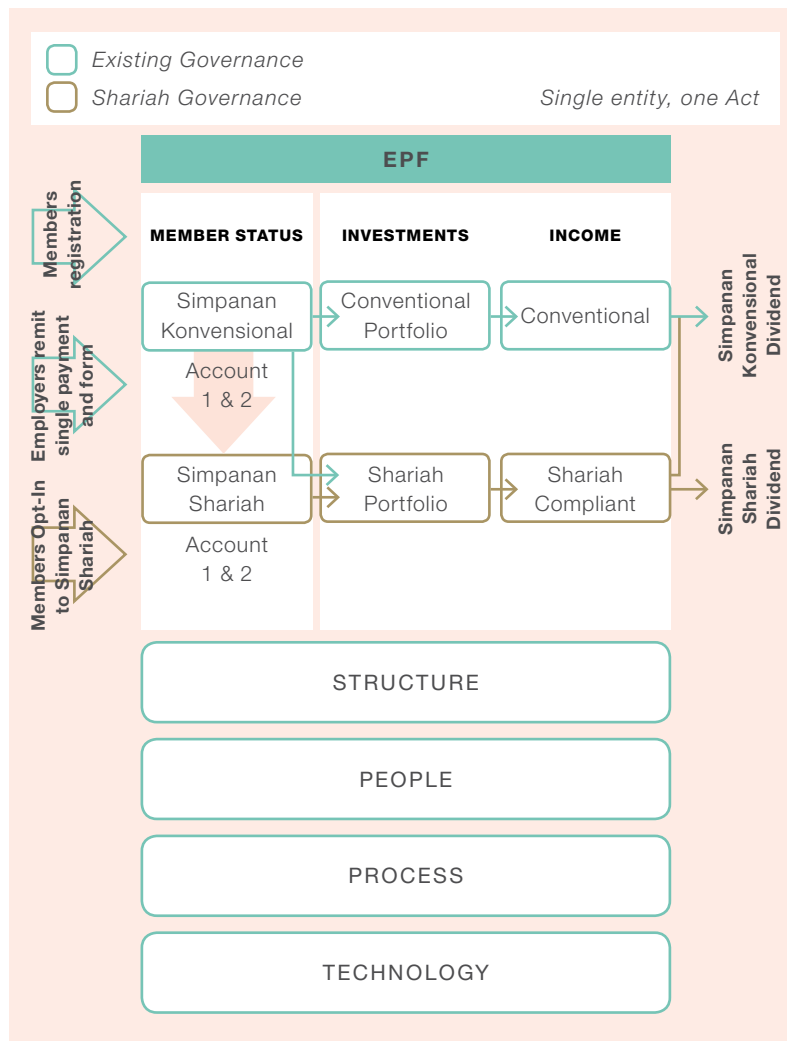
SAC REPORT

For each financial year, a Shariah compliance report in relation to the management of the EPF Simpanan Shariah approved by the SAC is presented in the EPF Annual Report.

SHARIAH POLICIES FOR EPF SIMPANAN SHARIAH

The Shariah governance framework is supported by detailed policies and procedures to ensure that every Shariah-compliant transactions comply with Shariah requirements. The SAC has formulated Shariah policies for EPF Simpanan Shariah with respect to its operations, investment, finance and treatment of Shariah non-compliant income, which among others are as follows:

Operating Model of EPF Simpanan Shariah



STATEMENT ON SHARIAH GOVERNANCE FOR EPF SIMPANAN SHARIAH

The EPF Simpanan Shariah adopts a portfolio-based management model as follows:

1. The EPF Simpanan Shariah and Simpanan Konvensional co-exist under a single fund and managed by the Board.
2. EPF members opting for EPF Simpanan Shariah are bound by the Wakalah contract, where members agree to appoint the Board as representative and trustee to manage and invest all credit (savings) in members' account in accordance with the Shariah principles.
3. In addition to the EPF's corporate governance, the EPF Simpanan Shariah is also subject to the Shariah governance framework and Shariah policies relating to the operations and investment as determined by the SAC from time to time.
4. The EPF's investment assets are segregated into two portfolios, namely the Shariah portfolio and conventional portfolio. The EPF Simpanan Shariah will only invest in the Shariah portfolio.
5. The Simpanan Shariah leverages on the existing structures, resources, with some enhancement to the legal framework of EPF, operational processes and IT systems to meet the Shariah requirements as prescribed by the SAC.

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 EPF's investment assets will undergo a Shariah screening process based on the criteria and guidelines set by the SAC. These serve to eliminate any Shariah non-compliant elements, such as *riba* (interest/usury), *gharar* (uncertainty in contract), *maysir* (gambling), and other prohibited elements such as non-halal goods and services.

Shariah policies on the compliance and monitoring aspects of EPF's Shariah investments have also been set out by the SAC, and the policies will be updated from time to time.

As at 31 December 2018, a total of 39.04%, or RM325.50 billion, of the EPF investment assets are Shariah-compliant. As the savings balance in the EPF Simpanan Shariah is smaller than the total EPF's Shariah-compliant investment assets in the Shariah portfolio, both the EPF Simpanan Shariah and the EPF Simpanan Konvensional will jointly invest in the Shariah portfolio. The Shariah income derived from the Shariah portfolio is allocated to the EPF Simpanan Shariah in proportion to its share in the said portfolio.

Reclassification Of Shariah-Compliant Investment

The EPF's investments in both listed and private equities, real estates and infrastructure are subject to periodic Shariah screening to review the Shariah status of each investment.

For listed equities, Shariah classification will be reviewed periodically based on Shariah screening conducted by the Shariah Advisory Council of the Securities Commission Malaysia (SAC SC) for the domestic market and the relevant Shariah index providers subscribed by the EPF for global market.

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

If any of the above investments fail the Shariah screening, the investment will be reclassified as Shariah non-compliant and will be transferred to the conventional portfolio.

Similarly, if any of the above investments in the conventional portfolio passed the Shariah screening, the investment will be reclassified as Shariah-compliant investment and will be transferred to the Shariah portfolio.

For Shariah mandates managed by external fund managers, any Shariah-compliant instruments being reclassified as Shariah non-compliant will be disposed of in accordance to the guidelines set by the SAC SC.

STATEMENT ON SHARIAH GOVERNANCE FOR EPF SIMPANAN SHARIAH

Treatment of Shariah Non-Compliant Income

In 2018, the Shariah non-compliant income was mainly derived from the late payment charges imposed on employers for late contributions; and the excess gain due to reclassification of Shariah-compliant equities into Shariah non-compliant equities.

The late payment charges and/or dividends are imposed on employers and other parties for late payment of contributions and/or any financial obligation due and payable to the EPF, to safeguard the interest of members.

With regards to the EPF Simpanan Shariah, the SAC allows the 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 be reported to the SAC to determine the Shariah status of the transactions, including any income therefrom.

The SAC had resolved that the Shariah non-compliant income can only be utilised for allowable expenses through charitable activities, such as payment of statutory charges (death benefit, incapacitation benefit and invocation cost), and any excess Shariah non-compliant income (if any) may be utilised for operating expenditure and indirect investment expenditure.

For the financial year ended 31 December 2018, total Shariah non-compliant income was RM51.70 million and had been utilised for members' welfare through payment of statutory charges.

Dividend

The dividend policy for EPF Simpanan Shariah is presented to the SAC for deliberation and Shariah endorsement.

The annual dividend of the EPF Simpanan Shariah is based on the actual performance of the EPF's Shariah-compliant investments in the Shariah portfolio i.e. realised Shariah-compliant investment income and non-investment income, after netting off expenses, allocated to the EPF Simpanan Shariah in proportion to its share in the Shariah portfolio.

The EPF Simpanan Shariah dividend declared by the Board for the financial year ended 31 December 2018 was 5.90%.

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.

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We, members of the Shariah Advisory Committee of EPF (SAC), have reviewed the operations and investment of the EPF in relation to EPF Simpanan Shariah for the year ended 31 December 2018, 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 2018:

1. We have advised the Board and Investment Panel on all Shariah-related matters presented to us by the EPF Management through the Shariah decision made by the SAC in relation to the operations and investment of the EPF Simpanan Shariah to ensure compliance with the Shariah principles as well as the relevant local and global Shariah resolutions and standards as recognised by us.
2. The EPF Management is responsible for ensuring that the EPF Simpanan Shariah is managed in accordance with the 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 of the 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. For the financial year ended 31 December 2018, there were 13 SAC meetings held to discuss the following:
 - a. Shariah screening and issues relating to proposals on Shariah-compliant investment and the existing investment of the EPF, including relevant documents;
 - b. Shariah issues relating to the operations of the EPF Simpanan Shariah, including the implementation of the EPF Simpanan Shariah online;
 - c. Research on Shariah matters by the Simpanan Shariah Department;
 - d. Updates on the Shariah governance framework and Shariah compliance policies and guidelines relating to the investment and operations of the EPF Simpanan Shariah, including financial reporting and dividend policy; and
 - e. Reports on the reclassification of the EPF's Shariah-compliant investments and Shariah non-compliant income.

SHARIAH ADVISORY COMMITTEE REPORT

6. We have also received and deliberated on the Shariah review reports that were presented to us by the Simpanan Shariah Department on a quarterly basis as per the Shariah monitoring and review plan for 2018 approved by us for the purpose of continuous assessment on the degree of Shariah compliance of the EPF Simpanan Shariah as follows:
 - a. Operations of the EPF Simpanan Shariah at EPF branches;
 - b. Annual Shariah screening of the EPF's alternative assets investment and asset tagging according to Shariah status;
 - c. Reclassification of Shariah status in respect of the EPF's domestic and global equity investments;
 - d. The EPF Simpanan Shariah members' investment through the fund management institutions under the EPF's Members Investment Scheme;
 - e. Investment of external fund managers managing the Shariah-compliant investment mandate of the EPF; and
 - f. Treatment of the Shariah non-compliant income from operations and investment of the EPF Simpanan Shariah.
7. The Internal Audit Department has performed reviews on the operation and investment activities in relation to the EPF Simpanan Shariah and the result of the reviews were reported to the Board Audit Committee and communicated to the EPF Management.
8. We acknowledge that appropriate efforts have been taken to rectify the gaps identified, and management actions are taken to prevent similar gaps from recurring.
9. In our opinion:
 - a. The contracts, transactions and dealings entered into by the Board in relation to the EPF Simpanan Shariah throughout the financial year ended 31 December 2018 that we have reviewed, are in compliance with the Shariah principles;
 - b. The allocation of profits and losses relating to the EPF Simpanan Shariah as disclosed in Note 36.3 to the Financial Statements conforms to the basis that had been endorsed by us in accordance with the Shariah principles; and
 - c. All income earned by the EPF Simpanan Shariah from sources or means prohibited by the Shariah principles amounting to RM51.70 million as disclosed under Note 36.4 to the Financial Statements have been used for charitable activities such as payment of death benefit, incapacitation benefit and invocation cost.

We, members of the SAC, hereby confirm that the EPF Simpanan Shariah for the financial year ended 31 December 2018 has been managed in conformity with the Shariah principles.

On behalf of the SAC,



Name : **Prof. Dr Mohamad Akram bin Laldin**
Title : Chairman of the SAC
Date : 1 March 2019

On behalf of the SAC,



Name : **Assoc. Prof. Dr Aznan bin Hasan**
Title : Deputy Chairman of the SAC
Date : 1 March 2019

RISK MANAGEMENT

“In a world where technology and changing consumer behaviour is reshaping traditional business models, organisations innovate and reinvent themselves to remain relevant. Adding to this backdrop are volatile investment markets, unpredictable weather, and increased political and regulatory reforms. All these are adding to the risk equation, that all organisations have to grapple with. Risk is no more feared or avoided but used as a tool to create value and increase performance level.”

James Lim Tuang Ooi
Head,
Risk Management Department

KEY RISK MANAGEMENT PRIORITIES IN 2018

The Risk Management Department provided its continuous support to the EPF throughout 2018 by undertaking the following:

- Enriching data analytics in investment risk reporting to improve efficiency and quality of risk decision making.
- Digitalising investment risk tools for easy accessibility and timely assessment.
- Expanding the scope of the internal rating template to cover global financial institutions.
- Implementing best practices arising from the independent risk maturity assessment.
- Promoting Cyber Security Crisis Management Programme Testing and to cultivate staff education awareness at enterprise level.
- Performing risk control and self-assessment on the EPF’s Cyber Resilience Readiness programme.
- Conducting Quality Assurance sessions to evaluate the effectiveness of the ORM activities at departmental level and branches.

KEY RISK MANAGEMENT PRIORITIES IN 2019

The Department will continue to support the EPF in achieving its mission by:

- Aligning risk parameters to the Risk Appetite Statement to ensure consistent application in risk taking. Operational Risk Appetite has been added to the risk tolerance statement.
- Adopting validation of model risk tools that are strategically important to the EPF.
- Empowering human capital on risk related digitalisation.
- Developing Technology Risk Framework to improve the EPF’s readiness in managing and responding to cyber security incidents, as well as enhancing oversight of IT risk management and security practice.
- Establishing integrated compliance programme to ensure adherence to all information security policies, standards and regulatory requirements.

OVERVIEW

The interconnected business world that we are in today requires a modern vision of what risk means. Among the most prominent risks that need to be addressed on an ongoing basis are the growing economic and topographical causes of climate change, the impact of instant communication on reputation risk and the unpredictable nature of political change. The inextricable linkages between political, economic, social and environmental risk have become undeniable. The complexity of modern risks demands us to use data to identify, navigate and decide. The application of big data analytics,

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RISK MANAGEMENT

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 are 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 its 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

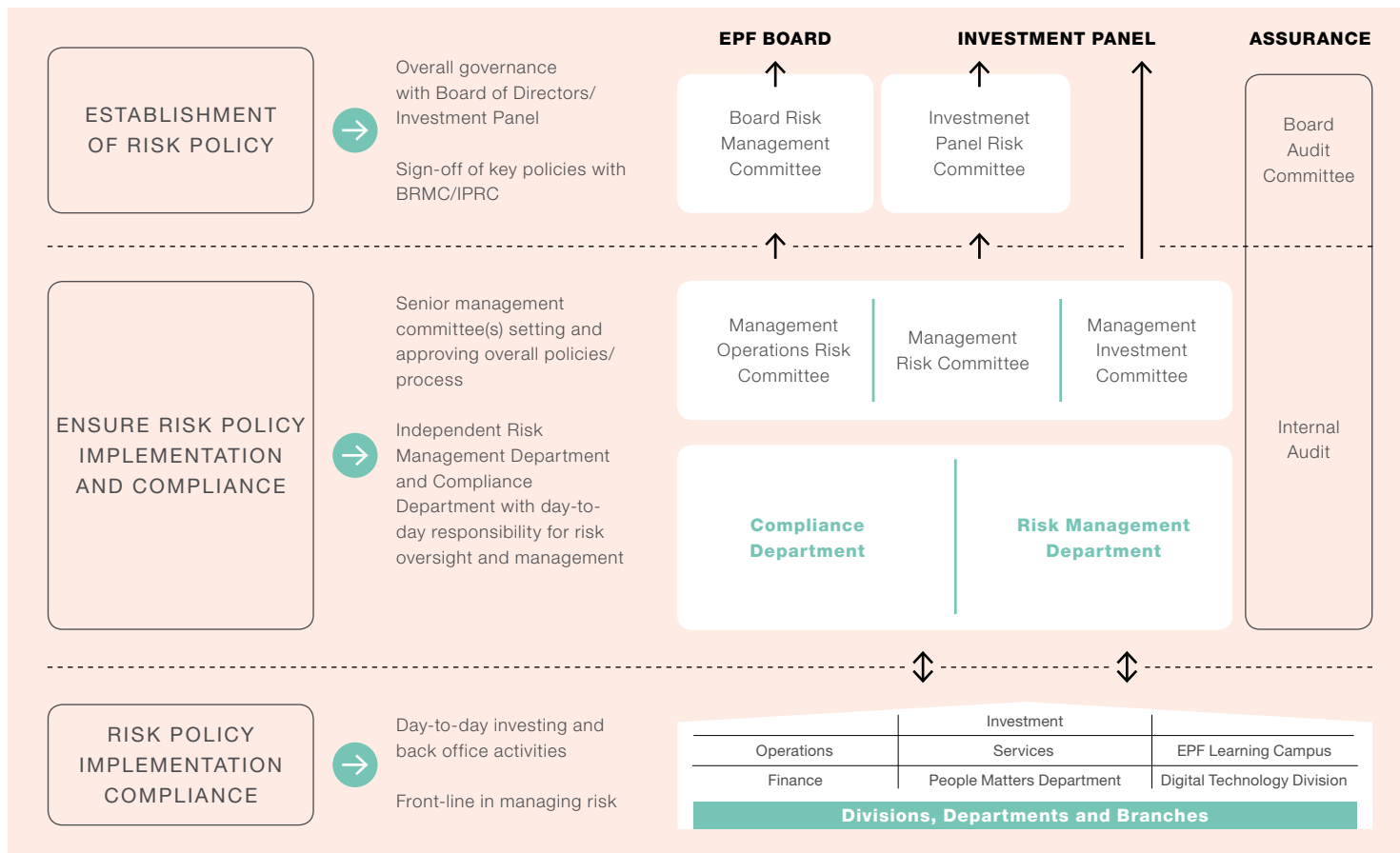
risk management culture and integrated risk management framework to take advantage of potential opportunities in order to counter all possible threats. The EPF adopts a proactive approach in identifying and managing risks in the face of uncertainty in the operating environment and volatilities in the 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.

RISK MANAGEMENT GOVERNANCE STRUCTURE

The EPF adopts the “top-down” and “bottom-up” approaches in its Risk Management Governance structure where departments, branches and the 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.

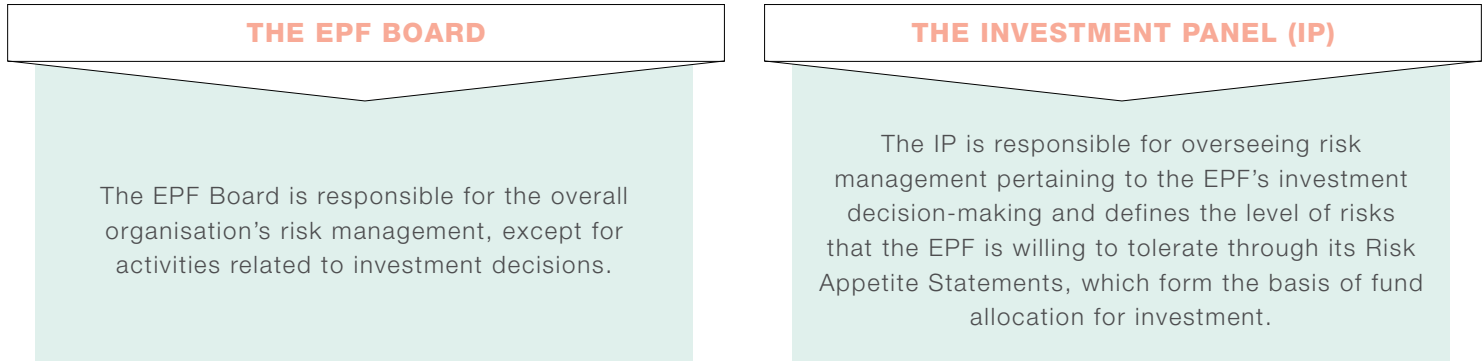
The structure below shows the EPF Risk Governance Structure consisting of three lines of defence.



RISK MANAGEMENT

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:



BOARD RISK MANAGEMENT COMMITTEE AND INVESTMENT PANEL RISK COMMITTEE

Board Risk Management Committee (BRMC)

The BRMC is responsible for assisting the Board in overseeing all operational risk management activities, except for activities pertaining to making investment decisions and ensuring that the risk management process is in place and functioning effectively.

Investment Panel Risk Committee (IPRC)

The IPRC is 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)

The 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)

The MRC is responsible for developing and reviewing risk policies and appropriate limits for managing the EPF's investment risks.

Management Investment Committee (MIC)

The MIC is responsible for evaluating and recommending investment proposals to the Investment Panel (IP). It also evaluates and recommends investment strategies and performance of external fund managers.

Risk Management Department (RMD)

The RMD supports the MIC, MRC, MORC, IPRC, BRMC and IP in all risk management matters covering investment risk, operational risk, risk measurement, independent assessment, monitoring and reporting of risk exposures.

Investment Compliance Department

The department is responsible for monitoring and compliance of all investment related risk policies and limits.

Divisions, Departments and Branches

All divisions, departments and branches are 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 RMD. Among the principal roles and responsibilities of these divisions, departments and branches are:

- 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; and
- Adhere to risk management practices and guidelines

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INVESTMENT RISK MANAGEMENT

There are four key elements of investment risk management:-

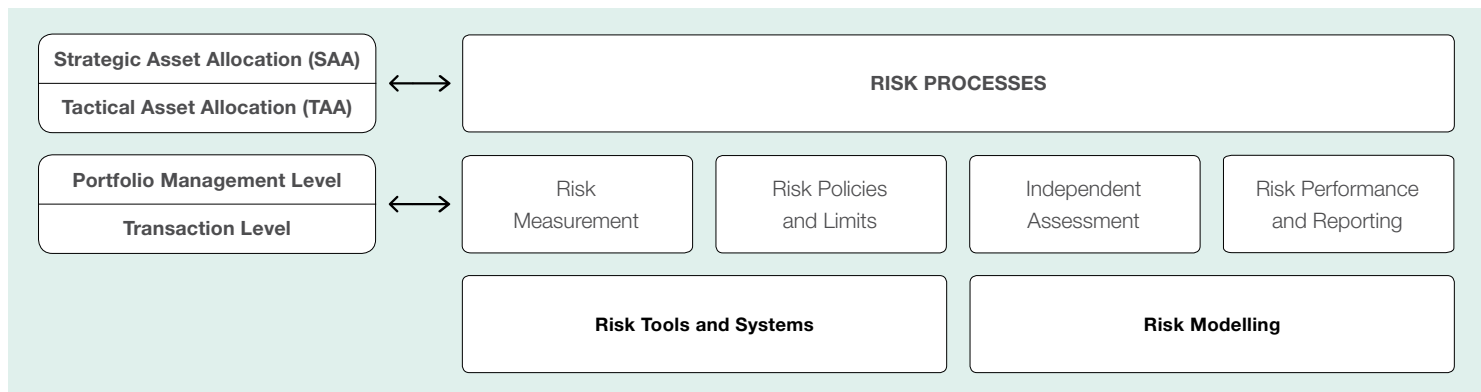
- Investment Risk Management Framework
- Market Risk Management
- Credit Risk Management
- Liquidity Risk Management

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.

The Investment Risk Management framework is illustrated below.



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 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.

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.

RISK MANAGEMENT

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 tools to measure the creditworthiness or Probability of Default (PD) of the obligors is as follows:
 - i. Corporate Rating Template, which provides internal risk ratings for corporate obligors.
 - ii. Financial institution rating template, which provides internal risk ratings for financial institution obligors.
 - iii. Credit tool, which measures the Expected Default Frequency or Probability of Default to provide early warning signals for the EPF's close monitoring of respective obligors.

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 3% 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-for-sale fixed income securities. The maturity profile of the EPF's asset and liability is also monitored within a stipulated level. 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.

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

OPERATIONAL RISK MANAGEMENT FRAMEWORK (ORM)

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, the ORM Framework 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.

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.

RISK MANAGEMENT

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 form an integral part of the risk management process that involve regular checking or surveillance.



Source: MS ISO 31000:2010 Risk Management - Principles and Guidelines

CORPORATE RISK SCORECARD (CRS)

The 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 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 102 risk scorecards were in place in 2018, comprising one CEO risk scorecard, three Deputy CEO risk scorecards, one Chief Financial Officer’s (CFO) scorecard, 29 department risk scorecards and 68 branch risk scorecards.

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

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

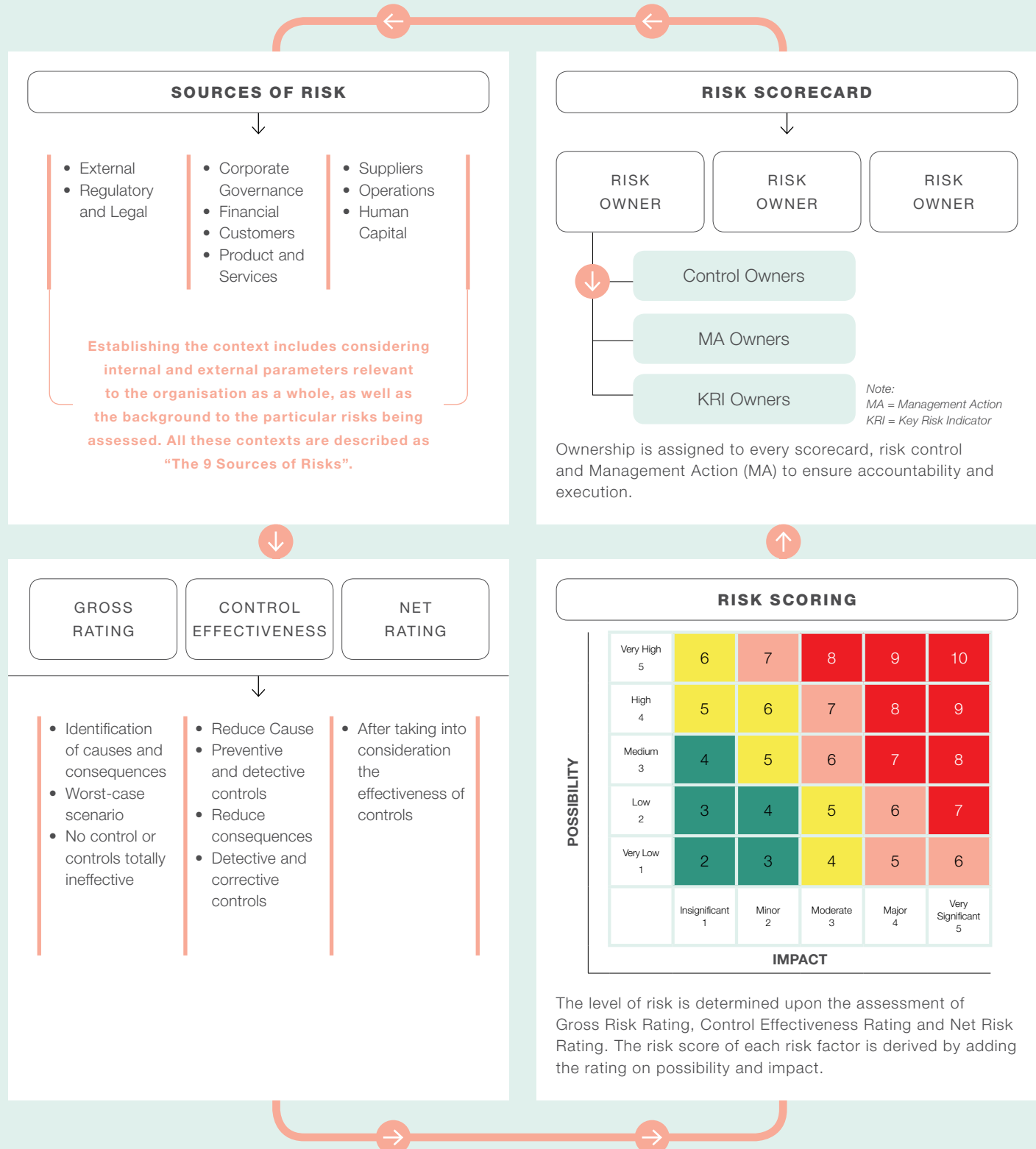
Owners of scorecard, risk, control and MA are required to provide digital assurance four times a year to the Management to prove that they have been managing risks within their profiles appropriately.

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

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

RISK MANAGEMENT

Corporate Risk Scorecard Methodology:



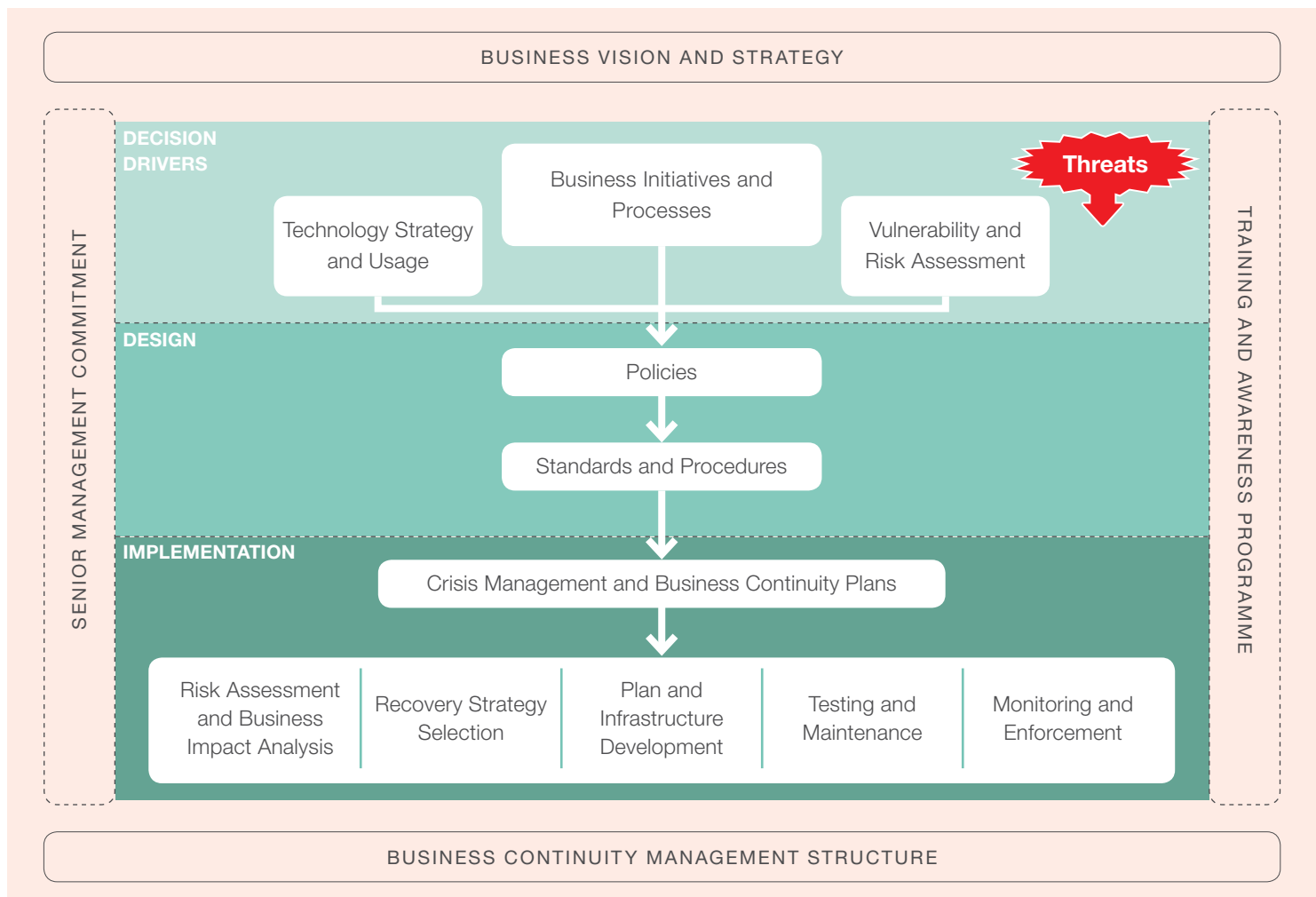
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RISK MANAGEMENT

BUSINESS CONTINUITY MANAGEMENT (BCM)

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 (BCM) Framework:-



RISK MANAGEMENT

THE IMPLEMENTATION OF BUSINESS CONTINUITY PLAN (BCP) IN THE EPF IS BASED ON THESE THREE COMPONENTS:

Human Resource Readiness

The development of knowledge and skills in managing disasters. Implementation is done through training on BCP readiness, tutorials and 'walkthroughs', call trees, crisis simulation exercises and Business Continuity Management (BCM) online learning.

Petaling Jaya building on 13 February 2018. The recovery operation was activated efficiently, including the aspects of communication to all parties for both internal and external members. The EPF Petaling Jaya restored full operations at a new location in Plaza Sentral and is known as KWSP Plaza Sentral.

Infrastructure Readiness

The testing of the system and equipment is carried out periodically to ensure optimal readiness and functionality in the event of a disaster.

To continue on the EFP's readiness in facing disaster, crisis simulation exercises are conducted at selected branches annually. In 2018, two crisis simulation exercises were carried out to evaluate the branch's readiness in handling customers, IT system recovery and relocation at the recovery site. The evaluation of both exercises and key recommendations were presented to the Board and Management, and also shared among the EPF staff for their learning experience.

Plan Readiness

The BCP is continuously updated based on current work functions to ensure organisational readiness at all times. Based on the established framework, the EPF successfully managed the fire at the EPF

TECHNOLOGY RISK MANAGEMENT

Increasing the resiliency and security of our IT systems and infrastructure has always been one of the key priorities in the EPF. The Risk Management Department (RMD) 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 RMD also provides an 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 that monitors and provides assistance from the risk perspective for Information Risk Management, Business Continuity Management, and Legal and Compliance domains.

The EPF understands the need to manage technology risk given the increasing compliance and regulatory requirements in the technology and digital landscape. In this respect, the EPF continues to ensure the necessary technology risk management and compliance are in place.

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STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The EPF is issuing 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:

- The Board Audit Committee (BAC) on the internal controls, governance processes and risk management, except for risk management activities related to investment decision-making.
- The Board Risk Management Committee (BRMC) on the risk management activities, except activities in making investment decisions.
- The Investment Panel Risk Committee (IPRC) on 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.

The Management's role includes:-

- 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.

Risk Management and Internal Control Framework

The EPF has put in place an effective risk management and internal control framework as part of 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:

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 engaged a qualified independent consultant to conduct a risk maturity assessment on the EPF’s risk management practices. This exercise concluded that the EPF’s risk management function is comprehensive and in line with good industry practices.

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.

1. 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.
2. 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, policy, 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 (BAC) assists the Board in evaluating the effectiveness of the internal controls, risk management (excluding those related to making investment decisions) and governance processes of the EPF.

The BAC 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.

The BAC 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 BAC 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 BAC. A detailed scope of work of the Internal Audit Function is provided in the Statement on Internal Audit in the Annual Report.

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STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Key Elements of Internal Control

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

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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 day-to-day operations.

- **Information Technology (IT) Security Management**

IT security management in the 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, outline 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, updated and communicated to all levels to ensure that the EPF is prepared in the event of a crisis or disaster.

- **Insurance Coverage**

Adequate insurance coverage for major assets is in place to ensure the EPF's assets are protected against incident 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 the EPF Simpanan Shariah in the Annual Report.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 Control Management Plan, which includes Fraud Risk Assessment, Anti-Fraud Policy and Whistleblower Protection Policy outlines the EPF's approach to the prevention, detection, reporting and handling of fraud.
- **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 control 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 are 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, 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 **20 February 2019**.

BOARD AUDIT COMMITTEE REPORT

MEMBERSHIP

The Board Audit Committee consists of the following members:

For the term from 1 June 2017 to 31 May 2019

No.	Board Audit Committee Members	Representative
1.	Datuk Thomas George A/L M.S. George	Chairman – Professionals
2.	Dato' Siti Zauyah Mohd Desa Hazim Jamaluddin (Alternate Member)	Deputy Chairman – Government
3.	Datuk Abang Haji Abdul Karim Tun Abang Haji Openg	Employers
4.	Hadijah Leen	Employees
5.	Khalid Hj. Sufat	Professionals

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 2018, the Board Audit Committee met nine times (three 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.

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.

SUMMARY OF PRINCIPAL ACTIVITIES

During the financial year 2018, the Board Audit Committee carried out the following activities:

Internal Audit

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

BOARD AUDIT COMMITTEE REPORT

- 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.
- 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.

External Audit

- Reviewed all the areas of concerns identified by the external auditors together with the Management's response to their findings.
- Met the external auditors twice during the year without the presence of the Management to discuss relevant issues and obtain feedback for improvements.

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 addressed.
- Compliance with the applicable approved accounting standards in Malaysia and other legal regulatory requirements.

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:-

No.	Course
1.	Annual Accountants Conference 2018
2.	Asian Confederation of Institutes of Internal Auditors Conference 2018: Staying Relevant in a Digital Landscape
3.	Audit Committee Conference 2018
4.	Blockchain in Financial Services
5.	Board Strategy Committee Workshop 2018
6.	Board Strategy Session 2018
7.	EPF Investment Seminar 2018
8.	FinTech And Its Implications On Banking
9.	HYBRID
10.	International Social Security Conference 2018: A Better Tomorrow
11.	Revival Of Good Governance: An Antidote To Corruption – 4 th Annual Malaysia War On Corruption Symposium
12.	Sustainability And Integrated Reporting
13.	Thought Leadership Session 2018
14.	Understanding FinTech And Its Implications For Banks
15.	World Class Digital Transformation And Innovation 2018

INTERNAL AUDIT FUNCTION

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.

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.

Further details of the internal audit function have been set out in the Statement on Internal Audit.

STATEMENT ON INTERNAL AUDIT

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.

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.

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 to ensure:

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

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

- carrying out special investigations as requested by the Management/Board Audit Committee.
- coordinating with external auditors to ensure adequate audit coverage and minimal duplication of work.
- 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.

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 2018, a total of 107 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. All internal audit activities in 2018 were performed by a group of 89 internal auditors from various background and competencies, as follows:

No.	Field of Expertise	No. of Auditors	Percentage
1.	Finance and Accounting	58	65%
2.	Information Technology	13	15%
3.	Business Administration	16	18%
4.	Engineering/Quantity Surveying	2	2%
Total		89	100%

- Sec 1
- Sec 2
- Sec 3**
- Sec 4
- Sec 5
- Sec 6

STATEMENT ON INTERNAL AUDIT

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, 18 of our internal auditors hold a total of 25 professional certifications and qualifications between them, such as Association of Chartered Certified Accountants (ACCA), Certified Practising Accountants (CPA) Australia, Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA). These qualifications have been awarded by various recognised professional bodies.

In 2018, the internal auditors attended 7,426 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:

(A) In-House Training

No. Course

- | | |
|----|--|
| 1. | Certified Internal Auditor (Part 1) |
| 2. | Identifying Red Flags (Fraud Auditing) |
| 3. | Improving Audit Findings |
| 4. | Audit Command Language (ACL) Refresher |

(B) External Training

No. Course

- | | |
|-----|---|
| 1. | Asian Confederation of Institutes of Internal Auditors Conference 2018: Staying Relevant in a Digital Landscape |
| 2. | International Social Security Conference 2018: A Better Tomorrow |
| 3. | Business Ethics Conference 2018: FinTech: Business Benefits and Conduct Challenges |
| 4. | Forensic and Fraud Investigation Conference 2018 |
| 5. | 2018 Cyber Security Malaysia Awards, Conference & Exhibition (CSM-ACE 2018) |
| 6. | Data Analytics Certification |
| 7. | Thought Leadership Session |
| 8. | Big Data and Data Analytics |
| 9. | ISO 9001:2015 QMS Requirements |
| 10. | ISO 9001:2015 Internal Audit Training |
| 11. | Real Estate Academy |
| 12. | Private Equity Academy |
| 13. | Global Fixed Income Academy |
| 14. | Infrastructure Academy |
| 15. | Blackrock Private Debt Symposium |

(B) External Training

No. Course

- | | |
|-----|---|
| 16. | Palo Alto Networks Training |
| 17. | JKR Design & Build (Rv.1/2010): Contract Conditions Understanding & Application |
| 18. | Building Information Modelling |
| 19. | Board of Engineers Malaysia (BEM) Safety and Health At Work |
| 20. | Balanced Scorecard Refresher |
| 21. | Business Continuity Institute International Conference 2018 |
| 22. | Leading Digital Transformation |
| 23. | Leading Transformational Change |
| 24. | The Positive Leader |
| 25. | Lean Management – Lean Six Sigma |
| 26. | Design Thinking |

QUALITY AND IMPROVEMENT PROGRAMMES

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:-

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

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.

Based on the review by KPMG Management & 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.

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 (IP) 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 IP, 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 IP is of the opinion that the investment risk management practices in place are effective to safeguard the EPF's investments. The IP is supported by the IPRC, which meets a minimum of two 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 11 February 2019.

Sec 1
Sec 2
Sec 3
Sec 4
Sec 5
Sec 6