

Statement on Corporate Governance



TAN SRI SAMSUDIN OSMAN
Chairman

“Good corporate governance should contribute to better company performance by helping a board discharge its duties in the best interests of shareholders; if it is ignored, the consequence may well be vulnerability or poor performance. Good governance should facilitate efficient, effective and entrepreneurial management that can deliver shareholder value over the longer term.”

Source: FRC, Combined Code, June 2008

At the EPF, we strive to keep up with the latest developments in corporate governance. As there has been increasing focus on environmental, social and governance (ESG) investing, we have been incorporating this into our own investment consideration. The EPF believes that a sound corporate governance framework promotes strong leadership by the Board of Directors and good management practices, which in turn contributes to enhanced accountability, transparency and long-term success of a company. The EPF continues to regard good governance as integral to protecting the interest of all stakeholders and the reputation of the Fund. As a trustee of RM636.53 billion in assets, governance and sustainability are critical in ensuring the alignment of interests between the EPF as a long-term investor with its fiduciary duties, the Government in its supervisory and developmental role, and contributing EPF members as beneficiaries. Throughout the years, the EPF has been involved in a number of initiatives in championing sound corporate governance. Among others, engagement and active voting is becoming integral to our equity investment process. We will engage and vote on any issue affecting the long-term sustainability of any company in which we have vested interests.

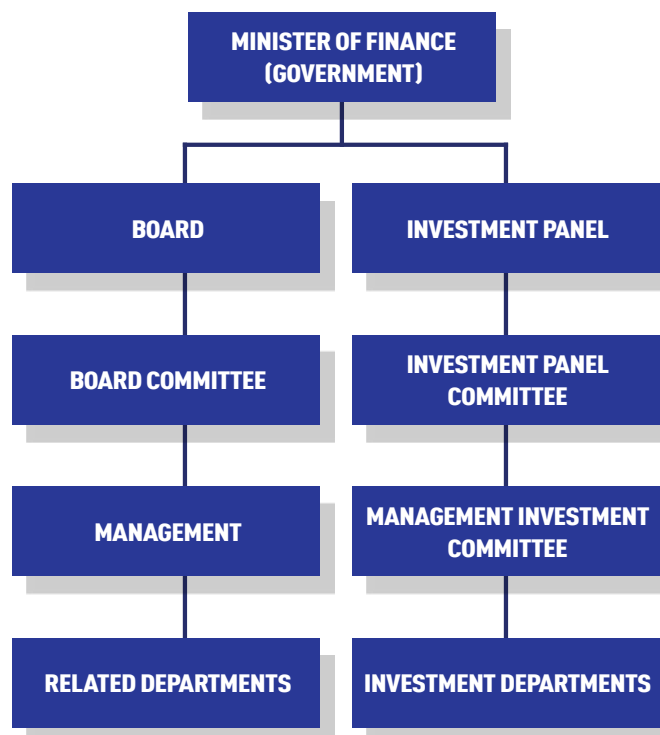
During the year, the EPF has also been involved in efforts to enhance corporate governance awareness and the adoption of good corporate governance practices. Our initiatives included:

- Corporate Governance Programmes**
 We collaborated with the Iclif Leadership and Governance Centre to organise a seminar on Directors’ and Officers’ Responsibilities on 29 May 2014, focusing on directors’ and officers’ fiduciary duties to their companies and stakeholders. In addition, the EPF participated in various international forums on corporate governance in order to be up-to-date with current practices. These included the ASEAN Annual Corporate Governance Summit by the Malaysian Institute of Corporate Governance and the Appreciation and Application of ASEAN Corporate Governance Scorecard.
- The Malaysian Code for Institutional Investors 2014**
 The EPF played an active role in the formation and establishment of the Malaysian Code for Institutional Investors 2014 which was launched on 27 June 2014. This initiative aims to outline broad principles of effective stewardship by institutional investors, accompanied by comprehensive guidelines to implement the principles.
- Updated EPF Corporate Governance Principles and Voting Guidelines**
 The EPF updated our Corporate Governance Principles and Voting Guidelines with a fresh review of our policies, taking into consideration changes in the regulatory framework and market practice. We believe that a strong governance structure is imperative in ensuring a sustainable business environment. The updated booklet has been sent to all EPF investee companies and is also available on the EPF website.

Our corporate governance standards are drawn from various best practices, and particularly from the following references:

- Malaysian Code on Corporate Governance
- CG Guide: Towards Boardroom Excellence by Bursa Malaysia
- Malaysian Code for Institutional Investors 2014

BOARD AND INVESTMENT PANEL



Statement on Corporate Governance (Cont'd.)

Board Appointment Process

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

Board Composition

The EPF Act 1991 dictates that its Board should not have more than 20 members, inclusive of the Chairman and CEO. In 2014, there were 18 members on the EPF Board representing various stakeholders, including:

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

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

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

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

Roles and Responsibilities of the Board and Investment Panel

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

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

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

Chairman and Chief Executive Officer

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

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

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

Board Effectiveness Evaluation (BEE)

The EPF assesses the performance of the Board, including the Chairman and CEO, the Investment Panel, Audit Committee and Risk Management Committee, via a Board Effectiveness Evaluation (BEE). This is in addition to the directors' self and peer evaluation. BEE comprises an overall evaluation of the effectiveness of the Board and Investment Panel, and 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 ensuring diversity for the efficient functioning of the Board. The Board endeavours to bring together a diverse range of experience, skills, knowledge, industry backgrounds, ethnicity and gender to achieve its investment objectives and governance performance.

Statement on Corporate Governance (Cont'd.)

Board Attendance

A total of eight Board and 24 Investment Panel meetings were held in 2014. Details of members' attendance at these meetings are as follows.

	Board	Board Audit Committee	Board Risk Management Committee	Finance and Development Committee	EPF Strategy Committee	Personnel, Appointment and Service Committee	Promotion Committee	Board Disciplinary Committee	Board Disciplinary Appeal Committee
Tan Sri Samsudin Osman (Chairman)	8/8	-	-	6/6	-	-	1/1	-	3/3
Government Representatives									
Dato' Mat Noor Nawi	5/8	4/7	-	4/6	-	-	-	-	-
Dato' Siti Zaayah Mohd Desa (Alternate Members) service completed with effect from 30 April 2014									
Datuk Ahmad Badri Mohd Zahir (Alternate Member) Appointed with effect from 1 May 2014									
Tan Sri Mohamad Zabidi Zainal	6/8	-	-	-	-	3/3	-	-	-
Dato' Mohtar Mohd Abd Rahman (Alternate Member)									
Datuk Seri Haji Saripuddin Bin Haji Kasim (Appointed with effect from 1 June 2014)	4/4	-	-	-	1/1	-	-	2/2	-
Dato' Haji Romli Haji Hassan (Alternate Member)									
Tan Sri Datuk Amar Haji Mohamad Morshidi Abdul Ghani	5/8	-	2/5	-	-	-	-	4/5	-
Datu Haji Misnu Haji Taha (Alternate Member)									
Tan Sri Haji Sukarti Wakiman	3/8	-	-	-	-	2/3	-	-	1/3
Datuk Haji Nordin Siman (Alternate Member)									
Employers Representatives									
Tan Sri Azman Shah Haron	7/8	-	5/5	-	1/3	2/3	-	-	-
Datuk Mohd Hasnol Ayub	5/8	-	-	2/6	-	-	1/1	-	3/3
Tan Sri Datuk Yong Poh Kon	4/8	-	-	-	3/3	-	-	3/5	-
Datuk Abang Haji Abdul Karim Tun Abang Haji Openg	8/8	7/7	-	-	-	-	-	-	3/3
Employees Representatives									
Mr. Mohd Khalid Atan	7/8	-	-	-	-	-	-	-	3/3
Mdm. Lok Yim Pheng	7/8	7/7	-	-	2/3	-	-	-	2/3
Mdm. Hadiyah Leen	8/8	-	-	6/6	-	-	-	5/5	-
Mdm. Catherine Jikunan	7/8	-	4/5	-	-	3/3	-	-	-
Professionals Representatives									
Tan Sri Lee Lam Thye	7/8	-	-	-	3/3	-	-	-	3/3
Tuan Haji Md. Ja'far Abdul Carrim	8/8	7/7	-	6/6	3/3	-	-	-	-
Datuk Thomas George a/l M.S George	8/8	7/7	5/5	-	-	3/3	1/1	-	-
Ex-Officio									
Datuk Shahril Ridza Ridzuan	8/8	7/7	5/5	6/6	3/3	3/3	1/1	5/5	3/3

Statement on Corporate Governance (Cont'd.)

	Investment Panel Meeting	Investment Panel Risk Committee
Tan Sri Samsudin Osman (Chairman)	24/24	-
Dato' Siti Zauyah Mohd Desa (Service completed with effect from 30 April 2014)	14/24	-
Datuk Ahmad Badri Mohd Zahir (Appointed with effect from 1 May 2014)		
Datuk Nor Shamsiah Mohd Yunus	12/24	-
Dato' Sri Mohamed Nazir Abdul Razak	16/24	5/5
Dato' Mohammad Azlan Hashim	14/24	2/5
Encik David Lau Nai Pek	18/24	5/5
Datuk Shahril Ridza Ridzuan (Ex-Officio)	24/24	5/5

Board Remuneration

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

HONORARIUM AND ATTENDANCE ALLOWANCE OF BOARD AND INVESTMENT PANEL MEMBERS

Types of Allowance

Allowance (RM)	Board	Investment Panel	Board / Investment Panel / Board Audit Committee / Board Risk Management Committee / Investment Panel Risk Committee	Other Board Committees
Honorarium (per month)	3,000	3,000	-	-
Chairman of Meeting	-	-	2,000	1,500
Meeting Attendance - Including Alternate Members	-	-	1,500	1,300

In 2014, the total honorarium and allowances paid to the Board and Investment Panel members was RM1,411,400.00.

Emolument of Top Management

Position	Emolument (RM)
Chief Executive Officer / Deputy Chief Executive Officers	3,987,288

Quality and Supply of Information to the Board

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

Statement on Corporate Governance (Cont'd.)

BOARD COMMITTEES

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

Board Committee	Composition	Functions
Board Audit Committee	Five members, including the Chairman	<ul style="list-style-type: none"> Assists the Board in evaluating the effectiveness of the internal controls, risk management (except in making investment decisions) and governance processes Oversees the financial reporting process and quality of financial reporting of the annual and interim financial statements Reviews the appropriateness of the EPF's accounting policies and changes to these Held seven meetings in 2014 to deliberate on the reports of the internal and external auditors, review matters including the internal audit functions and the audit plan for the year Maintains a formal and professional relationship with the external auditors and convened two meetings with them in 2014 without the presence of the management
Board Risk Management Committee	Six members, including the Chairman	<ul style="list-style-type: none"> Responsible for assisting the Board to oversee all operational risk management activities (except for making investment decisions) Held five meetings in 2014
Investment Panel Risk Committee	Four members, including the Chairman	<ul style="list-style-type: none"> Oversees investment risk, which includes recommending the aggregate risk appetite for the Investment Panel to sign off, approving risk management policies and limits, reviewing risk exposure and providing direction in relation to risk management practices within the investment function Held five meetings in 2014
Finance and Development Committee	Six members, including the Chairman	<ul style="list-style-type: none"> Responsible for recommending the annual budget to the Board and oversees the EPF's annual budget Assists the Board in approving matters with financial impact such as write-offs of loss Held six meetings in 2014
EPF Strategy Committee	Seven members, including the Chairman	<ul style="list-style-type: none"> Reviews in detail proposed amendments and policy changes related to the EPF Scheme Endorses any recommendations and policy changes to the Board for approval Held three meetings in 2014
Personnel, Appointment and Services Committee	Six members, including the Chairman	<ul style="list-style-type: none"> Assists the Board to consider and approve matters relating to employment, which includes employment terms and conditions Held three meetings in 2014
Board Disciplinary Committee	Five members, including the Chairman	<ul style="list-style-type: none"> Responsible for disciplinary proceedings and imposes penalties on employees as provided under the EPF Rules and Regulations (Conduct and Discipline) 1993 Held five meetings in 2014
Board Disciplinary Appeal Committee	Seven members, including the Chairman	<ul style="list-style-type: none"> Considers any appeal by employees against the decisions made by the Disciplinary Committees Held three meetings in 2014
Procurement Board Committee	Procurement Boards A and B; representatives from the Ministry of Finance and Public Works Department; and key personnel management	<ul style="list-style-type: none"> Responsible for matters relating to the procurement of works, services and supply of goods Held 12 meetings in 2014

Statement on Corporate Governance (Cont'd.)

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	Composition	Functions
Management Investment Committee	12 members, including the Chief Executive Officer (or Deputy Chief Executive Officer-Investment in the absence of the CEO) as Chairman	<ul style="list-style-type: none"> • Recommends investment activities to the Investment Panel in line with the EPF guidelines, policies on risk control and asset allocation • Held 50 meetings in 2014
Management Procurement Committee	Key senior management, including the Chief Executive Officer as Chairman	<ul style="list-style-type: none"> • Responsible for matters relating to the procurement of works, services and supply of goods for contracts valued at less than RM500,000.00 • Held 12 meetings in 2014

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide a clear, accurate and comprehensive assessment of the EPF's financial performance and prospects through the annual financial statement. This is in addition to providing transparent and up-to-date disclosures on the EPF's financial performance and prospects through quarterly announcement of results to stakeholders. Refer to page 104 of the Annual Report.

Risk Management and Internal Control

The Board and management are fully committed to a robust internal control system, procedures and policies to ensure stakeholders' interests and the EPF's assets are safeguarded. The Statement on Risk Management and Internal Control is on page 90 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. Information on the EPF's Corporate Responsibility is presented in the Corporate Responsibility section.



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. We disclose quarterly reports on our investment activities comprising information on our asset allocation, revenue generated from each asset class, total fund size and outlook for the following quarter. The reports also disclose the top 30 equity investments on a quarterly basis to ensure transparency and provide stakeholders with information on the EPF's holdings in public listed companies in Malaysia.

In line with advancements in information technology, the EPF has developed and enhanced our website to promote access of information regarding the organisation. All major changes and material information such as changes in liability to contribute, withdrawals and benefits, procedures and new service delivery channels are communicated to members on a regular basis. In addition, the EPF successfully launched the EPF i-Akaun, an online portal where members will be able to access their EPF statements, withdrawal application status and update their profile, among others.

The EPF continues to hold dialogues with our investee companies. In 2014, the management visited 37 companies (local: 18, overseas: 19). We also attended and voted actively in 108 annual general meetings (AGMs) and 43 extraordinary general meetings (EGMs) of investee companies.

As the EPF becomes more active in overseeing our investments, we have appointed nominees on the boards of listed and unlisted companies. As at 31 December 2014, the EPF has nominees in seven listed companies and 66 unlisted companies.

Risk Management

1.0 OVERVIEW

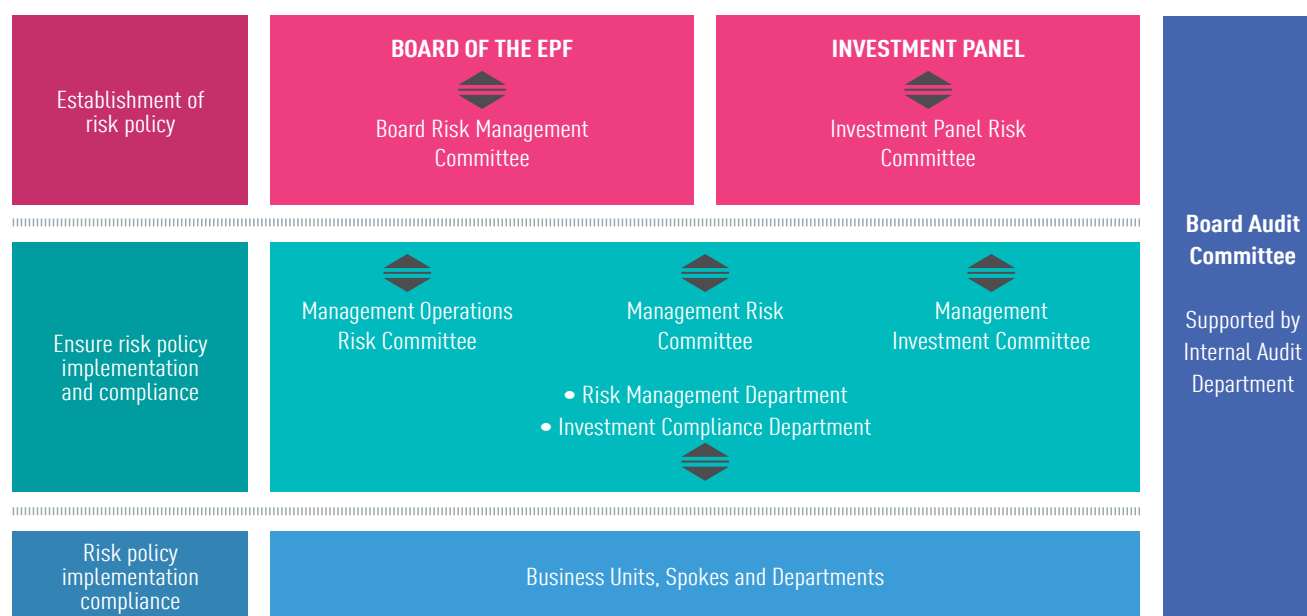
The EPF embraces risk management as an integral component of its investments, operations and decision-making process. With its commitment to implement sound risk management practices and strong corporate governance, the EPF is able to sustain an excellent performance in line with its Vision to provide the best retirement savings. Whether the risk relates to strategy, credit, market, liquidity or operations, the EPF continues to leverage on its robust risk management culture and integrated risk management framework to take advantage of potential opportunities in order to counter all possible threats.

During the year 2014, the risk management team continued to proactively identify and manage emerging risks given rising levels of uncertainty in the operating environment and volatilities in the financial market. The EPF's robust risk management framework has been reinforced as an integral part of driving value creation to support the EPF's Vision and Mission.

The Risk Appetite Statement defines the level of risks that the EPF is willing to tolerate and forms the basis of the allocation of funds for investment. The asset allocation is regularly reviewed to ensure funds are invested within the EPF's risk appetite.

2.0 RISK MANAGEMENT GOVERNANCE STRUCTURE

The EPF adopts a 'top-down' and 'bottom-up' approach, thereby creating a robust risk practising culture. The departments, spokes and management continually engage in healthy discussions on key risk matters. Formal policy and procedures are developed to address all key risk areas.



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

3.0 THE BOARD AND THE INVESTMENT PANEL

The EPF Board has overall responsibility for the organisation's risk management, except for activities related to investment decisions.

The Investment Panel (IP) is responsible for overseeing risk management pertaining to the EPF's investment decision making and defines the level of risks that the EPF is willing to tolerate through its Risk Appetite Statements, which form the basis of the allocation of funds for investment.

3.1 The Board Risk Management Committee and Investment Panel Risk Committee

- **The Board Risk Management Committee (BRMC)** is responsible for assisting the Board in overseeing all operational risk management activities except for activities pertaining to making investment decisions and to ensure that the risk management process is in place and functioning effectively.
- **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 is delegated with the responsibility to review and approve appropriate risk measurement, policies, processes and limits to ensure their continued effectiveness.

Risk Management (Cont'd.)

3.2 The Dedicated Committees

- **The Management Operations Risk Committee (MORC)** is established at the Management level to oversee, implement and execute the EPF's operational risk management (which includes strategies, culture, structure, people and processes) and to ensure that the risk management framework is implemented effectively throughout the organisation.
- **The Management Risk Committee (MRC)** is a Management-level committee responsible for developing and reviewing risk policies and appropriate limits for managing the EPF's investment risks.
- **The Management Investment Committee (MIC)** is a Management-level committee responsible for evaluating and recommending investment proposals to the IP. It also evaluates and recommends investment strategies and the performance of external fund managers.
- **The Risk Management Department (RMD)** supports the MIC, MRC, MORC, IPRC, BRMC and IP in all risk management matters covering investment risk, operational risk, independent measurement, credit evaluation, monitoring and reporting of risk exposures.
- **The Investment Compliance Department** is responsible for monitoring and compliance of all investment related risk policies and limits.
- **The Business Units, Spokes and Departments** being the first line of defence, are responsible for managing risks in their respective functions on a day-to-day basis as well as for escalating significant potential risks to the MORC via the Risk Management Department. Among the principal roles and responsibilities of the business units are:

- To identify, assess and manage risks;
- To constantly review their risk profiles to ensure relevancy and appropriateness;
- To update the risk status and level of risk management and controls;
- To develop and implement action plans to manage risks; and
- To adhere to risk management practices and guidelines.

4.0 INVESTMENT RISK MANAGEMENT

The key elements of investment risk management in the EPF are as follows:

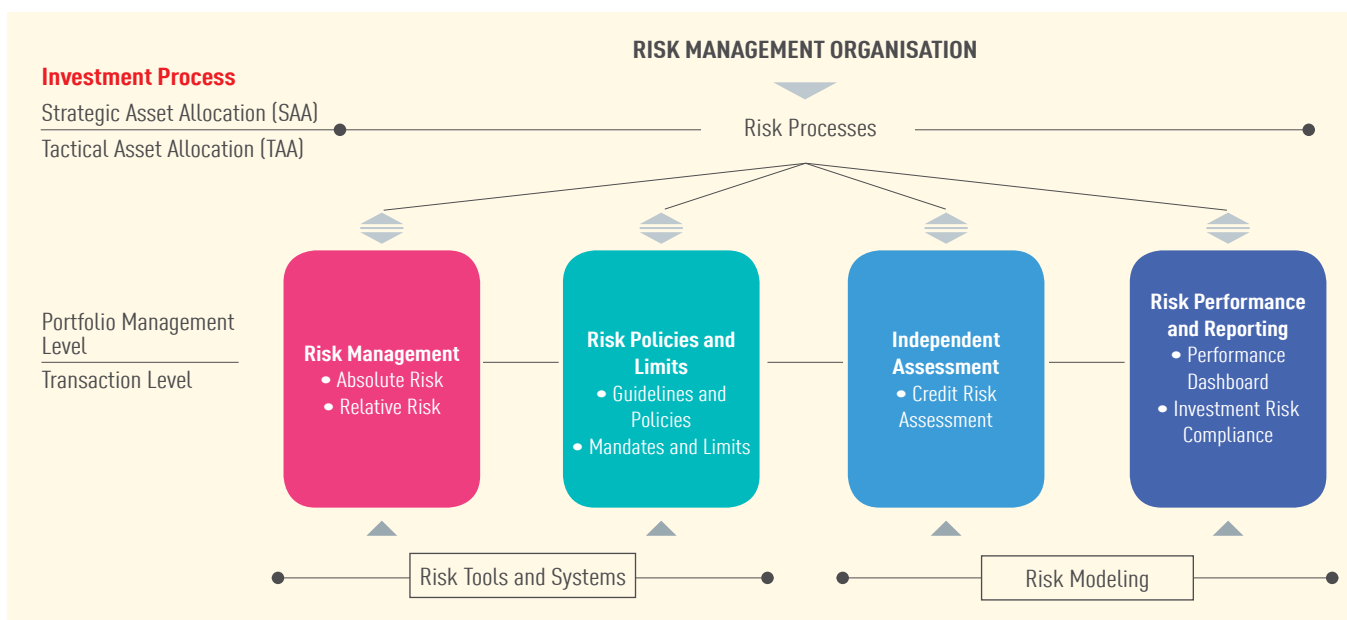
- Framework
- Market Risk Management
- Credit Risk Management
- Liquidity Risk Management

4.1 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 regard to investment decision making.

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

The risk governance framework is illustrated in the following chart:



Risk Management (Cont'd.)

4.2 Market Risk Management

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

The objective of market risk management is to ensure that any losses arising from market risk are mitigated. 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 used.

The EPF adopts the following risk tools and measurements to manage its market risk:

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

4.3 Credit Risk Management

Credit risk is the risk of loss due to the inability or unwillingness of a borrower / counterparty to meet its payment obligations. Exposure to credit risk arises from the EPF's investing activities in fixed income and real estate. In fixed income activities, credit risk arises from the possibility that the borrowers will not be able or willing to fulfil their obligation on or before their respective repayment due date. In real estate activities, credit risk arises when counterparties, such as the EPF's invested property tenants, are not able or willing to fulfil their rental obligations. Credit risk may also arise where the downgrading of a counterparty's rating causes the fair value of the EPF's investment in that entity's financial instruments to fall.

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

- Established credit risk limits and Management Action Triggers (MATs) to ensure minimum broad credit criteria being considered for investment including name concentration and minimum counterparty exposures.

- Effective credit portfolio rating system to measure the credit riskiness of the portfolios, i.e. Credit Value at Risk (CVaR).
- Subscription of external global and domestic rating rationale to constantly monitor the rating movements of the obligors.
- Periodic review of existing credit risk rating template for obligors to ensure its relevance.
- Strong credit awareness / culture across the investment personnel in the EPF through active engagement with the investment personnel at all levels.

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

- Independent risk assessment for every new investment proposal presented to the Management Investment Committee and Investment Panel meetings for decision. The independent risk assessments are conducted to enhance the credit underwriting and decision-making process.
- Close monitoring of changes to existing investments via assessments on an ad-hoc as well as periodic basis.
- Credit rating tool to measure the creditworthiness or probability of default (PD) of the obligors, as follows:-
 - i) Corporate Rating Template which provides internal risk rating for 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) as a tool to provide early warning signals for the EPF's close monitoring of the respective obligors.

4.4 Liquidity Risk Management

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

- Monitoring of its daily cash flow and projecting monthly cash flow on a rolling 12-month basis;
- Allocating 3% of its asset's value for short-term instruments in the form of cash and placements in financial institutions in order to meet members' withdrawals and other financial commitments and obligations;
- Diversifying its investment portfolio by setting the concentration limits on name, sector and asset type.

Over the medium and longer term, the EPF is able to meet its liquidity requirements through its holdings of liquid investments such as publicly traded equities and available for sale fixed income securities. The maturity profile of the EPF's asset and liability is also monitored within a stipulated level. The 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.

Risk Management (Cont'd.)

5.0 OPERATIONAL RISK MANAGEMENT

The key elements of operational risk management in the EPF are as follows:

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

5.1 Framework

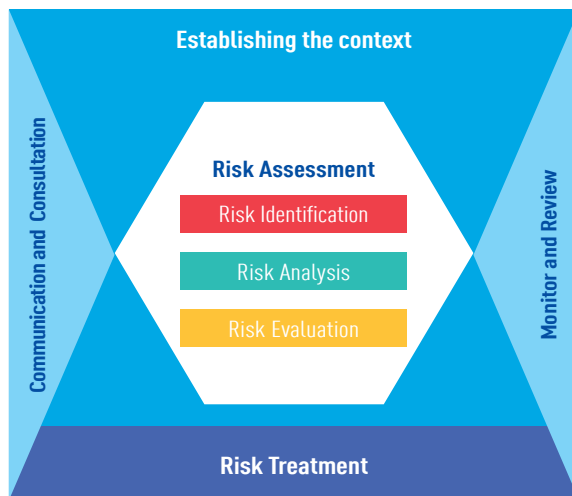
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The EPF aims to use Operational Risk Management (ORM) to support and enhance its activities in all operational areas. ORM is an integral part of the EPF's decision-making process and corporate culture.

The EPF adopts MS ISO 31000:2010 Risk Management – Principles and Guidelines as its main practice guide. The ORM Framework states the policy, principles, processes and methodologies adopted by the EPF in managing operational risk. The Framework is reviewed on a regular basis to ensure its continued application and relevance.

5.2 Operational Risk Management Methodology and Process

Overview of the Operational Risk Management Process



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

The main elements of the operational risk management process as shown in the figure are as follows:

Establishing context: Articulates objectives, defines external and internal influences and sets the scope and risk criteria for the risk process.

Risk assessment: Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. In the process, risk is identified, rating is assessed, controls are evaluated and risk is evaluated to determine the appropriate treatment.

Risk treatment: Risk treatment is management action taken to manage the nett risks to an acceptable level.

Communication and consultation: Communication and consultation take place during all stages of the risk management process to ensure risk is managed well.

Monitoring and review: Monitoring and review is a planned part of the risk management process and involves regular discussions or surveillance.

5.3 Corporate Risk Scorecard

The Corporate Risk Scorecard (CRS) methodology, which is consistent with the MS ISO 31000:2010 Risk Management – Principles and Guidelines, has been adopted in the implementation of operational risk management in the EPF. A key element in the CRS methodology is the Risk and Control Self-Assessment (RCSA) module which allows staff to self-assess and update their risk profiles.

Gross risks are assigned numerical values, using predetermined Possibility and Impact Rating parameters. Existing controls and mitigating strategies are identified and their effectiveness evaluated to derive the Nett Risk Rating. The Nett Risk Rating is analysed against the Target Risk Rating to determine whether action plans are needed to mitigate the risks.

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 99 risk scorecards were established within the EPF in 2014, consisting of one CEO risk scorecard, three DCEO risk scorecards, 28 department risk scorecards and 67 spokes risk scorecards.

Risks are monitored and managed through ownership from the line management. Through the Corporate Digital Assurance (CDA) process, scorecard, risk, control and MA owners are required to provide digital assurance six times a year to the Management that they have been managing risks within their profiles appropriately.

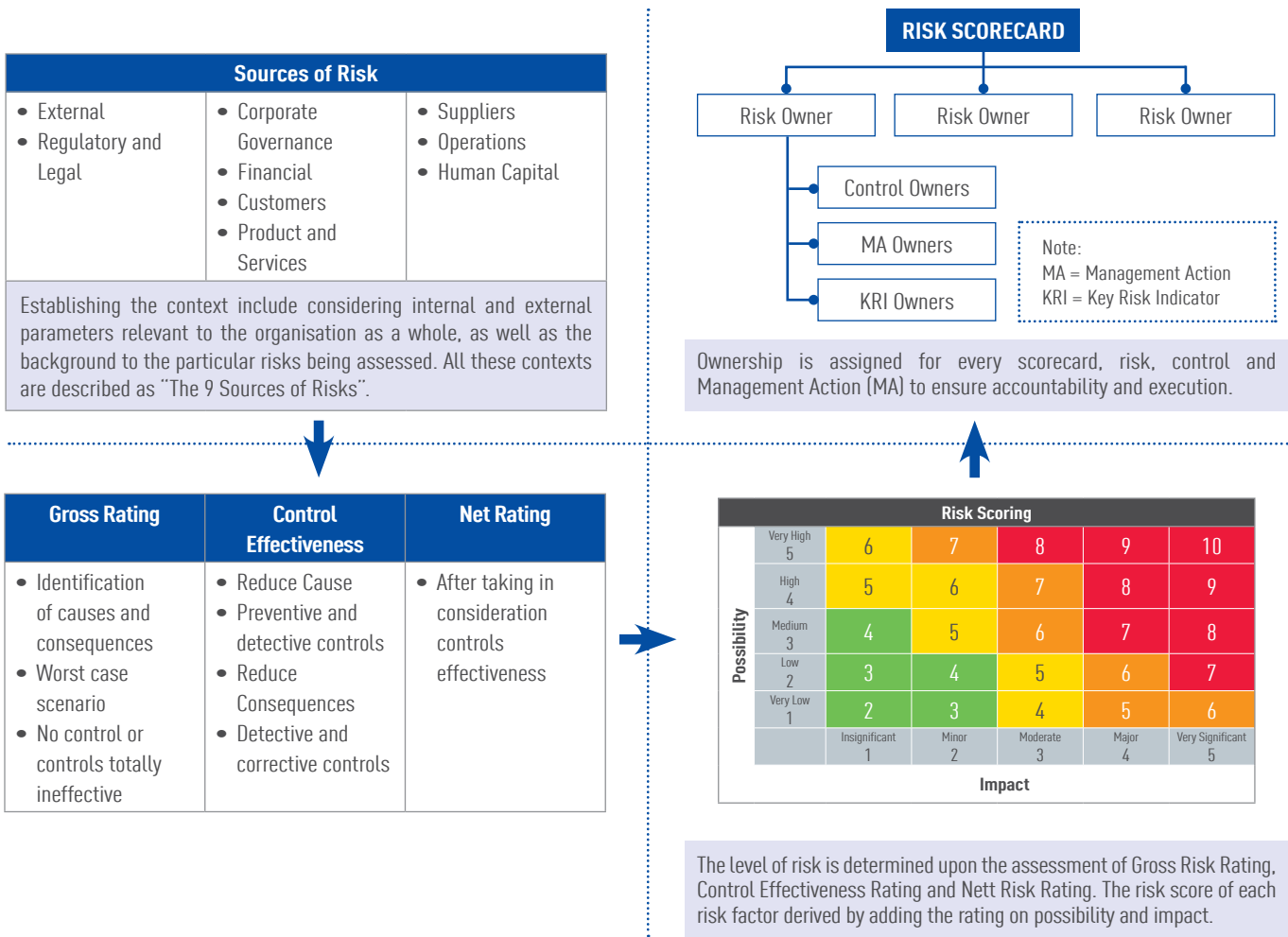
Key risk indicators (KRIs) identified in the risk scorecards act as an early warning system, enabling the EPF to monitor potential risks before they escalate into serious concerns.

A scoring analysis is conducted to provide a consolidated view of key risks faced by the EPF. Critical risks will be highlighted in the MORC and BRMC for their information and/or decision making.

The integration of performance management with risk management enables the Management to monitor both critical functions in a single dashboard.

The Risk Management Department reports and highlights risk management related issues and status to the MORC, BRMC and the EPF Board on a periodic basis to ensure that the Committees are well informed of risk issues faced by the organisation.

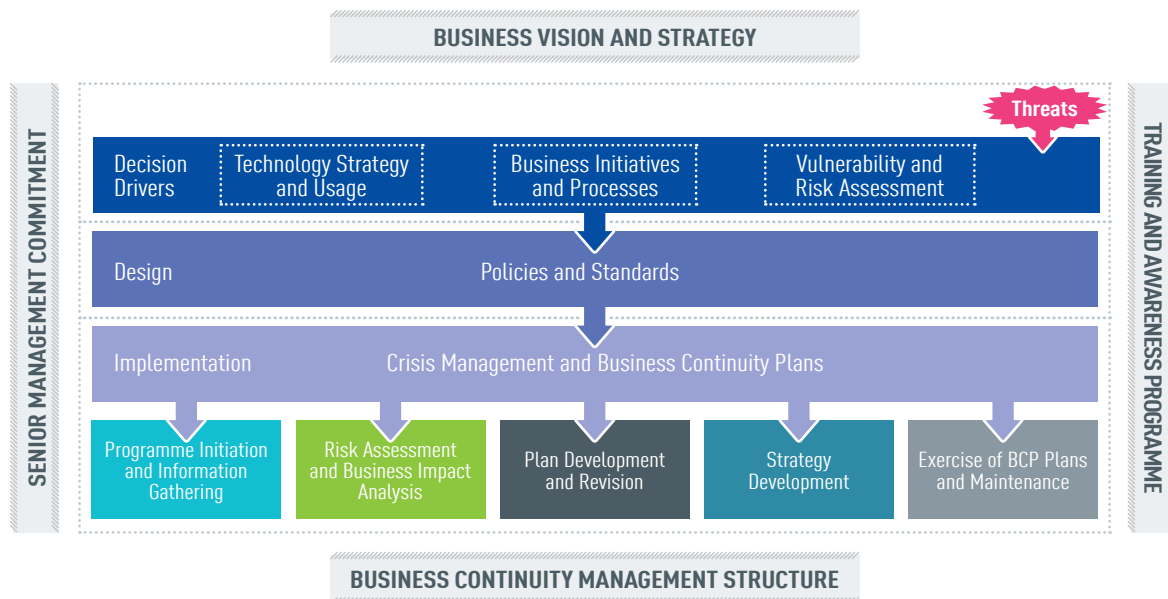
Risk Management (Cont'd.)



6.0 BUSINESS CONTINUITY MANAGEMENT

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

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



Risk Management (Cont'd.)

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

- Human Resource Readiness – this refers to the development of knowledge and skills in managing disasters. Implementation is through training on BCP readiness, tutorials, 'walkthroughs', call trees, crisis simulations exercise and BCM e-learning.
- Infrastructure Readiness – this refers to testing the system to ensure optimal readiness and functionality in the event of a disaster. This is done through equipment and system testing which is performed twice a year.
- Plan Readiness – this refers to the readiness of the BCP to ensure the plan is up-to-date and revises continuously based on current work functions.

Activation of the BCP follows three disaster codes to signify the level of a disaster. Code green means that there is no disaster. Code Yellow means that an incident has occurred and is under investigation. Code Red means the BCP is activated and relevant teams will have to execute the relevant recovery procedures including activation of the Recovery Centre.

In late December 2014 to early January 2015, East Coast and Sabah were hit by major floods. Nine EPF branch offices were impacted by the floods and their services were disrupted. Crisis Management Plan (CMP) and BCP were immediately activated at these branches and at the head office. A flood monitoring committee chaired by the EPF's Disaster Recovery Director was activated, with the purpose of monitoring, obtaining updates and developing appropriate plans and recovery action to manage the crisis.

Appropriate action plan was timely executed through the concerted efforts of the committee members, making it possible for the rapid recovery of operation at the affected branches. The EPF was able to successfully resume operations and customer service early due to its well-tested and comprehensive BCP.

7.0 KEY RISK MANAGEMENT INITIATIVES IMPLEMENTED IN 2014

Enhancements to risk governance

- Established interest rate management policy for fixed income portfolio to mitigate adverse movements in interest rates.
- Continuous monitoring of ongoing economic developments and appropriate stress testing.
- Enhanced the rating parameters to the Corporate Risk Scorecard to reduce the element of subjectivity.
- Further enhanced the foreign exchange hedging policy to cover all the asset classes.

Enhancement on risk system infrastructure

- Upgraded the pre-monitoring system for investment risk limits compliance.
- Set up a rating trigger mechanism to detect early warning signals on counterparties' credit standing.
- Upgraded the Corporate Risk Scorecard system (Q-Radar) to incorporate enhancement on the reporting and features.

Statement on Risk Management and Internal Control

INTRODUCTION

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

The Guidelines are in line with Principle 6 of the Malaysian Code on Corporate Governance issued in March 2012, which states that the Board should establish a sound risk management framework and internal control system.

RESPONSIBILITY

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

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

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

The Management's role includes:

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

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The EPF has in place a sound risk management and internal control framework as part of good corporate governance practice.

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

Risk Management Framework

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

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

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

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

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

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

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

Statement on Risk Management and Internal Control (Cont'd.)

Internal Control Framework

The system and framework of internal control are based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control Integrated Framework.

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

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

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

KEY ELEMENTS OF INTERNAL CONTROL

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

Control Environment

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

- **Terms of Reference**
Clearly defined terms of reference on the roles and responsibilities of all Board committees and the Investment Panel, as stated in the Statement on Corporate Governance.
- **Organisational Structure**
The structure has clearly defined lines of accountability, delegation of responsibility and levels of authorisation for all aspects of the business. Management committees meet on a regular basis to identify, discuss and resolve operational, financial, investment and key management issues and periodically report to the Board, Investment Panel and its respective committees.
- **Human Resources Policies and Procedures**
Proper guidelines within the organisation for hiring and termination of staff, staff training programmes, annual performance appraisals and other relevant procedures to ensure that staff are competent and adequately trained in carrying out their responsibilities.

- **Culture of Integrity**

Entrusted with managing members' savings, various programmes and initiatives are in place to inculcate and uphold a 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. In December 2014, a dedicated Integrity and Governance Department was set up to handle matters on integrity and governance.

Risk Assessment

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

- **Corporate Risk Scorecard (CRS)**

The Corporate Risk Scorecard (CRS) methodology is a detailed risk management approach where risks are identified based on internal and external sources, and are analysed, evaluated, treated and monitored.

The CRS allows for continuous Risk and Control Self-Assessment (RCSA) to be performed so that staff can self-assess and update their risk profiles.

Control Activities

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

- **Business Performance Management**

The EPF uses the Balanced Scorecard methodology which enables it to determine Strategic Objectives that drive the EPF to achieve its mission and vision. Business Performance is measured through various Key Performance Indicators for each Strategic Objective divided into four business performance perspectives, namely customers, financial, internal process and organisational capacity.

The performance measurement is integrated with risk management to enable Management to identify and monitor key risks impacting the business objectives.

- **Annual Corporate Plan**

An Annual Corporate Plan (ACP) covering both the immediate and medium to long-term objectives of the organisation is prepared through collaborative effort involving all departments and linked to the budget planning process. It is reviewed by the relevant management committees and approved by the Board.

- **Policies and Procedures**

Policies and procedures to ensure compliance with internal controls (such as segregation of duties, independent checks, verification processes and system access controls) as set out in operation manuals, guidelines and directives issued by the EPF are updated regularly and signed off by the respective Heads of Departments and the CEO. Policy guidelines and delegated authority limits are also imposed on the Management with regard to day-to-day operations.

Statement on Risk Management and Internal Control (Cont'd.)

• ICT Security Policy

An ICT Security Policy outlining appropriate policies and procedures to ensure confidentiality, integrity and availability of information and system application has been put in place. Key ICT security initiatives for 2014 are as follows:

- Establishment of a Data Loss Protection (DLP) system to prevent leakage of confidential information to unauthorised parties.
- Implementation of Enterprise-Wide Mobile Devices Data Security to protect the EPF's information assets on mobile devices.

• Chinese Wall Policy

The Chinese Wall Policy and its procedures are issued to safeguard against any compromise on the tenets of integrity, transparency and accountability by controlling, restricting and managing the flow of price sensitive information.

• Business Continuity Management (BCM)

BCM plans and systems are continuously monitored, tested and communicated to all levels to ensure that the organisation is prepared in the event of a crisis or disaster.

• Insurance Coverage

Adequate insurance coverage of major assets is in place to ensure the EPF's assets are protected against incident that could result in material loss.

Information and Communication

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

• Fraud Control Management Plan

The Fraud Management Committee oversees the EPF's overall approach on fraud control under the Fraud Control Management Plan, which includes the Anti-Fraud and Whistleblower Protection Policies.

• Communication of Operational Risk Management

ORM principles, framework and processes adopted by the EPF have been disseminated to all staff at all levels for better understanding of the practices adopted.

Monitoring

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

• Operational Risk Management System

An integrated operational risk management system is used to monitor and manage the EPF's risk exposure. Key risks are identified and the effectiveness of internal control is assessed and electronically confirmed by the respective departments and branches in a timely basis. Where the mitigated risks are not within acceptable levels, individual action plans are identified and their implementation are monitored to reduce the gap.

• Regular reporting

Adequate processes are in place to discuss issues on risk management and internal control deficiencies, which are reported regularly to the Management through various committees. The Management evaluates and communicates to those parties responsible for taking corrective action in a timely manner.

• Monitoring Activities by Internal Audit

The results of all audit engagements are reported to the Board Audit Committee (BAC) and communicated to the Management. The Internal Audit Department maintains a follow-up process to monitor and help ensure that all the agreed audit observations and resolutions have been promptly addressed.

• Quality Management Standard

All the EPF's core processes comply with the MS ISO 9001:2008 standard.

ASSURANCE ON RISK MANAGEMENT AND INTERNAL CONTROL

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

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

This statement is made in accordance with the resolution of members of the Board dated 27 February 2015.

Board Audit Committee Report



TUAN HAJI MD. JAFAR ABDUL CARRIM
Chairman - Board Audit Committee

1. MEMBERSHIP

The Board Audit Committee consists of the following members:

a) For the term from 1 June 2013 to 31 May 2015:

No (A)	Board Audit Committee Members (B)	Representatives (C)
i.	Tuan Haji Md. Jafar Abdul Carrim	Chairman – Professionals
ii.	Y. Bhg. Dato' Mat Noor Nawi Y. Bhg. Datuk Ahmad Badri Mohd Zahir (Alternate Member) (appointed on 1 May 2014) Y. Bhg. Dato' Siti Zauyah Mohd Desa (Alternate Member) (completed service on 1 May 2014)	Deputy Chairman – Government
iii.	Y. Bhg. Datuk Abang Haji Abdul Karim Bin Tun Abang Haji Openg	Employers
iv.	Madam Lok Yim Pheng	Employees
v.	Y. Bhg. Datuk Thomas George a/l M.S George	Professionals

2. MEETINGS

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

During the financial year 2014, the Board Audit Committee met nine times (three Special Board Audit Committee meetings, four Board Audit Committee meetings and two Board Audit Committee meetings with the Auditor General).

Details of attendance at the Board Audit Committee meetings are set out in the Statement of Corporate Governance.

3. TERMS OF REFERENCE

The Board Audit Committee is governed by its own terms of reference. A summary of the latest Board Audit Committee's Terms of Reference, which was approved by the Board on 16 July 2012, is as below:

Board Audit Committee Report (Cont'd.)

3.1 Duties and Responsibilities

The duties and responsibilities of the Board Audit Committee shall be:

3.1.1 Internal Audit

- a. To approve the Internal Audit Charter, defining the authority, accountability and role given by the Management to the internal auditors in order to carry out their work.
- b. To review and approve the annual audit plan prepared by the internal auditors.
- c. To evaluate the internal control system through reviews of the internal audit reports that highlight any weaknesses in accounting, organisational or operational controls and rectifications carried out by the Management.
- d. To evaluate the effectiveness and efficiency of the Internal Audit Department through periodic meetings.
- e. To evaluate the annual performance of the internal auditors based on the implementation of the annual audit plan and other assessments as instructed by the Board Audit Committee from time to time.
- f. To review and consider the implementation of a quality assurance review of the internal audit function by qualified independent reviewers at least once every five years. Findings from the quality assurance review shall be reported to the Board.

3.1.2 Risk Management

To provide an independent opinion and reasonable assurance on the adequacy and effectiveness of risk management except for risk management activities related to investment decision making.

3.1.3 External Audit

- a. To evaluate the internal control system through reviews of the external audit reports that highlight any weaknesses in accounting, organisational or operational controls and rectifications carried out by the Management.
- b. To review and consider the need for a special management audit by external auditors, the findings of which are to be reported to the Board.

3.1.4 Audit Reports

- a. To review and analyse all audit findings and queries raised by internal and external auditors.
- b. To determine the schedule of periodic reports from the Management, and internal and external auditors, taking into consideration the impact of significant changes, improvements on accounting treatments and reporting requirements as proposed by the accounting bodies and / or any other significant issues through an annual review.

3.1.5 Financial Reports

- a. To evaluate and endorse the Quarterly and Annual Financial Reports to the Board.
- b. To analyse and report to the Board observations raised by the external auditors on the Annual Financial Report.

Board Audit Committee Report (Cont'd.)

3.1.6 Policies

- a. To review the effectiveness and adequacy of the EPF's accounting policies, financial management and procedures through discussions between the internal and external auditors together with the respective executives / Management.
- b. To review and endorse any significant changes in the accounting policies to the Board.
- c. To review and endorse to the Board the effectiveness and adequacy of any significant changes in the EPF's Information Security Policies.

3.1.7 Related Party Transactions

To review, evaluate and report to the Board any related party transaction or conflict of interest which might arise in the EPF or its subsidiaries or joint venture companies where the EPF has control over business management, procedures and conduct which may jeopardise the Management's integrity.

3.1.8 Other Matters

- a. To evaluate the effectiveness and adequacy of the Fraud Control Management Plan.
- b. To prepare and establish reporting schedules to the Board summarising the Board Audit Committee's performance in discharging its responsibilities.
- c. To supervise and direct special projects or investigations deemed necessary or as instructed by the Board.
- d. To carry out any other functions as requested by the Board from time to time.

4. SUMMARY OF ACTIVITIES

During the financial year 2014, the Board Audit Committee carried out the following activities:

4.1 Internal Audit

- 4.1.1 Reviewed the annual audit plan to ensure adequate scope and comprehensive coverage of the EPF's activities.
- 4.1.2 Reviewed the internal audit reports tabled during the year, the recommendations made, root causes identified and the Management's response to these recommendations. Where appropriate, the Board Audit Committee directed the Management to rectify and improve the adequacy of the internal control procedures and workflow processes based on the internal auditors' recommendations and suggestions for improvement.
- 4.1.3 Reviewed findings of investigations and conducted other ad-hoc special reviews on specific areas of operations to ascertain the root causes of the issues and the effectiveness of corrective actions taken to address identified weaknesses.
- 4.1.4 Monitored the corrective actions taken on outstanding audit issues to ensure all key risks and control lapses have been addressed.
- 4.1.5 Reviewed the effectiveness of the audit process and resource requirements for the year, and assessed the performance of the Internal Audit Department.

4.2 External Audit

Reviewed all the audit findings and queries raised by the external auditors together with the Management's response to their findings.

Board Audit Committee Report (Cont'd.)

4.3 Financial Reports

4.3.1 Reviewed the quarterly unaudited financial reports of the EPF before recommending them for approval by the Board.

4.3.2 Reviewed the annual audited financial reports of the EPF with the external auditors' prior submission to the Board for their approval.

4.4 Related Party Transactions

Reviewed any related party transactions entered into by the EPF and its subsidiaries.

5. TRAINING

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

No (A)	Courses (B)
1	Corporate Directors Advance Programme (CDAP): Strategy And Risks 2014
2	International Seminar On Social Securities
3	EPF International Seminar On 'Demographic Trends: Recognising The Challenges and Opportunities'
4	International Directors Summit 2014: 'Inculcating Innovation, Catalysing Growth Through Public Private Partnership'
5	EPF Investment
6	Corporate Governance
7	Corporate Directors Onboarding Programme (CDOP)
8	Personal Data Protection Act – An Overview And Impact On EPF

6. INTERNAL AUDIT FUNCTION

6.1 The internal audit function is carried out by the Internal Audit Department, which reports directly to the Board Audit Committee on its activities based on the approved annual internal audit plan.

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

6.3 Further details of the internal audit function are set out in the Statement on Internal Audit.

Statement on Internal Audit

INTERNAL AUDIT ACTIVITIES ARE GOVERNED BY THE EPF'S INTERNAL AUDIT CHARTER WHICH IS APPROVED BY THE BOARD AUDIT COMMITTEE AND IS IN LINE WITH THE INSTITUTE OF INTERNAL AUDITORS (IIA) STANDARDS. THE EPF'S INTERNAL AUDIT CHARTER IS ASSESSED AT LEAST ONCE EVERY FIVE YEARS TO DETERMINE WHETHER THE ROLE, AUTHORITY, RESPONSIBILITIES, SCOPE OF WORK AND OTHER AREAS AS INCORPORATED IN THE CHARTER CONTINUE TO BE ADEQUATE.

1. OVERVIEW

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

2. INDEPENDENCE AND OBJECTIVITY

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

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

3. SCOPE OF WORK

3.1 The Internal Audit Department's functions include audits 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, information management systems and governance processes as designed and represented by the Management are adequate and functioning in a manner to ensure:

- 3.1.1 risks are appropriately identified and managed;
- 3.1.2 resources are acquired economically, and employed effectively and efficiently;
- 3.1.3 assets are safeguarded;
- 3.1.4 significant management, financial and operating information is accurate, reliable and timely;

3.1.5 applicable laws and regulations, policies, standards and procedures are complied with; and

3.1.6 established objectives and goals are achieved.

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

3.2.1 carrying out special investigations requested by the Management / Board Audit Committee;

3.2.2 coordinating with the external auditors to ensure adequate audit coverage and minimal duplication of work; and

3.2.3 participating as an observer in selected management committees set up to develop or implement new systems or processes. Such participation is limited to providing advice on control matters and does not preclude the Internal Audit Department from auditing the systems or processes.

3.3 The Internal Audit Department developed its audit plan using an Enhanced Audit Risk Scoring Model, prioritising the internal audit activities according to the audit risk level. The Enhanced Audit Risk Scoring Model evaluates audit risks based on the assessment of inherent risks, control risks and detection risks for each operation, function and information technology system.

3.4 During the year 2014, 104 reports were tabled at the Board Audit Committee meetings.

4. INTERNAL AUDIT RESOURCES

As at 31 December 2014, the total Internal Audit Department headcount stood at 87, of whom 14 auditors are professionally qualified in their respective fields. The Board Audit Committee reviews and approves the Internal Audit Department's human resources requirements to ensure the function is adequately resourced with competent internal auditors.

Statement on Internal Audit (Cont'd.)

In the list below, the auditors are categorised according to their fields of expertise as at 31 December 2014:

No. (A)	Field of Expertise (B)	No. of Auditors (C)	Percentage (D)
1.	Finance and Accounting	68	78%
2.	Information Technology	15	17%
3.	Management	2	3%
4.	Engineering	1	1%
5.	Quantity Surveying	1	1%

5. TRAINING

During the year, the internal auditors attended the following courses, seminars and conferences to increase their knowledge of auditing and keep updated with the latest business developments:

No.	Courses
(A) In-House Training	
1.	Best Practices In Internal Auditing
2.	Consulting: Activities, Skills and Attitudes
(B) External Training	
1.	2014 IIA National Conference: Embracing Change
2.	Leadership Energy Summit Asia
3.	Dubai GULF Information Security Expo and Conference 2014
4.	Mastering Audit Techniques: Tools and Techniques For Auditors
5.	Advance Audit Techniques 2014
6.	Effective Internal Audit Strategies and Fraud Risk Mitigation
7.	Process Thinking For Internal Auditors
8.	Leading and Managing Fraud Investigations
9.	Fraud Investigation: Essential Techniques To Uncover The Perpetrators
10.	COSO 2013: How To Implement The Revised Internal Control Framework
11.	Management – Audit – Monitoring of Construction Projects
12.	Emerging Leaders
13.	Brand You For Success
14.	Private Equity Academy Module 1, 2 and 3
15.	Real Estate Academy Module 1, 2 and 3
16.	Crucial Conversations (With Vitalmarts Presenter and Consultant)

6. QUALITY AND IMPROVEMENT PROGRAMMES

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

Internal assessments shall include:

6.1.1 ongoing reviews of the performance of internal audit activities; and

6.1.2 peer reviews of the audit processes, procedures and documentation on a periodic basis.

6.2 The Internal Audit Charter stipulates that a Quality Assurance Review by a qualified independent reviewer is required at least once every five years. The last Quality Assurance Review was carried out by PricewaterhouseCoopers Advisory Services Sdn. Bhd. in November 2009. Based on the review, the overall Internal Audit Department's performance was good.

6.3 The most recent Quality Assurance Review of the Internal Audit Department is being carried out by KPMG Management & Risk Consulting Sdn. Bhd. in September – December 2014.

Statement on Investment Risk Management

RESPONSIBILITY

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

INVESTMENT RISK MANAGEMENT FRAMEWORK

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

INVESTMENT RISK MANAGEMENT STRUCTURE

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

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

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

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

RISK CONTROLS

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

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

CONCLUSION

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

This statement has been made in accordance with the resolution of members of the IP dated 10 February 2015.