

# STATEMENT ON CORPORATE GOVERNANCE

We believe that a sound corporate governance framework, supported by strong leadership and good management practices, contribute towards enhanced integrity, accountability, and transparency. In this regard, we continue to focus our efforts in raising awareness and adopting sound corporate governance. As Malaysia's largest retirement fund with investment assets totalling RM1,000.10 billion, we strive to be at the forefront in championing sustainable investments by incorporating Environmental, Social, and Governance (ESG) principles in our investment considerations.

Throughout 2020, we continue to raise awareness on corporate governance and practices through the following initiatives:

## CORRUPTION RISK MANAGEMENT

The EPF has developed a Corruption Risk Management (CRM) mechanism through the Q-Radar system since 2019. It is one of the anti-corruption initiatives undertaken by the EPF as stated in the EPF Integrity & Anti-Corruption Plan. In 2019, a total of 10 departments have implemented Corruption Risk Management and an additional three Departments in 2020 making a total of 13 Departments. They are as follows:

- (a) Treasury Department
- (b) Private Market Department
- (c) Domestic Equity Department
- (d) International Equity Department
- (e) Capital Market Department
- (f) Enforcement Department
- (g) Digital Infrastructure Department
- (h) Property Management Department
- (i) Procurement Management Department
- (j) Investment Services Department
- (k) Digital Core Solutions Department
- (l) Digital Enterprise Solutions Department
- (m) Digital Security Department

## COMMUNICATION AND OUTREACH INTEGRITY PROGRAMME

Due to 2020 being a challenging year due to COVID-19, it had huge impacts on lifestyle, social activities, productivity, as well as employment. The EPF was also affected by the pandemic and had limited options to execute face-to-face programmes. However, the EPF adapted to the situation and leveraged on digital technology.

The fund expanded its communication and awareness programmes to its employees on integrity and anti-corruption in an effort to educate and raise awareness on the topics through digital platforms. The programmes included Integrity Day 2020 (HIT20), "You vs. Integrity" online quiz, Crew Integrity Outreach Programmes via Telegram the Ethical Behaviour Survey among staff, the Integrity & Governance Survey to the EPF Board and Top Management, Integrity education video, integrity awareness email, the Integrity Portal, and an integrity briefing via Zoom.

## THE EPF INTEGRITY AND ANTI-CORRUPTION PLAN

The Government launched the National Anti-Corruption Plan (NACP) 2019–2023 in early 2019 with the following aspiration: "Malaysia to be Known for Her Integrity and Not Corruption". All ministries, departments, agencies, and organisations were required to develop an Organisational Anti-Corruption Plan (OACP) within a year and report its status to the Anti-Corruption Committee, Ministry of Finance.

The Integrity & Governance Department (JITU), in line with the National Anti-Corruption Plan (NACP), had developed the OACP known as the EPF's Integrity and

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Anti-Corruption Plan, which covers aspects of governance, integrity, and anti-corruption within the organisation. The EPF Integrity and Anti-Corruption Plan was approved by the EPF Board on 29 April 2020.

### REPORTING STRUCTURE FOR THE INTEGRITY & GOVERNANCE DEPARTMENT

In line with the Prime Minister's Directive Series 1 No.1/2018, regarding Strengthening Governance, Integrity, and Anti-Corruption in Management – Establishment of Integrity and Governance Unit issued on 5 October 2018, the EPF has improved its reporting structure by reporting to the Board Risk Management Committee (BRMC) through the Management Integrity Committee. The Board on 29 April 2020, approved this new reporting structure to ensure that JITU can function more independently, fairly, and impartially in providing advisory services to the Board, Management, and the EPF staff.

### NEW ANTI-CORRUPTION POLICY

The EPF introduced two new anti-corruption policies to enhance integrity, governance, and to combat corruption. This policy was approved by the Board Risk Management Committee (BRMC) on 30 November 2020. A summary of the policies are as follows:

#### (a) EPF Anti-Corruption Policy

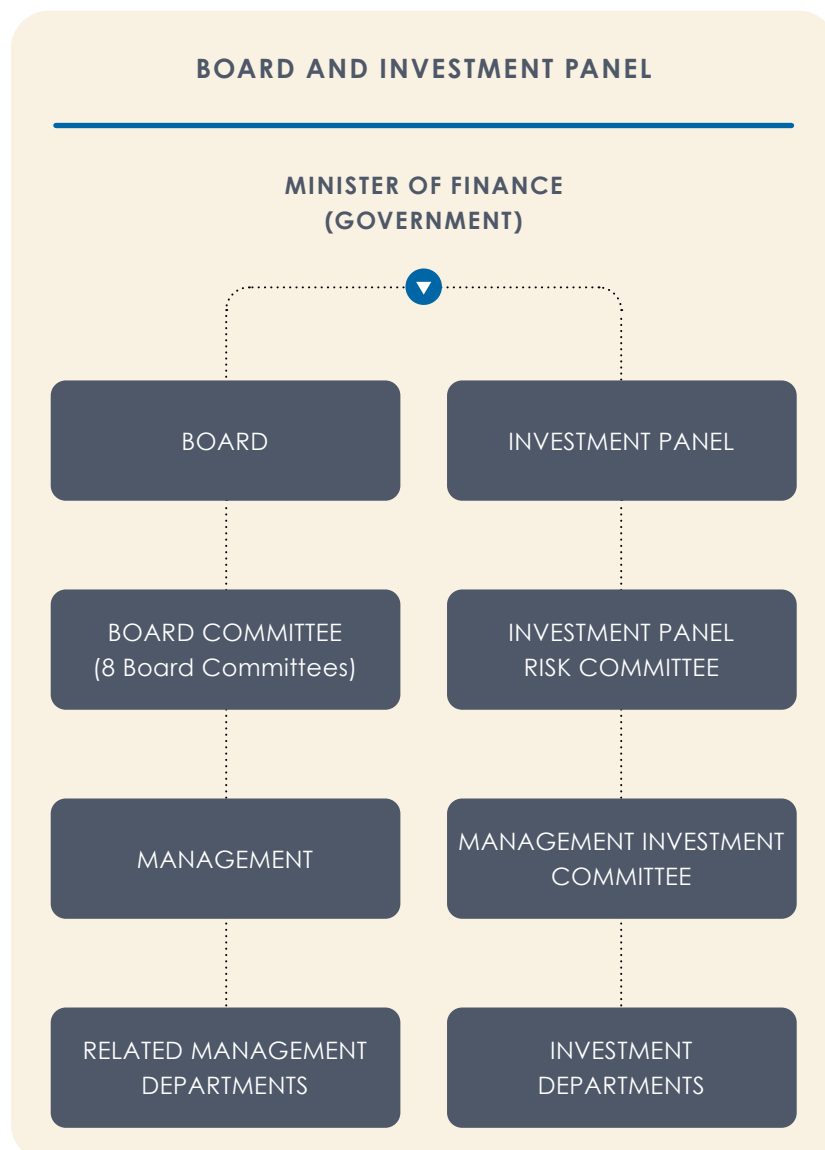
This Policy is one of the Management's initiatives in the EPF Integrity & Anti-Corruption Plan which was approved by the Board on 29 April 2020. It is the guiding principle and the main reference source for the EPF staff in combating corruption, abuse of power, and conflicts of interest.

#### (b) EPF Sponsorship and Donation Policy

The objective of this policy is to facilitate the EPF staff in handling sponsorship and donation requests in accordance with good governance practice.

### CERTIFIED INTEGRITY OFFICER

The Malaysian Anti-Corruption Commission (MACC) requires that every organisation's integrity unit must include a Certified Integrity Officer (CeIO). In light of this, the EPF currently has three (3) Certified Integrity Officers serving in the Integrity & Governance Department (JITU). All JITU officers will be certified as CeIO by 2022.



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## BOARD AND INVESTMENT PANEL APPOINTMENT PROCESS

Board Members, Investment Panel, and the Chief Executive Officer (CEO) are appointed by the Minister of Finance. The Minister of Finance appoints persons who possess strong record of integrity, high calibre, and trustworthiness in executing their duties in an effective manner. The tenure of such appointment is two years.

## BOARD AND INVESTMENT PANEL COMPOSITION

The EPF Act 1991 provides that membership of the Board may not exceed 20 persons, including the Chairman and CEO. In 2020 there were 20 members of the Board representing various interest groups:

- (a) Chairman;
- (b) Five members representing the Government, including a representative from the Ministry of Finance as Deputy Chairman;
- (c) Four members representing Employers;
- (d) Four members representing Employees;
- (e) Five professional members from various backgrounds; and
- (f) The CEO as an ex-officio member.

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

- (a) The Chairman;
- (b) One representative from the Ministry of Finance as Deputy Chairman;
- (c) Four professional members; and
- (d) The CEO as an ex-officio member.

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

## 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 Board relies on the integrity and due diligence of Senior Management, external auditors, and advisors to oversee the EPF's overall performance, key operational initiatives, financial plans and annual budget, financial performance reviews, risk management, and corporate governance practices.

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.

## Chairman and Chief Executive Officer (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 and the Investment Panel. These include strategic issues as well as investment planning. The Chairman supervises the decisions of the Board and the Investment Panel, and ensures that the Board's decisions are translated into executive action.

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

## Board and Investment Panel Effectiveness Evaluation (BEE/IPEE)

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

## Board Diversity

In line with good governance practice, the EPF is committed to ensure diversity for the efficient functioning of the Board. The Board endeavours to bring together the diverse range of experience, 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 11 Board and 26 Investment Panel meetings were held in 2020. 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 And Services Committee	Board Disciplinary Committee	Board Disciplinary Appeal Committee	Procurement Board
<b>Tan Sri Samsudin Osman</b> (Service completed on 15 March 2020)	3/3	-	-	-	-	-	-	-	-
<b>Tan Sri Ahmad Badri Mohd Zahir</b> (Appointed with effect from 1 May 2020)	7/7	-	-	4/4	-	-	-	1/1	-
<b>Zakiah Jaafar</b> (Deputy Chairman) (Appointed with effect from 1 February 2020)	10/11	3/9	-	4/5	-	-	-	-	-
<b>Datin Setia Nik Roslini Raja Ismail</b> (Alternate Member) (Appointed with effect from 1 April 2020)									
<b>Tan Sri Mohd Khairul Adib Abdul Rahman</b> (Appointed with effect from 2 January 2020)	9/11	-	-	-	-	2/2	-	1/1	-
<b>Datuk Seri Haji Suhaima Mahbar</b> (Alternate Member) (Appointed with effect from 1 April 2020)									
<b>Dato' Amir Omar</b> (Service completed on 1 September 2020)	6/8	-	-	-	2/4	-	1/1	-	-
<b>Betty Hassan</b> (Alternate Member) (Appointed with effect from 1 April 2020 and Service completed on 1 September 2020)									
<b>Dato' Jamil Rakon</b> (Appointed with effect from 1 September 2020)	3/3	-	-	-	-	-	1/1	-	-
<b>Datuk Amar Jaul Samion</b> <b>Dato' Sri Haji Mohamad Abu Bakar Marzuki</b> (Alternate Member)	8/11	-	2/4	-	-	-	-	-	-
<b>Datuk Seri Panglima Sr. Haji Safar Untong</b> (Appointed with effect from 1 April 2020)	5/8	-	-	-	-	2/2	1/2	-	-
<b>Datuk (Datu) Rosmadi Datu Sulai</b> (Alternate Member) (Appointed with effect on 1 April 2020)									
<b>Tan Sri Azman Shah Haron</b> (Service completed on 15 March 2020)	3/3	-	1/1	-	1/1	-	-	-	-
<b>Dato' Dr. Syed Hussain Syed Husman</b> (Appointed with effect from 1 November 2020)	3/3	-	1/1	-	1/2	-	1/1	-	-
<b>Datuk Mohd Hasnol Ayub</b>	9/11	-	-	5/5	2/3	2/2	-	1/1	-
<b>Datuk Dr. Ting Ding Ing (Philip)</b>	11/11	9/9	-	-	6/6	-	1/1	-	7/7
<b>Tan Sri Dr. Lim Wee Chai</b> (Service completed on 31 December 2020)	9/11	-	-	-	-	2/2	-	-	-
<b>Dato' Abdul Halim Mansor</b>	11/11	-	-	-	6/6	-	-	1/1	-
<b>Tuan Haji Adnan Mat</b>	11/11	-	-	5/5	-	2/2	-	-	7/7
<b>Hadih Leen</b>	11/11	9/9	-	-	6/6	-	2/2	-	-
<b>Catherine Jikunan</b>	11/11	-	5/5	-	-	-	-	1/1	7/7
<b>Datuk Thomas George A/L M.S George</b>	11/11	-	5/5	-	6/6	-	-	1/1	7/7
<b>Khalid Haji Sufat</b>	11/11	9/9	-	5/5	-	2/2	-	-	-
<b>Zainal Abidin Mohd Kassim</b>	11/11	8/9	-	-	6/6	-	2/2	-	-
<b>Dato' Mohammed Azlan Hashim</b> (Appointed with effect from 1 September 2020)	3/3	-	-	-	-	-	-	-	-
<b>Datuk Ruben Emir Gnanalingam Abdullah</b> (Appointed with effect from 1 September 2020)	3/3	-	-	-	-	-	-	-	-
<b>Alizakri Alias</b> (Service completed on 28 February 2021)	11/11	-	5/5	5/5	6/6	2/2	-	-	7/7

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	Investment Panel	Investment Panel Risk Committee
	Attended	Attended
<b>Tan Sri Samsudin Osman</b> (Pengerusi) (Service completed on 1 May 2020)	8/8	-
<b>Tan Sri Ahmad Badri Mohd Zahir</b>	14/16	-
<b>Dato' Mohammed Azlan Hashim</b> (Appointed with effect from 1 September 2020)	10/10	-
<b>Adnan Zaylani Mohamad Zahid</b> (Service completed on 15 March 2020)	2/5	-
<b>Dr. Sivabalasingam Veerasingam</b> (Appointed with effect from 1 May 2020)	13/16	-
<b>David Lau Nai Pek</b> (Appointed with effect from 1 November 2020)	20/21	4/4
<b>Rossana Annizah Ahmad Rashid</b>	26/26	5/5
<b>Dato' Md Agil Mohd Natt</b>	26/26	5/5
<b>Dato' Wan Kamaruzaman Wan Ahmad</b> (Appointed with effect from 1 November 2020)	5/5	1/1
<b>Tan Sri Dato' Sri Norza Zakaria</b> (Appointed with effect from 1 November 2020 and Service completed on 3 December 2020)	1/2	-
<b>Alizakri Alias</b> (Service completed on 28 February 2021)	25/26	5/5

### BOARD AND INVESTMENT PANEL MEMBERS REMUNERATION

Board and Investment Panel members are paid a Fixed Monthly Allowance and Meeting Attendance Allowance for each meeting attended. Details of remuneration of each Board member during the financial year are as follows:

#### Fixed Monthly Allowance and Meeting 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)
Fixed Monthly Allowance	5,000	5,000	-	-
Chairman of Meeting	-	-	2,000	1,500
Meeting Attendance Allowance including Alternate Members	-	-	1,500	1,300

For the year 2020, the total Fixed Monthly Allowance and Meeting Attendance Allowances paid to the Board and Investment Panel members was RM2,108,063.87.

#### Emolument of Top Management

Position	Emolument (RM)
Chief Executive Officer and Deputy Chief Executive Officers	9,027,542.51

### QUALITY AND SUPPLY OF INFORMATION TO THE BOARD AND INVESTMENT PANEL

To assist the Board and the Investment Panel in keeping 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 and Investment Panel on a regular and timely basis.

## STATEMENT ON CORPORATE GOVERNANCE

### BOARD AND INVESTMENT PANEL COMMITTEES

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

Board Committee	Composition	Key Functions
Audit Committee	Five members, including the Chairman	<ul style="list-style-type: none"> <li>Assists the Board in evaluating the effectiveness of the internal controls, risk management (except in making investment decisions) and the EPF governance processes.</li> <li>Oversees the financial reporting process and quality of financial reporting of the annual and interim financial statements.</li> <li>Reviews the appropriateness of the EPF's accounting policies and changes to these.</li> <li>Held nine meetings in 2020 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.</li> <li>Maintains a formal and professional relationship with external auditors and convened one meeting with external auditors in 2020 without the presence of the Management.</li> </ul>
Board Risk Management Committee	Five members, including the Chairman	<ul style="list-style-type: none"> <li>Responsible for assisting the Board to oversee all operational risk management activities except activities in making investment decisions.</li> <li>Held five meetings in 2020.</li> </ul>
Investment Panel Risk Committee	Four members, including the Chairman	<ul style="list-style-type: none"> <li>Oversees investment risk, which includes recommending the level of risk appetite for the Investment Panel to sign off, approving risk management policies, limits and methodologies for measuring investment risks, and providing direction in relation to risk management practices within the investment function.</li> <li>Held five meetings in 2020.</li> </ul>
Finance and Development Committee	Six members, including the Chairman	<ul style="list-style-type: none"> <li>Responsible for approving additional budget of not more than 5% from the total annual budget approved by the Board.</li> <li>Assists the Board in approving matters relating to financial impact such as write-offs of losses (other than Investment related matters).</li> <li>Held five meetings in 2020.</li> </ul>
EPF Strategic Committee	Eight members, including the Chairman	<ul style="list-style-type: none"> <li>Reviews in detail proposed amendments and policy changes related to the EPF Scheme.</li> <li>Endorses any recommendations and policy changes to the Board for approval.</li> <li>Oversees organisation and strategic initiatives performance.</li> <li>Held six meetings in 2020.</li> </ul>
Personnel, Appointment, and Services Committee	Seven members, including the Chairman	<ul style="list-style-type: none"> <li>Assists the Board in considering and approving matters on employment, which includes employment terms and conditions.</li> <li>Held two meetings in 2020.</li> </ul>
Board Disciplinary Committee	Five members, including the Chairman	<ul style="list-style-type: none"> <li>Responsible for any disciplinary proceedings and imposes penalties on employees as provided under the EPF Rules and Regulations (Conduct and Discipline) 1993.</li> <li>Held two meeting in 2020.</li> </ul>
Board Disciplinary Appeal Committee	Seven members, including the Chairman	<ul style="list-style-type: none"> <li>Considers any appeal by employees against the decisions made by the Disciplinary Committees.</li> <li>Held one meeting in 2020.</li> </ul>
Procurement Board	Five members, including the Chairman	<ul style="list-style-type: none"> <li>Responsible for matters relating to the procurement of works, services and supply of goods excluding appointment of services of consultants in relation to investments.</li> <li>Held seven meetings in 2020.</li> </ul>

# 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	Key Function
Management Investment Committee	<ul style="list-style-type: none"> <li>• Recommends investment activities to the Investment Panel in line with the EPF's guidelines, policies on risk control and asset allocation.</li> <li>• Consists of 12 members, including the Chief Executive Officer (or Deputy Chief Executive Officer in the absence of the CEO) as Chairman.</li> <li>• Held 52 meetings in 2020.</li> </ul>
Management Procurement Committee (Strategic)	<ul style="list-style-type: none"> <li>• Responsible for matters relating to procurement of works, services, and supply of goods that focus on strategic procurement which is defined as complex procurement that brings long-term benefits.</li> <li>• Consists of key senior management, including the Chief Executive Officer as Chairman.</li> <li>• Held 10 meetings in 2020.</li> </ul>
Management Procurement Committee (Non-Strategic)	<ul style="list-style-type: none"> <li>• Responsible for matters relating to procurement of works, services, and supply of goods that are related to daily operations.</li> <li>• Consists of key senior management, including the Chief Financial Officer as Chairman.</li> <li>• Held seven meetings in 2020.</li> </ul>

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board aims to provide a clear, balanced, 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 133 of the Annual Report.

### Risk Management and Internal Control

The Board and the Management are fully committed to a robust internal control system, policies, and procedures to ensure stakeholders' interests and the EPF's assets are safeguarded. The Statement on Risk Management and Internal Control is on page 59 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 to 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 2020, the Management visited two local companies. The EPF also attended and voted actively in 99 annual general meetings (AGM) and 16 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 December 2020, the EPF has nominees in 15 listed companies and 31 unlisted companies.

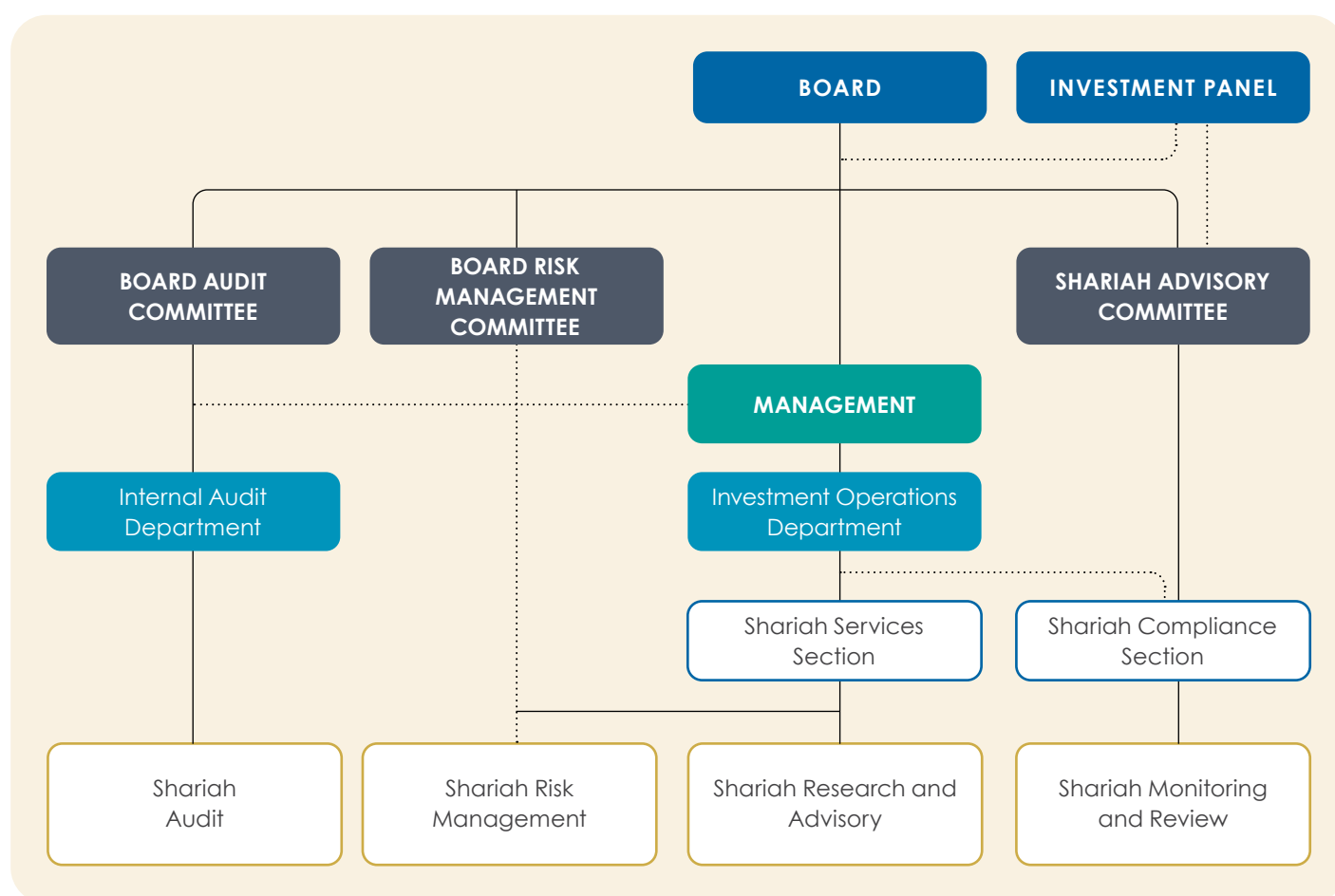
# STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

Simpanan Shariah is a savings option for members that is managed and invested by the EPF in accordance with Shariah principles.

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

## SHARIAH GOVERNANCE STRUCTURE

The Shariah governance structure under the framework is described below:



Component	Function in Respect of Simpanan Shariah
Board	<ul style="list-style-type: none"> <li>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 Simpanan Shariah complies with Shariah principles.</li> <li>Refers to the SAC on any matters relating to Shariah that requires the ascertainment of Shariah principles. The advice given by the SAC shall be binding on the Board.</li> <li>Establishes a Shariah compliance framework.</li> </ul>
Investment Panel	<ul style="list-style-type: none"> <li>Refers to the SAC on any investment matter relating to Shariah and that requires the ascertainment of Shariah principles. The advice given by the SAC shall be binding on the Investment Panel.</li> </ul>



## STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

Component	Function in Respect of Simpanan Shariah
Shariah Advisory Committee	<ul style="list-style-type: none"> <li>Ascertains the application of Shariah principles on any matters relating to Simpanan Shariah.</li> <li>Advises the Board and Investment Panel on any Shariah-related matters and the application of Shariah principles related to Simpanan Shariah.</li> <li>Verifies and approves any Shariah compliance report in relation to the management of Simpanan Shariah for the EPF Annual Report.</li> </ul>
Management	<ul style="list-style-type: none"> <li>Ensures that the operations and investments of Simpanan Shariah adhere strictly to Shariah principles by referring to the SAC for advice on all Shariah-related matters and implementing all SAC rulings.</li> </ul>
Shariah Compliance Framework	<ul style="list-style-type: none"> <li>There are four functions established by the Board under the framework:                             <ol style="list-style-type: none"> <li><b>Shariah research and advisory</b> is responsible for conducting Shariah research and providing Shariah advice.</li> <li><b>Shariah monitoring and review</b> is responsible for Shariah compliance monitoring and review for the purpose of continuous assessment on the degree of Shariah compliance.</li> <li><b>Shariah risk management</b> is 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.</li> <li><b>Shariah audit</b> is responsible for Shariah auditing for the purpose of independent assessment of the adequacy and effectiveness of internal controls, risk management systems, governance processes, and objective assurance on the compliance of Shariah policies and guidelines endorsed by the SAC.</li> </ol> </li> </ul>

### APPOINTMENT OF SAC MEMBERS

The Board appoints no 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 (2) years and the appointee(s) may be reappointed.

In 2020, the Board has reappointed five SAC members, including the Chairman of SAC, who are qualified in Shariah and eminent scholars in Islamic banking and finance locally and globally.

### SAC MEETING ATTENDANCE

A total of 14 SAC meetings, including three special meetings, were held in 2020. Details of SAC members' attendance are as follows:

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

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

# STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

## SAC HONORARIUM AND ALLOWANCES

The SAC members are paid a monthly honorarium and allowance for each meeting attended throughout 2020 as follows:

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

## ACCESS TO INFORMATION AND DOCUMENTATIONS

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 ENGAGEMENT WITH THE BOARD AND INVESTMENT PANEL

The SAC is involved in various discussions with the Board and Investment Panel on matters related to Simpanan Shariah.

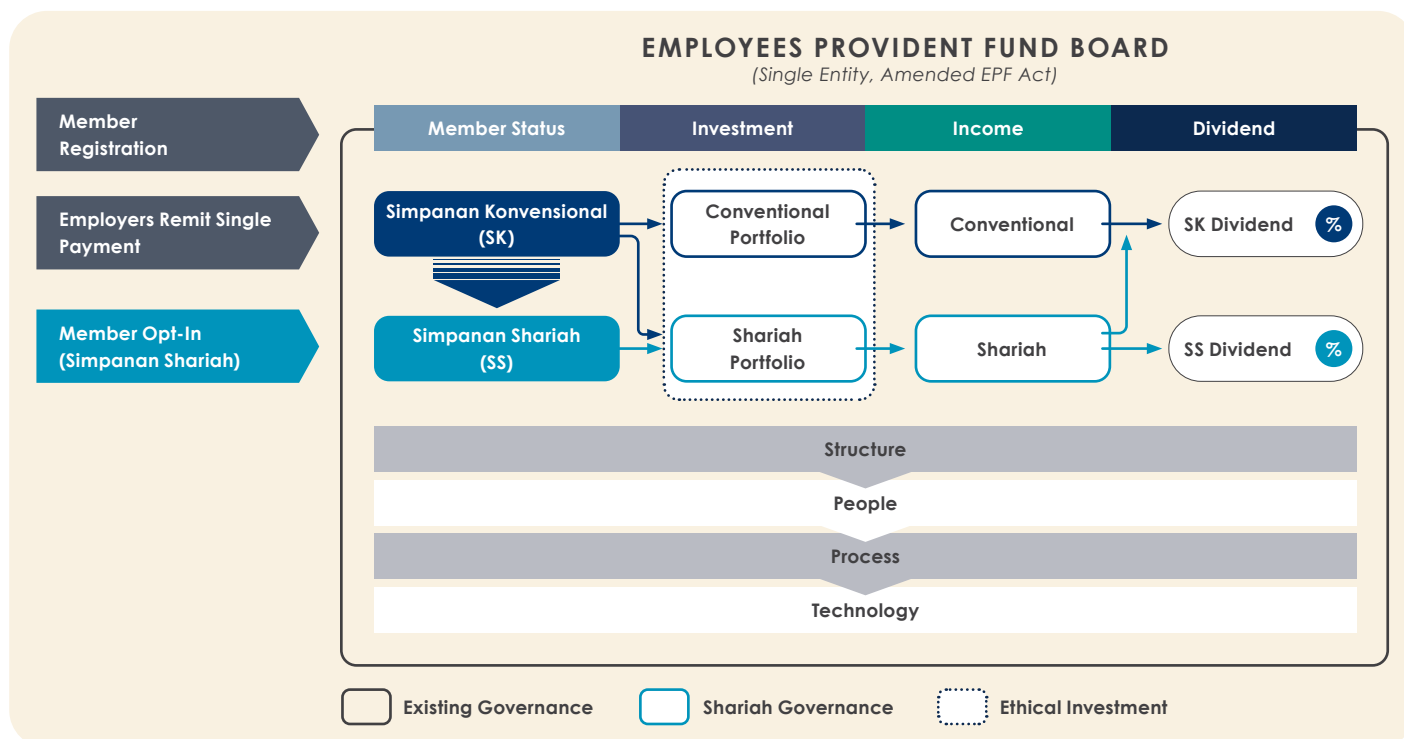
## SAC REPORT

For each financial year, the SAC produces a report in relation to the management of the Simpanan Shariah to be published in the EPF Annual Report.

## SHARIAH POLICIES FOR 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 Simpanan Shariah with respect to its operations, investment, finance, and treatment of Shariah non-compliant income, which among others are as follows:

### 1. Operating Model of Simpanan Shariah



## STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

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

- (a) Simpanan Shariah and Simpanan Konvensional co-exist under one fund and managed by the Board.
- (b) EPF members opting for 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.
- (c) In addition to the EPF's corporate governance, 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.
- (d) The EPF's investment assets are segregated into two portfolios, namely the Shariah portfolio and conventional portfolio. Simpanan Shariah will only invest in the Shariah portfolio.
- (e) Simpanan Shariah leverages on the existing structures, resources, with some enhancement to the legal framework of the EPF, operational processes and IT systems to meet the Shariah requirements as prescribed by the SAC.

### 2. Shariah-Compliant Investment

In addition to ethical investment practices, which prohibit from investing in sectors that manufacture and promote alcohol, gambling, adult entertainment, and military weapons, among others, all of the EPF's investment assets will undergo Shariah screening process based on Shariah criteria and guidelines set by the SAC. These serve to eliminate 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 compliance and monitoring aspects of the 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 2020, 40% or **RM401.99 billion** of the EPF's investment assets are Shariah-compliant. As Simpanan Shariah members' savings balance is smaller than the total EPF's Shariah-compliant investment assets in the Shariah portfolio, 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

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 such investments.

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 markets.

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 fails 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 passes 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.

### 4. Treatment of Shariah Non-Compliant Income

In 2020, the Shariah non-compliant income was mainly derived from the late payment charges imposed on employers for late contributions payments; and the gain received from the disposal of reclassified securities from Shariah-compliant equities to Shariah non-compliant by external fund manager for Global Shariah Equity Mandate.

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

## STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

With regards to 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 benefits, incapacitation benefits, and invocation costs), 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 2020, total Shariah non-compliant income was RM37.13 million and had been utilised for members' welfare through payment of statutory charges.

### 5. Dividend

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

The annual dividend of 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 Simpanan Shariah in proportion to its share in the Shariah portfolio.

Simpanan Shariah dividend declared by the Board for the financial year ended 31 December 2020 was 4.90%.

### SHARIAH MATTERS RELATED TO MUSLIM MEMBERS

#### 1. Zakat on EPF Savings

The SAC through its meetings had discussed and provided views on issues related to *zakat* on EPF savings as follows:

- (a) The responsibility to pay *zakat* on EPF savings lies with Muslim members who have fulfilled the obligatory *zakat* requirements.
- (b) Savings that have been perfectly owned (*milku taam*) which can be withdrawn and used without any restrictions (*haq tasarruf kaamil*) are subject to *Zakat Mal Mustafad* if they reach the minimum amount (*nisab*) without waiting for the *zakat* period (*haul*).
- (c) Even if *haul* is not required, it is reasonable for members who are facing difficulties or financial uncertainty, especially during the COVID-19 pandemic period, to wait for the period of *zakat* payment (*haul*) before paying *zakat* if *nisab* is reached.
- (d) For savings that have been withdrawn for the purpose of *hajjah asliyah* expenses to meet the basic needs for own selves or their dependents such as shelter, food and drink, health, education, and transportation or paying debts can be deducted from savings that are subject to *zakat*.
- (e) In the event that the member has made several withdrawals within a specific period, the amount of *zakat* is determined by taking into account all withdrawals made within a year of the member's *zakat* period (*haul*).
- (f) If the member does not make a withdrawal that have been fully owned or only make a partial withdrawal, the balance of savings that can be withdrawn is subject to the *zakat* savings rulings and calculation set by the state *zakat* authority taking into account all other savings of members who have not been *zakat* if reaching *haul* and *nisab*.

## STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

Types of withdrawal that are subject to *zakat* are:-

- (a) Age 50 Years Withdrawal;
- (b) Age 55 Years Withdrawal;
- (c) Age 60 Years Withdrawal;
- (d) Leaving Country Withdrawal;
- (e) Pensionable Employees Withdrawal And Optional Retirement Withdrawal;
- (f) Withdrawal of Savings of More Than RM1 Million; and
- (g) Other withdrawals that are not expended for the purpose of basic needs or survival of members and their dependents.

### 2. Nomination

A nomination is a written declaration made by a member in the EPF Form 4 to elect or nominate an individual(s) or Amanah Raya Berhad as nominee.

For Muslim members, the nominee acts as a *wasi* (administrator) to distribute member's savings upon the member's death to the rightful beneficiary in accordance with Islamic Law.

The 49th *Muzakarah* of the *Fatwa* Committee of the National Council for Islamic Religious Affairs Malaysia, held on 19 September 2000 discussed the EPF savings, SOCSO, and other such fund upon the Muslim member's death.

The *Muzakarah* has resolved that:

- (a) EPF and cash savings are inheritance that must be divided according to *faraid* rulings.
- (b) The EPF nominee is the executor or administrator of the property. The nominee must divide the EPF money according to *faraid* rulings.

### 3. Dividend Purification

Muslim members who have opted for Simpanan Shariah, are exempted from the requirement to purify EPF dividends received prior to the offering of Simpanan Shariah, i.e. EPF dividends for financial year 2016 and earlier. Furthermore, any Simpanan Konvensional dividend credited to a member's account after switching to Simpanan Shariah (as the Simpanan Shariah account had not yet been in force) are also exempted from purification, as the member has no right to determine the effective date of the Simpanan Shariah account.

The Special *Muzakarah* of the *Fatwa* Committee of the National Council for Islamic Religious Affairs Malaysia, held on 18 August 2015, had also resolved that the EPF is not obliged to purify dividends on EPF savings for all members who opted for Simpanan Shariah.

However, for Muslim members who recently chose to convert their account to Simpanan Shariah after 2017, they are advised to purify Simpanan Konvensional dividends as per the resolution of the 87th *Muzakarah* of the *Fatwa* Committee of the National Council of Islamic Religious Affairs Malaysia, held on 23-25 June 2009:

*"In Islam, property acquired by means that are not Shariah compliant, such as usury, ambiguous transaction, gambling, fraud, robbery, plunder, corruption, etc. is illegal and cannot be used for personal gain and benefit and must be cleansed through the following methods:*

- (a) *channeled to Baitulmal for the general public interest of Muslims such as for funding the construction or maintenance of bridges, roads, toilets, etc.; or*
- (b) *given to the poor."*

The purification rate for Simpanan Konvensional dividend 2020 is 69% of the total dividends credited to member's account.

# 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 follow them.

We, members of the Shariah Advisory Committee of the EPF (SAC), have reviewed the operations and investment of the EPF in relation to Simpanan Shariah for the year ended 31 December 2020, to form an opinion as to whether the scheme has complied with Shariah principles and rulings of the SAC on all Shariah-related matters. We hereby submit the SAC's report for the financial year ended 31 December 2020:

1. The SAC has advised the Board and Investment Panel on all Shariah-related matters presented by the EPF Management through its Shariah decisions in relation to the operations and investment of Simpanan Shariah, to ensure compliance with Shariah principles as well as relevant local and global Shariah resolutions and standards recognised by the SAC.
2. The EPF Management is responsible to ensure that Simpanan Shariah is managed in accordance with Shariah principles, by referring to the SAC for advice on any Shariah-related matters and implementing of all Shariah rulings and policies set forth by the SAC. The EPF Management has also engaged the SAC in developing the EPF Sustainable Investment Policy.
3. In advising the EPF on Shariah-related matters, the SAC has obtained all information and explanation from the EPF Management that the SAC considered necessary to form any Shariah rulings.
4. The SAC has been supported by the Shariah research and advisory as well as Shariah monitoring and review functions in day-to-day oversight of Shariah compliance for 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. During the period of movement control order (MCO) that was imposed by the Government of Malaysia due to the COVID-19 pandemic, the SAC has performed its responsibilities in accordance with the standard operating procedures (SOP) set by the EPF including conducting virtual meetings.
6. For the financial year ended 31 December 2020, 14 SAC meetings were 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 investment initiatives, including formulating Shariah guidelines for private equity investment under a Shariah-compliant separate managed account;
  - (c) Shariah issues relating to operations and implementation of Simpanan Shariah;
  - (d) Research on Shariah matters by the Shariah Services Section;
  - (e) Updates on the Shariah governance framework and Shariah compliance policies and guidelines relating to investment and operations of Simpanan Shariah, including financial reporting and dividend policy; and
  - (f) Reports on reclassification of EPF's Shariah-compliant investments and Shariah non-compliant income.
7. The SAC also received and deliberated on the Shariah review reports that were presented by the Shariah Compliance Section on quarterly basis as per the approved Shariah Compliance Plan for 2020. This was done for the purpose of continuous assessment on the degree of Shariah compliance involving operations and investment activities of Simpanan Shariah with regard to new products and services, annual Shariah screening of EPF holdings in alternative investment, treatment of non-compliant income, investment in Islamic private debt securities and Shariah-compliant financing.
8. The Internal Audit Department (IAD) has reviewed the operation and investment activities in relation to Simpanan Shariah. The findings have been communicated to the EPF Management and reported to the Board Audit Committee. IAD is continuously monitoring the audit findings to ensure that the remedial actions have been effectively implemented. The SAC has been informed about the audit observations and status of actions taken.

## SHARIAH ADVISORY COMMITTEE REPORT

9. The SAC acknowledges that appropriate efforts have been taken to rectify the gaps identified, and management actions are taken to prevent similar gaps from recurring.
10. The SAC is of the view that:
  - (a) The contracts, transactions, and dealings entered into by the EPF in relation to Simpanan Shariah throughout the financial year ended 31 December 2020 that the SAC has reviewed, are in compliance with the Shariah principles;
  - (b) The allocation of profits and losses relating to Simpanan Shariah as disclosed in Note 32.3 to the Financial Statements conforms to the basis that had been endorsed by the SAC in accordance with the Shariah principles; and
  - (c) All incomes earned by Simpanan Shariah from shariah non-compliant sources amounting to RM37.13 million as disclosed under Note 32.4 to the Financial Statements have been used for charitable activities such as payment of death benefits, incapacitation benefits, and invocation costs.

We, members of the SAC, hereby confirm that the Simpanan Shariah for the financial year ended 31 December 2020 has been managed in conformity with Shariah principles.

On behalf of the SAC,



NAME : **PROF. DR. MOHAMAD AKRAM BIN LALDIN**  
 TITLE : CHAIRMAN OF THE SAC  
 DATE : 3 June 2021

On behalf of the SAC,



NAME : **ASSOC. PROF. DR. AZNAN BIN HASAN**  
 TITLE : DEPUTY CHAIRMAN OF THE SAC  
 DATE : 8 June 2021

# STATEMENT ON RISK MANAGEMENT

## OVERVIEW

The COVID-19 pandemic did not only create significant disruptions in our daily lives but also on the economy, both domestic and global. In 2020, the EPF has continuously faced the unusual market volatility together with the challenging political landscape, weak ringgit, and unsettled geopolitical environment leading to various events which continue to shape the economic, financial and risk landscape. Acknowledging this, the EPF continues to strengthen and enhance its robust risk management system to remain relevant and resilient ahead of the ever-changing risk landscape to ensure that risks are managed effectively within the organisation.

In line with the EPF's aspirational target to have a fully Environmental, Social, and Governance (ESG) compliant portfolio by 2030, an independent risk assessment focusing on ESG issues was conducted for all investment proposals which also forms a part of our initiative in embedding sustainability in all investments decision-making.

## RISK MANAGEMENT STRUCTURE

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. The EPF Board and Investment Panel oversees the organisation's overall risk management and are assisted by the Board Risk Management Committee (BRMC) and Investment Panel Risk Committee (IPRC) to oversee all operational risk management activities, recommend the risk appetite, and allocate the risk budget.



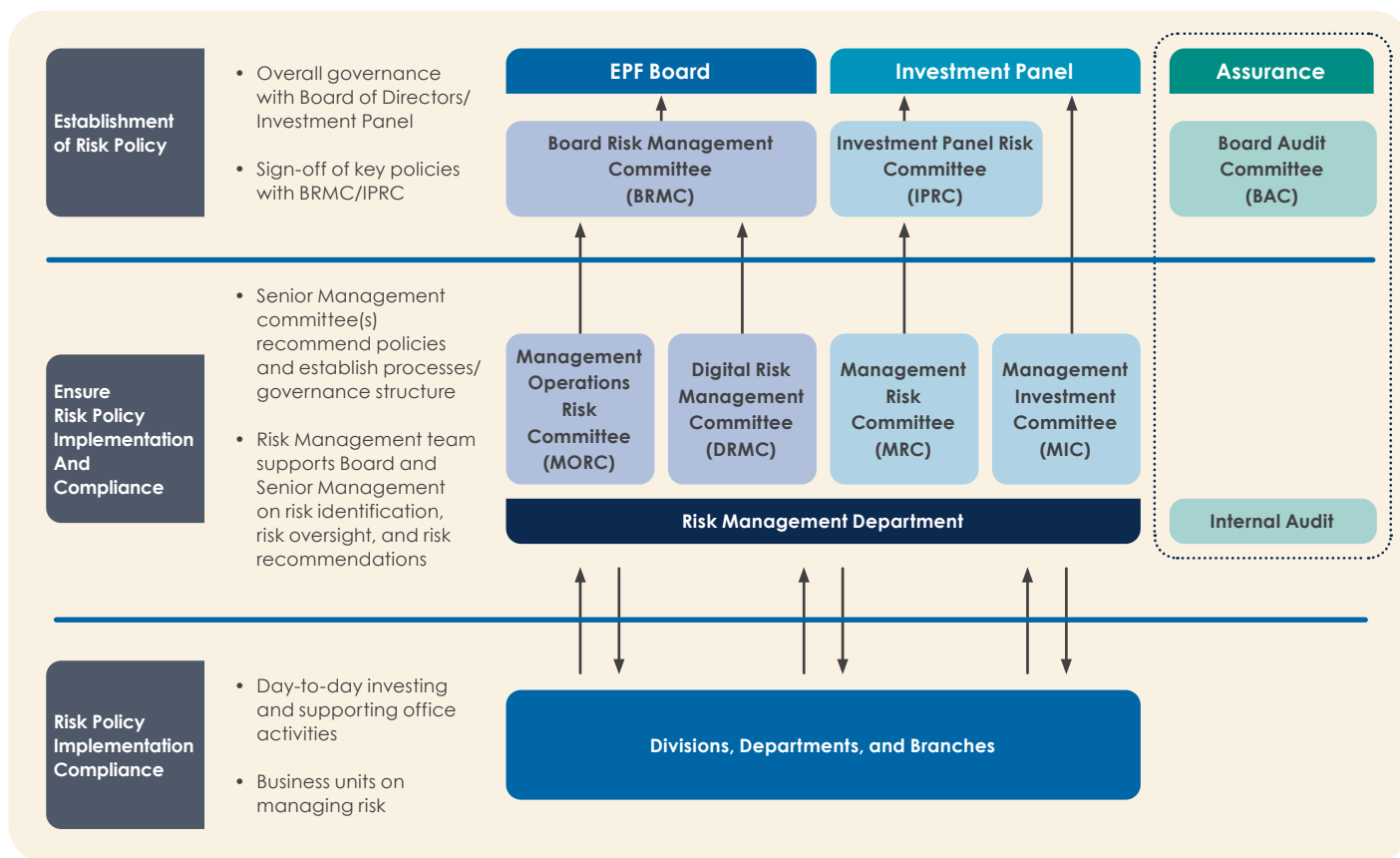


# STATEMENT ON RISK MANAGEMENT

## RISK MANAGEMENT GOVERNANCE

The EPF believes that a strong governance structure is important to ensure an effective and consistent implementation of risk management throughout its entire organisation. In achieving that, our risk governance places accountability and ownership between three lines of defence where departments, branches, and the Management are constantly engaging in healthy and productive discussions on key risk matters and processes to create a robust risk-practicing culture. As such, the Digital Risk Management Committee (DRMC) was established in 2020 to provide guidance on the EPF's technology plans and operations, and also be responsible for overseeing the development and maintenance of the Information/ Cyber Security and Technology Risk Management Programmes within the EPF. To further support its risk governance structure, structured policies and procedures are also developed to address all key risk areas in the EPF.

The EPF Risk Governance Structure consists of three lines of defence as shown below:



## RISK APPETITE

The EPF's risk appetite defines the amount, level, and types of risk that the EPF is able and willing to accept in pursuit of its strategic objectives. It also sets out the level of risk tolerance and limits to govern, manage, and control the EPF's risk-taking activities.

The Risk Appetite Statements in investment 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.

# STATEMENT ON RISK MANAGEMENT

## ENTERPRISE RISK MANAGEMENT

### Operational Risk Management

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. The four key areas of operational risk management are:

- (a) Operational Risk Management Framework
- (b) Operational Risk Management Methodology and Process
- (c) Corporate Risk Scorecard
- (d) Business Continuity Management

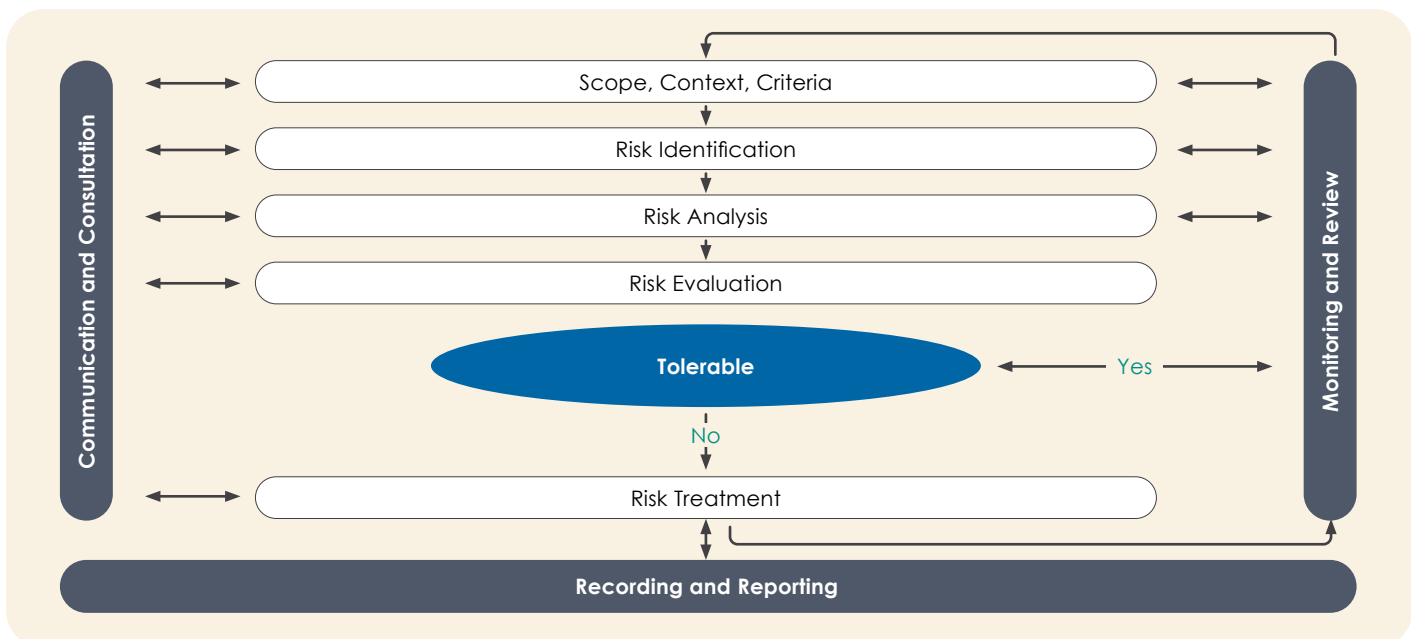
### Operational Risk Management Framework

Through the adoption of the ORM framework (MS ISO 31000:2018 Risk Management – Principles and Guidelines) and robust processes, the EPF was able to manage its risks effectively by minimising the impact to an acceptable level. This framework is regularly reviewed to ensure its continuous application and relevance.

### Operational Risk Management Methodology and Process

The main elements of the Operational Risk Management process are as follows:

- (a) **Establishing the context:** Articulates the organisation's objectives and defines the external and internal parameters to be taken into account when managing risks.
- (b) **Risk assessment:** The overall process of risk identification, risk analysis, and risk evaluation.
- (c) **Risk treatment:** Actions to be taken to prevent, detect, or manage the Net Risks to an acceptable level.
- (d) **Communication and consultation:** The two-way communication between Risk Management Department and stakeholders about the existence, nature, form, severity, or acceptability of risks.
- (e) **Monitoring and review:** Both activities are planned and are an integral part of the risk management process that involves regular checking or surveillance.
- (f) **Recording and reporting:** Risk management process where risks, its details, and minutes of meetings are recorded and reported periodically.



# STATEMENT ON RISK MANAGEMENT

## 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 Operational Risk Management (ORM) System that 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 110 risk scorecards were in place in 2020, comprising of risk scorecards for C-Suites – Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Digital Technology Officer, Chief Strategy Officer, Chief Investment Officer, 36 departments, 2 sections, and 68 branches. Risks in the EPF are monitored and managed through risk ownership from the line management.

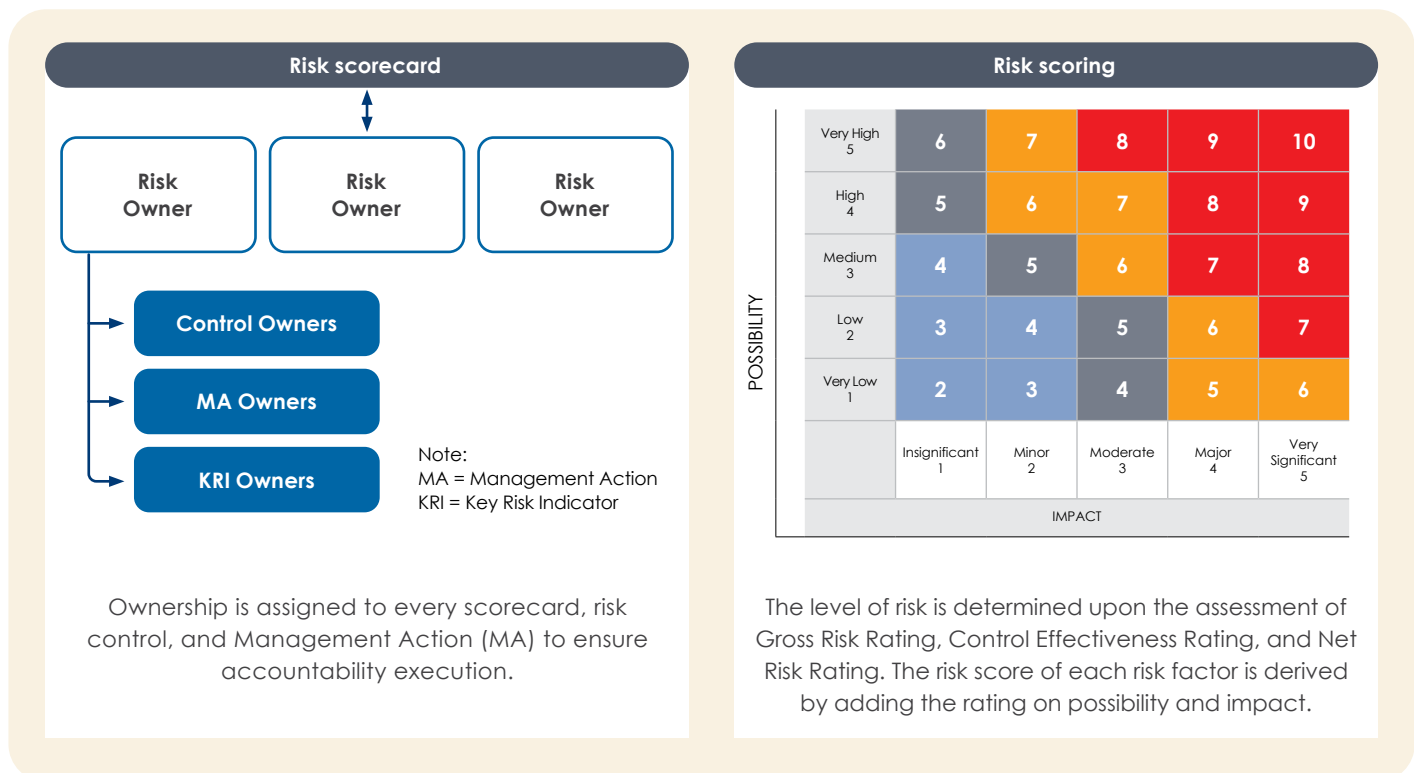
Owners of scorecard, risk, control, and MA are required to provide digital assurance through the Corporate Digital Assurance (CDA) four times a year to the Management to give assurance that they have been managing risks within their risk profiles appropriately.

Key Risk Indicators (KRIs) identified in the risk scorecards act as an early warning mechanism, 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 Management Operations Risk Committee (MORC), Board Risk Management Committee (BRMC), Digital Risk Management Committee (DRMC), and the EPF Board for their information and/or decision making on a periodic basis.

## Corporate Risk Scorecard Methodology:

The methodology which underlies our Corporate Risk Scorecard is shown in the charts below:



## STATEMENT ON RISK MANAGEMENT

### Business Continuity Management (BCM)

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

**(a) Human Resource Readiness**

This is related to the development of knowledge and skills in managing disasters. Implementation is carried out through awareness trainings, tutorials, walkthrough, call trees, crisis simulation exercises, and BCM i-learning.

**(b) Infrastructure Readiness**

The system and equipment at the disaster recovery centre are tested to ensure optimal readiness and functionality in the event of a disaster and that the infrastructure is adequate to cater to business continuity activities.

**(c) Plan Readiness**

In 2020, due to the COVID-19 outbreak, the EPF embarked on a digital pathway in implementing the BCM component to ensure the smooth continuity of the programme and its ability to reach out to the targeted audience. New working arrangements such as working from home, splitting team operations, virtual/online meetings and trainings were introduced as the new norm in the EPF.

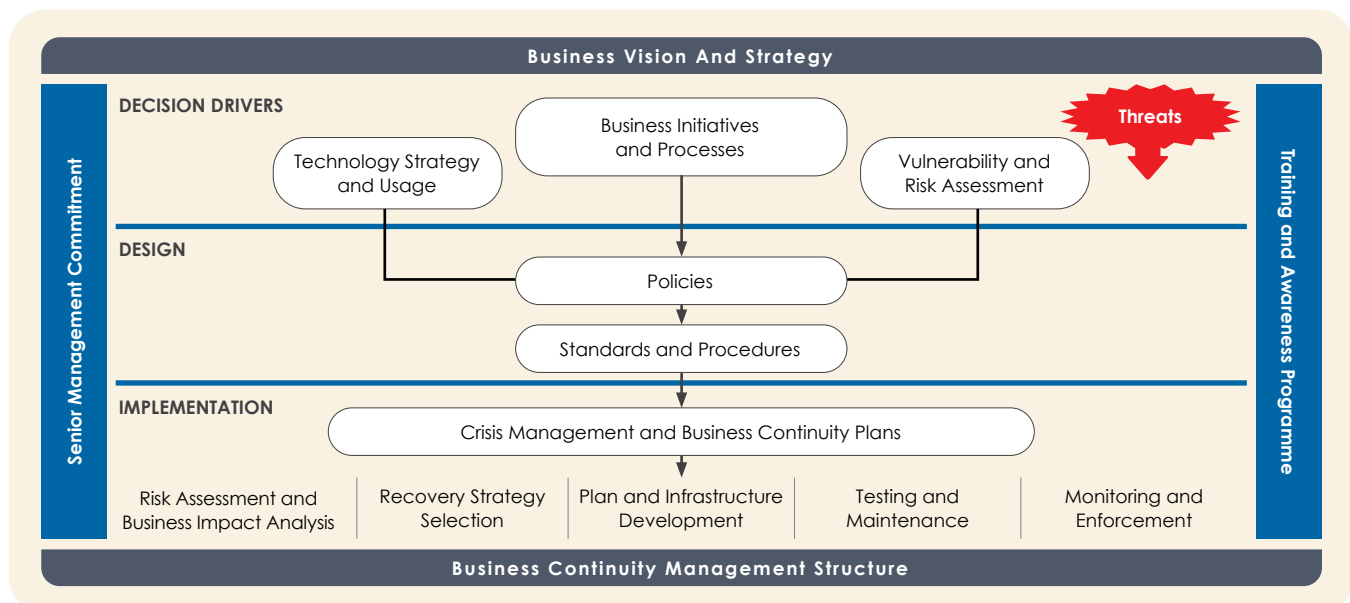
This new norm has become the EPF's top priority, together with the compliance to the COVID-19 guidelines. We managed to adapt to this new norm due to our readiness in terms of the workforce (human resource), plans, and infrastructure that are always ready to be mobilised anytime during any disaster.

In the case of the COVID-19 pandemic, a COVID-19 Command Centre (CCC) was set up to provide faster and better communication to all EPF staff, apart from monitoring the situation. We also activated a Disaster Monitoring Committee, tasked in updating COVID-19 related issues or status and to provide directions in any incident or disaster that would affect the EPF nationwide.

The Business Continuity Plan (BCP) is continuously updated based on current work functions to ensure organisational readiness at all times. It covers all divisions, departments, and branches in the EPF.

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

The diagram below shows the components of the EPF's BCM Framework:



# STATEMENT ON RISK MANAGEMENT

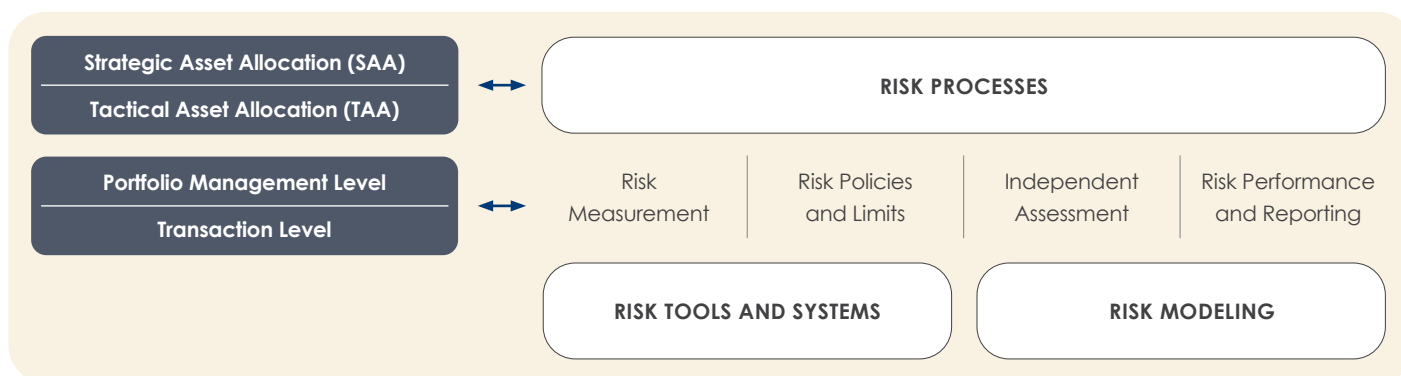
## INVESTMENT RISK MANAGEMENT

### 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 can optimise its returns on risk-taking activities within the risk appetite level as approved by the Board.

The Investment Risk Management framework is illustrated as below:



GOVERNANCE

6

### Market Risk

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:

- (a) **Name, ownership, country, and sector concentration limits** - to ensure appropriate diversification of risk exposures.
- (b) **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.
- (c) **Duration** – to manage the sensitivity of the price of a fixed income investment arising from interest rate movement.
- (d) **Tracking error** – a standard deviation of the portfolio's excess returns relative to a benchmark in measuring and benchmarking the performance of the portfolio.
- (e) **Backtesting** – a validation process performed to check the accuracy of the risk methodology used in computing VaR for both fixed income and equity portfolios.
- (f) **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.

## STATEMENT ON RISK MANAGEMENT

### Credit Risk

Credit Risk arises when a counterparty or an obligor fails to meet its payment obligations, resulting in a loss. The EPF's credit risk exposure is in direct correlation with its investing activities within fixed income instruments, private equity, real estate, and infrastructure asset classes.

The EPF's credit risk management involves detailed credit analysis, in-depth risk assessment methodology, and prudent underwriting standards. Furthermore, the EPF consistently and continuously reviews and updates its risk assessment methodology and credit underwriting standards to ensure consistency with industry or market best practices as well as being on par with other institutional peers.

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

- (a) Credit risk limits and Management Action Triggers (MATs) incorporating minimum broad credit criteria for investment, including name concentration and counterparty exposures.
- (b) Credit portfolio system to measure credit risk of the relevant portfolios using Credit Value-at-Risk (CVaR).
- (c) Periodic review of existing internal credit rating templates for obligors to ensure their relevance.
- (d) Strong credit awareness and 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:

- (a) Independent risk assessment is conducted for every new investment proposal presented to the Management Investment Committee and Investment Panel meetings for decision-making.
- (b) Close monitoring of changes to existing investments via assessments on an ad-hoc as well as periodic basis.

- (c) Credit rating tools to measure the creditworthiness or Probability of Default (PD) of the obligors are 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.

### Liquidity Risk

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:

- (a) Monitoring of its daily cash flow and projecting monthly cash flow on a rolling 12-month basis.
- (b) Allocating three percent 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.
- (c) 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 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.

## STATEMENT ON RISK MANAGEMENT

### TECHNOLOGY RISK MANAGEMENT

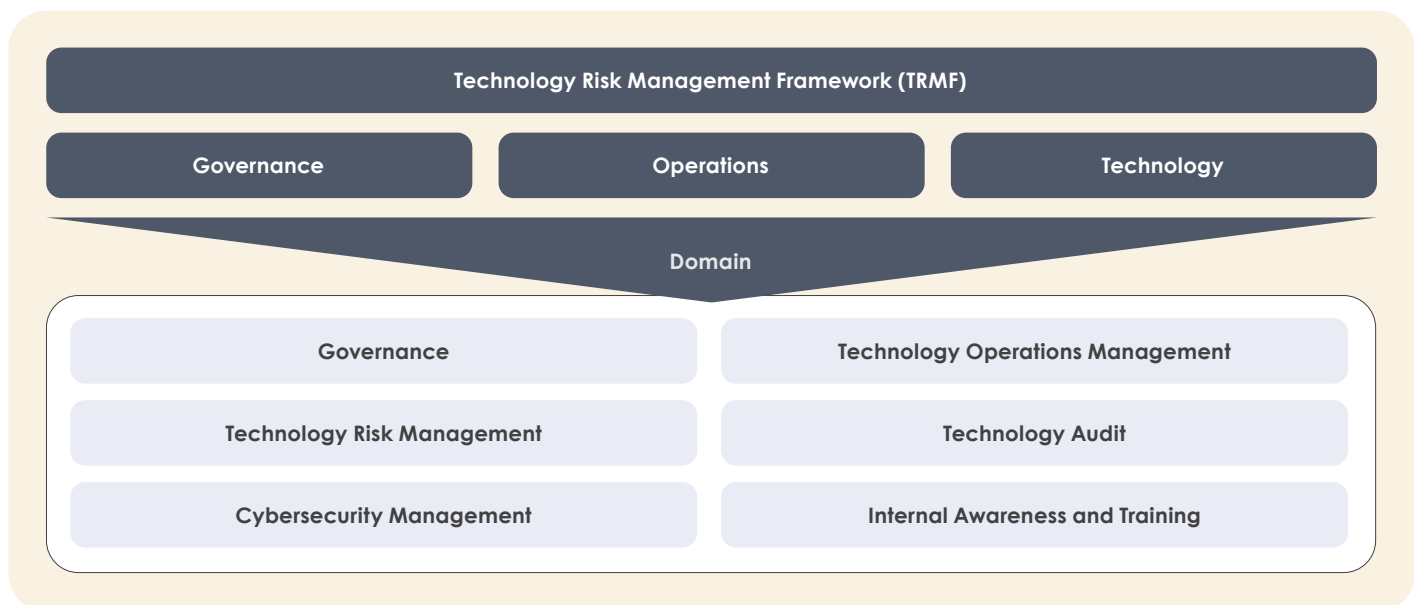
Technology Risk Management (TRM) provides independent risk assessment to enterprise-wide IT systems and projects, and recommends effective technology risk controls to mitigate risks for the better protection of mission critical IT systems that store, process and transmit sensitive information.

#### Technology Risk Management Framework

The Technology Risk Management Framework (TRMF) establishes a formal and effective structure to better manage technology related risks, enhance technology resiliency and its information, as well as for security governance.

The framework was developed with enhanced and comprehensive guidelines to maintain the EPF's resilience against technology and cyber threats. This will enable the EPF to perform continuous self-assessment in ensuring technology and cyber risks are managed.

The Technology Risk Management Framework is illustrated below:



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTRODUCTION

This Statement is 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. The Guidelines are also in accordance 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.

For the year 2020, the statement has taken into consideration the extraordinary event of the COVID-19 pandemic, which has been identified as a major source of risk for the EPF. It is a year where the EPF faced an unprecedented change in our withdrawal policy with the implementation of i-Lestari and i-Sinar withdrawal facilities as well as the introduction of Employer COVID-19 Assistance Programme (e-CAP). Faced with these challenges, the EPF has successfully put in place the necessary actions to stay vigilant. For example, the EPF was quick to adapt to the new reality of "low-touch, high-distance" service through the introduction of *Janji Temu Online* (JTO). In addition to that, the pandemic has also challenged the existing workforce preparedness to adapt to new ways of working, as well as changing how we communicate and deliver our products and services to all stakeholders. More information on how the EPF addressed the challenges posed by the pandemic are deliberated in the Special Report section within this Annual Report.

This statement reflects our commitment in maintaining a high level of efficacy of our risk management and internal controls framework in managing the impact of the pandemic and other changes facing the EPF during the year under review.

## BOARD RESPONSIBILITY

The Board acknowledges its overall responsibility to ensure the adequacy and effectiveness of the EPF's risk management and internal control framework so that the organisation's objectives are achieved.

The framework is designed to identify, analyse, and evaluate significant risks, thus providing insights to the Board, which plays a pivotal role as a risk oversight in ensuring these risks are properly mitigated. Accordingly, the internal control system is in place to manage rather than to eliminate those risks. It can, therefore, provide reasonable but not absolute assurance.

In order to effectively carry out the oversight responsibilities, three (3) committees have been established:

- (a) The Board Audit Committee (BAC) on the internal controls, governance processes, and risk management, except for risk management activities related to investment decision-making;
- (b) The Board Risk Management Committee (BRMC) on the risk management activities, except for activities in making investment decisions, and;
- (c) The Investment Panel Risk Committee (IPRC) on investment risk management matters covering risk appetite, risk measurement, policies and limits, except for activities involving investment operations.

More information on IPRC is provided in the Statement on Investment Risk Management in this Annual Report.

## MANAGEMENT RESPONSIBILITY

The Management is responsible for implementing the Board's policies and procedures on risk and control, comprising of these roles:

- (a) Identifying relevant risks in achieving the EPF's objectives and strategies;
- (b) Designing, implementing, and monitoring the risk management and internal control framework in accordance with the EPF's strategic vision and overall risk appetite; and
- (c) 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 an effective risk management and internal control framework in place as part of a good corporate governance practice. It adopts the Three Lines of Defence Model. The first line is represented by departments and branches which are responsible for establishing risk control and incorporating all risk controls in their day-to-day operations.

The second line of defence is represented by the Risk Management Department, which develops the risk management framework, policy, methodologies, and tools for the management of key risks in the organisation.

The Internal Audit Department, being the third line of defence, reviews the key activities of the EPF's businesses, and evaluates the effectiveness and adequacy of the internal control system, operational risk management, and governance processes.



## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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:

### (a) Risk Management Framework

The Board has adopted an Operational Risk Management (ORM) Framework based on the ISO 31000:2018 Risk Management - Guidelines, which outlines the principles, policies, and processes in managing the EPF's enterprise risks. In 2020, the EPF established a Technology Risk Management Framework (TRMF) to enhance the existing ORM framework.

Clear lines of responsibility and accountability was established for the risk management process. The principal risk and control responsibilities under the risk management structure comprise of:

- (i) The Board Risk Management Committee (BRMC), overseeing 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.
- (ii) 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.

### (b) Internal Control Framework

The EPF adopts guiding principles for its internal control mechanism based on the COSO Internal Control Integrated Framework, which outlines the five (5) interrelated control components - control environment, risk assessment, control activities, information and communication, and monitoring.

The Internal Audit Department provides the Board Audit Committee (BAC) with an independent and reasonable assurance on the adequacy and effectiveness of the risk management and internal control framework. The Committee is responsible for reviewing internal control issues identified in reports prepared by both the internal and external auditors.

The BAC also 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 further described in the Board Audit Committee (BAC) Report and the Statement on Internal Audit in this Annual Report.

### KEY ELEMENTS OF INTERNAL CONTROL

#### (a) 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.

Key activities include:

##### (i) Terms of Reference

Clearly defined terms of reference on the roles and responsibilities of all EPF Board committees and the Investment Panel, as stated in the Statement on Corporate Governance.

##### (ii) Organisational Structure

The EPF organisational 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.

##### (iii) Human Resource Policies and Procedures

Proper guidelines outlining procedures involving the hiring and termination of employees, implementation of training programmes, annual employee performance appraisals, and other relevant procedures, are established to ensure that employees are adequately trained and own a certain level of competencies to carry out their tasks and responsibilities. In 2020, as a result of the COVID-19 pandemic and in anticipation of look-alike, the EPF has accelerated the implementation of MyFLEX Place and introduced Smart Work Arrangement Info Kit. These measures enable employees to work from home, work beyond office, and on split-team

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

basis. Various controls and infrastructure are put in place to actively manage and ensure employees continue to be supported while ensuring business continuity, productivity and sustainability.

### (iv) 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 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.

The EPF has adopted an Anti-Corruption Statement and implemented a zero-tolerance policy on corruption and unethical behaviour in its operations. In 2020, a Management Integrity Committee, was established to provide input to BRMC, thereby enabling the Integrity and Corporate Governance Department to execute its Core Integrity functions (complaints management, detection and verification, governance and communication, and Integrity Outreach Programme) independently, fairly and impartially in providing advisory services to the Board, Management, and the EPF staff.

### (v) Code of Ethics

The EPF Code of Ethics provides guidance for employees to carry out their duties and responsibilities that are consistent with the EPF's Vision, Mission, and Shared Values. The Code serves to clarify ethical behaviours that are in accordance with the relevant laws, policies, and procedures.

### (b) Risk Assessment

Risk assessment involves a dynamic and ongoing process of identifying and assessing risks that may impede the achievement of objectives. 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, monitored, and reported. The CRS allows for continuous Risk and Control Self-Assessment (RCSA) to be performed so employees can self-assess and update their risk profiles.

### (c) 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 impede the achievement of the organisation's objectives. Key activities include:

#### (i) 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.

#### (ii) Three-Year Rolling Plan

In response to the pandemic, the EPF's Three-Year Rolling Plan was reviewed in 2020, which entailed changes to our overall strategy. We had to re-assess our scorecards to enable the EPF to pivot in view of the changes caused by the pandemic. The outcome of these assessments has accelerated our digital-related strategies and initiatives while our projects were reprioritised to accommodate for the new normal. The plan was reviewed by the relevant management committees and approved by the Board.

#### (iii) Risk Culture Index

To enhance risk management practices in the EPF, the Risk Culture Index is incorporated as KPI in all departments and branches.

#### (iv) Policies and Procedures

Policies and procedures are set out in guidelines, directives, operation manuals, and work instruction documents issued by the EPF in order to ensure compliance with internal controls such as segregation of duties, independent checks, verification processes, and system access controls.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

These are updated regularly and signed off by the respective Heads of Departments, Heads of Divisions, and the CEO. Policy guidelines and delegated authority limits are also imposed on the Management with regards to day-to-day operations.

**(v) Information Technology Security Management**

Information security management in the EPF is based on ISO 27001, which outlines the appropriate controls and procedures to ensure confidentiality, integrity, and availability of information and application systems. In 2020, with the Technology Risk Management Framework (TRMF) already in place, it has enabled us to further integrate all technology risks with our existing ORM framework. As a result, we were able to continuously improve our security architecture and design to strengthen security controls and mitigate key technology and cyber risks.

There is a clear risk governance structure for managing technology risks. The structure comprises of the Digital Risk Working Committee (DRWC), Digital Risk Management Committee (DRMC), and Board Risk Management Committee (BRMC). All the committees are governed by their roles and responsibilities and Terms of Reference (TOR), thereby ensuring the decisions made by the committees are in line with the EPF's risk appetites.

**(vi) 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.

**(vii) 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. In 2020, our BCM Programme ensures that the EPF resumes critical operations within the required timeframe and minimises the cost of damages and interruptions due to the challenges brought by the COVID-19 pandemic.

The establishment of the EPF COVID-19 Command Centre (CCC) as a centralised channel to coordinate all pandemic related matters for the EPF further solidifies our commitment to managing BCM during these extraordinary circumstances. This is to ensure our services to our customers can be resumed efficiently upon any disruption, while mitigating reputational risk. To achieve that objective, we ensure that the three key elements – workforce, plan, and infrastructure – are ready to be mobilised in the face of any disaster.

All initiatives are in adherence to the Occupational Safety and Health Administration (OSHA) guidelines and updated accordingly as to abide by the relevant government agencies' standard operating procedures (SOP) on COVID-19 preventive measures.

**(viii) Insurance Coverage**

Adequate insurance coverage of major assets is in place to ensure protection against incidents that could result in material loss.

**(ix) Shariah Governance Framework**

The EPF has established a Shariah Governance Framework (SGF) since 2016 to ensure strict adherence to Shariah requirements in managing Simpanan Shariah.

This framework has been established to govern the Shariah compliance aspects as required under Section 43A of the EPF Act 1991 and the EPF (Simpanan Shariah Account) Rules 2016, including the establishment of the Shariah Advisory Committee (SAC) to advise the Board and Investment Panel in ensuring that the management of Simpanan Shariah complies with Shariah principles. The SGF covers four (4) key functions, namely Shariah advisory, Shariah risk management, Shariah review, and Shariah audit.

The framework outlines the Shariah governance structure and policies as deliberated under the Statement on Shariah Governance for EPF Simpanan Shariah in the Annual Report.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### (d) 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. Key activities include:

#### (i) 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.

#### (ii) 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. The EPF COVID-19 Command Centre (CCC) played a key role in ensuring timely information and disclosure on operational matters, internal resources coordination, as well as awareness and compliance on health and safety standard operating procedures (SOPs).

### (e) Monitoring

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

#### (i) 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. If the mitigated risks are not within acceptable levels, individual action plans will be identified and implementation monitored to reduce the gap. All risks pertaining to the COVID-19 pandemic impacting business units, departments and branches were tracked, recorded, mitigated, and reported in our ORM system and reviewed periodically.

#### (ii) 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.

#### (iii) 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.

#### (iv) Quality Management System 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 the EPF members. The Board's review of the effectiveness of the risk management and system of internal control is supported by:

- (a) The Board Risk Management Committee (BRMC), which meets a minimum of four times a year to oversee risk management activities.
- (b) The Board Audit Committee (BAC), which meets a minimum of four times a year, reviews the areas of concerns and recommendations identified by the internal and external auditors.
- (c) The Auditor-General's issuance of the annual audit certificate on the financial statements.
- (d) 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 April 2021.

# BOARD AUDIT COMMITTEE REPORT

## OVERVIEW

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

## MEMBERSHIP

The Board Audit Committee, for the term from 1 June 2019 to 31 May 2021, consists of the following members:

No.	Board Audit Committee Members	Representative
1.	<b>Khalid Haji Sufat</b>	Chairman – Professionals
2.	<b>Zakiah Jaafar</b> (Appointed on 1 February 2020) <b>Datin Setia Nik Roslini Raja Ismail</b> (Alternate Member) (Appointed on 1 April 2020)	Deputy Chairman – Government
3.	<b>Datuk Dr. Philip Ting Ding Ing</b>	Employers
4.	<b>Hadiah Leen</b>	Employees
5.	<b>Zainal Abidin Mohd Kassim</b>	Professionals

## MEETINGS

During the financial year 2020, the Board Audit Committee has met a total of 10 times: five Special Board Audit Committee meetings, four Board Audit Committee meetings, and one Board Audit Committee meeting with the Auditor-General.

Deliberations at the Board Audit Committee meetings were robust and detailed. Minutes of the Board Audit Committee meetings held were provided to members of the Board Audit Committee. The Board was briefed on 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 authority, duties, and responsibilities of the Board Audit Committee, which were approved by the Board, and accessible via the EPF's official website at [www.kwsp.gov.my](http://www.kwsp.gov.my).

## SUMMARY OF PRINCIPAL ACTIVITIES

During the financial year 2020, the Board Audit Committee carried out the following activities:

### (a) Internal Audit

- (i) Reviewed and approved the annual audit plan to ensure adequate audit scope and comprehensive coverage of the EPF's activities as planned, based on risk assessment conducted. The 2021 Annual Audit Plan was approved in November 2020 where 107 audits were proposed to be conducted.
- (ii) Reviewed and deliberated on internal audit reports tabled during the year, including recommendations made, root causes identified and the Management's response to these recommendations, as well as the timely mitigation actions taken by the Management to improve the system of internal controls and its processes on the highlighted areas.

## BOARD AUDIT COMMITTEE REPORT

Amongst the topics of discussion during the year were cyber security strategy and management, data security and IT Governance, which involved access management, data management, and vendor management. Issues were discussed at length to secure satisfactory conclusion on moving forward actions by the Management.

- (iii) Reviewed findings of investigations and other ad-hoc special reviews on specific areas of operations to ascertain the root cause of the issues and effectiveness of corrective actions taken to address weaknesses.
- (iv) Monitored corrective actions taken on outstanding audit issues to ensure all key risks and control lapses had been addressed.
- (v) Reviewed 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.

The matters reported to the Board Audit Committee included status of audit plan coverage, audit scope and risks covered, root cause analysis, summary of audit rating for completed audits, summary of audit observations and recommendations for business process improvements, results of Auditee Satisfaction Survey, status of budget utilisation, summary of trainings attended by auditors, data analytics initiatives, and other improvement initiatives undertaken by the Internal Audit Department.

- (vi) Reviewed and endorsed disclosures on the Statement on Internal Audit, and Statement of Risk Management and Internal Control for inclusion in the Annual Report.
- (vii) Deliberated the Quality Assurance Report prepared by PricewaterhouseCoopers Risk Services Sdn. Bhd. to ensure continuous conformance with the International Standards promulgated by the Institute of Internal Auditors (IIA). A Quality Assurance Review is required to be carried out by an independent reviewer at least once every five years. The latest Quality Assurance Review was carried out in 2020.

### (b) External Audit

- (i) Reviewed all the areas of concerns identified by external auditors together with the Management's response to their findings.
- (ii) Met the Auditor-General on 2 October 2020 without the presence of the Management to discuss relevant issues and obtain feedback for improvements.

### (c) Financial Reports

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

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

## BOARD AUDIT COMMITTEE REPORT

### (d) Related Party Transactions

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

### TRAINING

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

No.	Course
1.	Board Strategy Meeting 2020: Sustainability in the Next Normal
2.	Digital Transformation for the EPF's Board/Investment Panel/Shariah Advisory Committee and Top Management: Latest World Trends in the Digitalisation of Corporations and Business
3.	Shariah Audit Committee Conference 2020: Insights on Roles and Issues on Enhancing Governance Within the New Framework, Both Locally and International Jurisdictions
4.	Cyber Awareness Updates: Protection of the Confidentiality and Integrity of Information and Assets
5.	Latest Cybersecurity Threats and Landscape: Updating on Recent Developments on Cybersecurity
6.	Corporate Liability Provision MACC (Amendments) Act 2018: Liabilities of Directors Under New Amended Provisions
7.	Shariah Governance Policy and Resolutions (SGPD) of BNM Shariah Advisory Council: Overview, Highlights and Resolutions of SGPD and E-Money Operationalisation
8.	Shariah Governance Policy Document: Updates on Shariah Governance in Takaful
9.	Takaful 101: Takaful Principles and Operations
10.	Fundamentals of Reinsurance and Retrocession: Reinsurance and Retrocession Principles and Assets
11.	Anti-Money Laundering 2020: Risks During Pandemic, Latest Amendments
12.	Top 10 Challenges in Social Protection
13.	Onboarding for Board Members and Investment Panel

### 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, performance of work, and communication of results.

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

## SCOPE OF WORK

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

- 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; and
- 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 various Business Continuity Management exercises to provide independent observations over the readiness of the businesses / systems to resume / recover (in the event of disaster) within the established timeline; and
- participating as an observer in management committees set up to develop or implement new systems or processes. Such participation is limited to providing advice on control matters and does not preclude the Internal Audit Department from auditing the systems or processes.

The Internal Audit Department formulates the audit plan using a risk-based approach, taking into consideration the EPF's strategic objectives as well as inputs from the Board Audit Committee and Senior Management. 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 2020, 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. As at 31 December 2020, the Internal Audit Department had a staff strength of 88 individuals from diverse background and qualifications, as follows:

No.	Field of Expertise	No. of Auditors	Percentage
1.	Finance and Accounting	59	67%
2.	Information Technology	14	16%
3.	Business Administration	13	15%
4.	Engineering / Quantity Surveying	2	2%
<b>Total</b>		<b>88</b>	<b>100%</b>



## STATEMENT ON INTERNAL AUDIT

### PROFESSIONAL QUALIFICATIONS AND CONTINUOUS COMPETENCY DEVELOPMENT

The Internal Audit Department is committed to equip its auditors with sufficient knowledge, skills, and competencies to discharge their duties and responsibilities. The internal auditors are also encouraged to uphold proficiency by obtaining appropriate professional certifications and qualifications. To date, 22 of our internal auditors hold a total of 31 professional certifications and qualifications, such as Association of Chartered Certified Accountants (ACCA), Certified Practising Accountants (CPA) Australia, Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA) and Certified Fraud Examiner (CFE). These qualifications and professional memberships have been awarded by various recognised professional bodies.

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

In-House Training	
1.	Implementing Data Analytics in Internal Audit
External Training	
1.	CAE Summit 2020: Assurance in Real Time
2.	IIAM National Conference 2020: Braving Uncertainty
3.	Governance Symposium 2020: Driving Governance in the New Normal – The Future Begins Now
4.	Shariah Audit Conference 2020: Mainstreaming Shariah Audit in Islamic Finance
5.	Leadership Energy Summit Asia (LESA) 2020: Navigating Uncertainty with Leadership Energy in Action
6.	Corporate Liability: The Ins and Outs of Section 17A of the MACC Act 2009
7.	COVID-19 Related Financial Reporting Issues
8.	Mastering Cybersecurity to Mitigate Fraud
9.	Contract Management and Legal Aspects
10.	Private Equity Academy 2020
11.	CAE Summit 2020
12.	IIAM National Conference 2020
13.	Governance Symposium 2020
14.	Shariah Audit Conference 2020
15.	Leadership Energy Summit Asia (LESA) 2020

### QUALITY AND IMPROVEMENT PROGRAMME

The Quality Assurance and Improvement Programme continues to be used to assess the quality of the audit process against the International Standards promulgated by the Institute of Internal Auditors (IIA). Recommendations as well as opportunities for improvement are identified through internal and external assessments.

The internal assessment is performed annually by an internal Quality Assurance team under the direct supervision of the Head of Internal Audit Department.

The Internal Audit Charter stipulates that a Quality Assurance Review by a qualified independent reviewer is required at least once every five years. The external quality assessment covered a broad scope that includes conformance with the Definition of Internal Auditing, the Standards and the Code of Ethics, internal audit charter, audit plan, policies and procedures in line with the requirements of the International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors (IIA), and industry best practices. The results of review by the independent reviewer are documented in a report which was tabled to the Board Audit Committee.

Based on the review by PricewaterhouseCoopers Risk Services Sdn. Bhd. in 2020, 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 (IIA).

# STATEMENT ON INVESTMENT RISK MANAGEMENT

## RESPONSIBILITY

In accordance with Section 18 (1) of the Employees Provident Fund (EPF) Act 1991, the Investment Panel (IP) 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 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 26 April 2021.