

GOVERNANCE

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STATEMENT ON CORPORATE GOVERNANCE

We believe that a sound corporate governance framework, supported by strong leadership and good management practices, contributes towards enhanced integrity, accountability, and transparency. In this regard, we continue to focus our efforts on raising awareness and the adoption of sound corporate governance. As Malaysia's largest retirement fund with investment assets totalling RM1,009.73 billion, we strive to be at the forefront of championing sustainable investments by incorporating Environmental, Social, and Governance (ESG) principles in our investment considerations.



Throughout 2021, we continued with our efforts to raise awareness on corporate governance and practices through various initiatives.

CORRUPTION RISK MANAGEMENT

The EPF has developed a Corruption Risk Management (CRM) mechanism through the MyRisks system since 2019. It is one of the anti-corruption initiatives undertaken by the EPF, as stated in the EPF Integrity and Anti-Corruption Plan. Starting with ten (10) departments implementing Corruption Risk Management in 2019, there are now 14. They are as follows:

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

In implementing Corruption Risk Management, the EPF has also developed the **Integrity Performance Index (IPI)** which includes three (3) elements, namely **control, commitment, and perception**, as a measure of the EPF's determination and commitment to strengthen and uphold integrity.

STATEMENT ON CORPORATE GOVERNANCE

COMMUNICATION AND OUTREACH INTEGRITY PROGRAMME

In 2021, the outbreak of the COVID-19 epidemic impacted many things such as lifestyle, social activities, productivity and employment. However, this situation has not critically affected the EPF as it has adapted to the situation by leveraging digital technology.

The EPF has expanded its communication and awareness programmes on integrity and anti-corruption to its employees through digital platforms, including the following:

- (a) Crew Integrity Outreach Programme (KOP) through Telegram application
- (b) Integrity Video
- (c) Integrity Awareness Email
- (d) Integrity Portal
- (e) Integrity Awareness Briefing through Zoom application
- (f) Integrity Dimension Programme
- (g) Implementation of Individual Integrity Profile (IIP) for promoted employees in 2020
- (h) Onboarding Programme for new Board Members for the term of appointment June 2021 - May 2023
- (i) Integrity Message Video by EPF Chairman and Chief Executive Officer

In addition, to monitor the effectiveness of communication and awareness programmes, the EPF also conducted an Ethical Conduct Survey (EPF Employees) and Integrity and Governance Survey (EPF Board Members and Top Management).

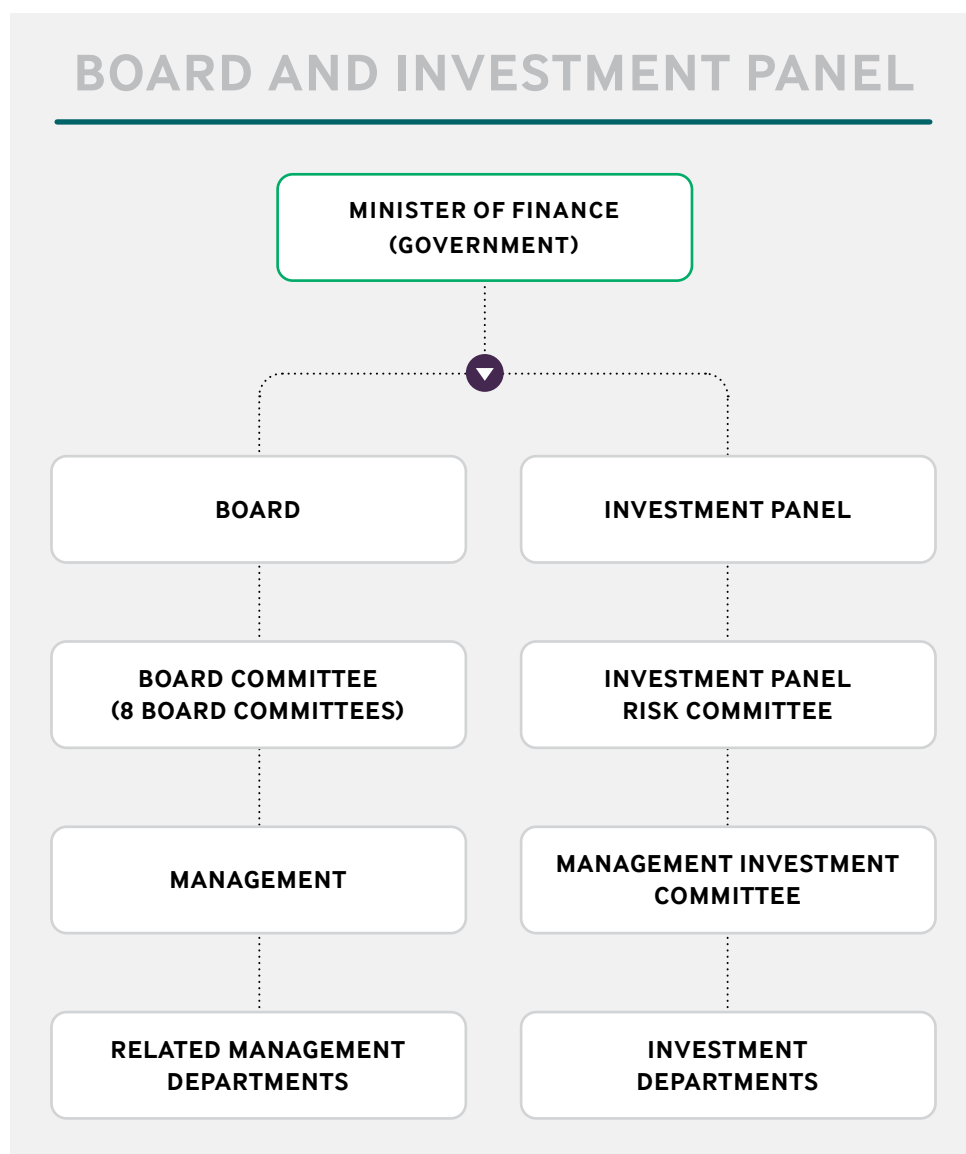
THE EPF'S INTEGRITY AND ANTI-CORRUPTION PLAN

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 are 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 NACP, has developed an OACP, known as the EPF's Integrity and Anti-Corruption Plan, which covers aspects of governance, integrity, and anti-corruption within the organisation, and was approved by the EPF Board on 29 April 2020. For 2021, emphasis has been placed on the implementation of the initiatives outlined in the Plan. These initiatives were implemented to ensure that the EPF is free from corrupt practices, malpractice, and abuse of power.

CERTIFIED INTEGRITY OFFICER

The Malaysian Anti-Corruption Commission (MACC) requires every organisation's integrity unit to have a Certified Integrity Officer (CeIO). In 2021, four (4) officers from JITU completed the CeIO accreditation course in addition to the existing 3 CeIO officers, making up a total of seven (7) CeIO officers in JITU now.



BOARD AND INVESTMENT PANEL APPOINTMENT PROCESS

Board Members, the Investment panel, and the Chief Executive Officer (CEO) are appointed by the Minister of Finance. The Minister of Finance appoints persons who possess a strong record of integrity, high calibre, and trustworthiness in effectively executing their duties. The tenure of such an appointment is two (2) 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 2021, there were 18 members of the Board representing various interest groups:

- (a) Chairman of the Board
- (b) Five (5) members representing the Government, including a representative of the Ministry of Finance as Deputy Chairman;
- (c) Three (3) members representing Employers;
- (d) Three (3) members representing Employees;
- (e) Five (5) professional members from various backgrounds; and
- (f) The CEO as an ex-officio member.

The Investment Panel comprises seven (7) members:

- (a) Chairman of the Investment Panel,
- (b) One (1) representative from the Ministry of Finance as Deputy Chairman;
- (c) Four (4) professional members; and
- (d) The CEO as an ex-officio member.

The EPF Board members and Investment Panel consist of individuals who are skilled, have high performance, diverse competencies, and extensive experience.

ROLES AND RESPONSIBILITIES OF THE BOARD AND INVESTMENT PANEL

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

The 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, as well as corporate governance practices.

The EPF Act 1991 provides for the establishment of an Investment Panel to impart strategic direction 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 CEO

The roles and responsibilities of the Chairman and CEO are kept separate in accordance with best practice to ensure an 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 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 a 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, Investment Panel Risk Committee, and the Chairman and CEO. This is in addition to the self and peer evaluation of individual Board members. The review is carried out once every two (2) years by an independent professional body.



Board and Investment Panel 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 optimally achieve its investment objectives and governance performance.

STATEMENT ON CORPORATE GOVERNANCE

Board and Investment Panel Attendance

A total of 15 Board and 22 Investment Panel meetings were held in 2021. Details of members' attendance at these meetings are as follows.

	Board	Board Audit Committee	Board Risk Management Committee	Finance And Development Committee	Strategy Committee	Nomination And Remuneration Committee	Board Disciplinary Committee	Board Disciplinary Appeal Committee	Procurement Board
Tan Sri Ahmad Badri Mohd Zahir (Chairman)	15/15	-	-	4/4	-	-	-	1/1	-
Zakiah Jaafar (Deputy Chairman) Datin Setia Nik Roslini Raja Ismail (Alternate Member)	12/15	8/8	-	3/4	-	-	-	-	-
Datuk Seri Jamil Rakon Dato' Hj. Asri Ab. Rahman (Alternate Member)	11/15	-	-	-	3/8	-	2/2	-	-
Tan Sri Mohd Khairul Adib Abd Rahman Datuk Seri Hj. Suhaime Mahbar (Alternate Member)	12/15	-	-	-	-	7/7	-	1/1	-
Datuk Amar Jaul Samion Dato' Sri Hj. Mohamad Abu Bakar Marzuki (Alternate Member)	14/15	-	5/5	-	-	-	-	-	-
Datuk Seri Panglima Sr. Hj. Safar Untong Datuk (Datu) Rosmadi Datu Sulai (Alternate Member)	13/15	3/4	-	-	-	-	1/2	-	-
Datuk Mohd Hasnol Ayub (Service completed on 31 May 2021)	7/7	-	-	2/2	-	-	-	1/1	-
Datuk Dr. Ting Ding Ing (Philip)	14/15	8/8	2/2	-	8/8	-	-	-	8/8
Datuk Dr. Syed Hussain Syed Husman	15/15	-	3/3	-	8/8	6/7	2/2	-	3/3
Datuk Harun Hj. Ismail (Appointed with effect from 1 June 2021)	8/8	-	-	2/2	-	-	-	-	3/3
Dato' Abdul Halim Mansor (Service completed on 31 May 2021)	7/7	-	-	-	4/4	-	-	1/1	-
Dato' Hj. Adnan Mat	15/15	-	-	4/4	-	7/7	-	-	8/8
Hadah Leen (Service completed on 31 May 2021)	7/7	4/4	-	-	4/4	-	1/1	-	-
Catherine Jikunan	15/15	-	5/5	-	4/4	-	-	1/1	8/8
Law Kiat Min (Appointed with effect from 1 June 2021)	8/8	3/4	-	-	-	-	1/1	-	-
Datuk Thomas George A/L M.S George (Service completed on 31 May 2021)	7/7	-	3/3	-	3/4	-	-	1/1	5/5
Khalid Hj. Sufat	15/15	8/8	-	4/4	-	-	-	-	-
Zainal Abidin Mohd Kassim	13/15	8/8	-	-	8/8	7/7	1/1	-	-
Tan Sri Mohammed Azlan Hashim	15/15	-	-	-	-	7/7	-	-	-
Datuk Ruben Emir Gnanalingam Abdullah	13/15	-	2/2	-	-	-	-	1/1	-
Tan Sri Dr. Jemilah Mahmood (Appointed with effect from 1 June 2021)	5/8	-	-	-	1/4	-	1/1	-	-
Alizakri Alias (Service completed on 28 February 2021)	3/3	-	-	1/1	1/1	-	-	-	3/3
Datuk Seri Amir Hamzah Azizan (Appointed with effect from 1 March 2021)	12/12	-	-	3/3	7/7	-	-	-	5/5

STATEMENT ON CORPORATE GOVERNANCE

	Investment Panel	Investment Panel
	Attended	Risk Committee Attended
Tan Sri Mohammed Azlan Hashim	22/22	-
Dr. Sivabalasingam Veerasingam	20/22	-
Rossana Annizah Ahmad Rashid	21/22	5/5
Dato' Md Agil Mohd Natt (Service completed on 31 May 2021)	8/8	2/2
Dato' Wan Kamaruzaman Wan Ahmad	22/22	5/5
Dato' Dr. Wee Hoe Soon @ Gooi Hoe Soon (Appointed with effect from 1 February 2021)	21/21	3/3
Raja Noorma Raja Othman (Appointed with effect from 8 June 2021)	13/14	-
Alizakri Alias (Service completed on 28 February 2021)	3/3	1/1
Datuk Seri Amir Hamzah Azizan (Appointed with effect from 1 March 2021)	19/19	4/4

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 2021 are as follows:

Fixed Monthly Allowance and Meeting Attendance Allowance of Board and Investment Panel Members

	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 Committees (RM)
Allowance				
Fixed Monthly Allowance	5,000.00	5,000.00	-	-
Chairman of Meeting	-	-	2,000.00	1,500.00
Meeting Attendance Allowance Including Alternate Members	-	-	1,500.00	1,300.00

For 2021, the total Fixed Monthly Allowance and Meeting Attendance Allowances paid to the Board and Investment Panel members was RM2,484,726.66.

Emolument of Top Management

Position	Emolument (RM)
Chief Executive Officer and C-Suite	11,925,672.44

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	Function
Audit Committee	Six (6) 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 the EPF 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 eight (8) meetings in 2021 to deliberate on the reports of the internal and external auditors, and review matters including the internal audit functions and the audit plan for the year. Maintains a formal and professional relationship with external auditors and convened one (1) meeting with external auditors in 2021 without the presence of the Management.
Board Risk Management Committee	Five (5) members, including the Chairman	<ul style="list-style-type: none"> Responsible for assisting the Board in overseeing all operational risk management activities except activities in making investment decisions. Held five (5) meetings in 2021.
Investment Panel Risk Committee	Four (4) members, including the Chairman	<ul style="list-style-type: none"> Oversees investment risk, which includes recommending the level of risk appetite for the Investment Panel to sign off on, approving risk management policies limits, and methodologies for measuring investment risks, and providing direction in relation to risk management practices within the investment function. Held five (5) meetings in 2021.
Finance and Development Committee	Six (6) members, including the Chairman	<ul style="list-style-type: none"> Responsible for approving an additional budget of not more than 5% from the total annual budget approved by the Board. Assists the Board in approving matters relating to financial impact such as write-offs of loss (other than investment-related matters). Held four (4) meetings in 2021.
EPF Strategic Committee	Eight (8) 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. Oversees organisation and strategic initiatives performance. Held eight (8) meetings in 2021.
Nomination Remuneration Committee	Five (5) members, including the Chairman	<ul style="list-style-type: none"> Responsible for assisting the Board in considering and approving matters relating to nomination including terms and conditions of service, remuneration, as well as rewards. Held seven (7) meetings in 2021.
Board Disciplinary Committee	Five (5) members, including the Chairman	<ul style="list-style-type: none"> Responsible for any disciplinary proceedings and imposes penalties on employees as provided under the EPF Rules and Regulations (Conduct and Discipline) 1993. Held two (2) meetings in 2021.
Board Disciplinary Appeal Committee	Seven (7) members, including the Chairman	<ul style="list-style-type: none"> Considers any appeal by employees against the decisions made by the Disciplinary Committees. Held one (1) meeting in 2021.
Procurement Board	Six (6) members, including the Chairman	<ul style="list-style-type: none"> Responsible for matters relating to the procurement of works, services, and supply of goods, excluding appointment of services of consultants in relation to investments. Held eight (8) meetings in 2021.

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">• Recommends investment activities to the Investment Panel in line with the EPF's guidelines, policies on risk control, and asset allocation.• Consists of 16 members, including the CEO (or Chief Investment Officer in the absence of the CEO) as Chairman.• Held 53 meetings in 2021.
Management Procurement Committee (Strategic)	<ul style="list-style-type: none">• Responsible for matters relating to the procurement of works, services and supply of goods that focus on strategic procurement which is defined as complex procurement that brings long-term benefits.• Consists of key senior management, including the CEO as Chairman.• Held 11 meetings in 2021.
Management Procurement Committee (Non-Strategic)	<ul style="list-style-type: none">• Responsible for matters relating to the procurement of works services, and supply of goods that are related to daily operations.• Consists of key senior management, including the Chief Financial Officer as Chairman.• Held nine (9) meetings in 2021.

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 announcements of results to stakeholders. Refer to page 113 of the Integrated Annual Report.

Risk Management and Internal Control

The Board and 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 94 of this Integrated Annual Report, providing an overview of the state of the internal control system within the EPF.

Corporate Responsibility

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

COMMUNICATION WITH STAKEHOLDERS

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

The EPF continues to hold dialogues with its investee companies. In 2021, the Management visited 7 local companies. The EPF also attended and voted actively in 92 annual general meetings (AGM) and 20 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 2021, the EPF has nominees in 18 listed companies and 37 unlisted companies.

STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

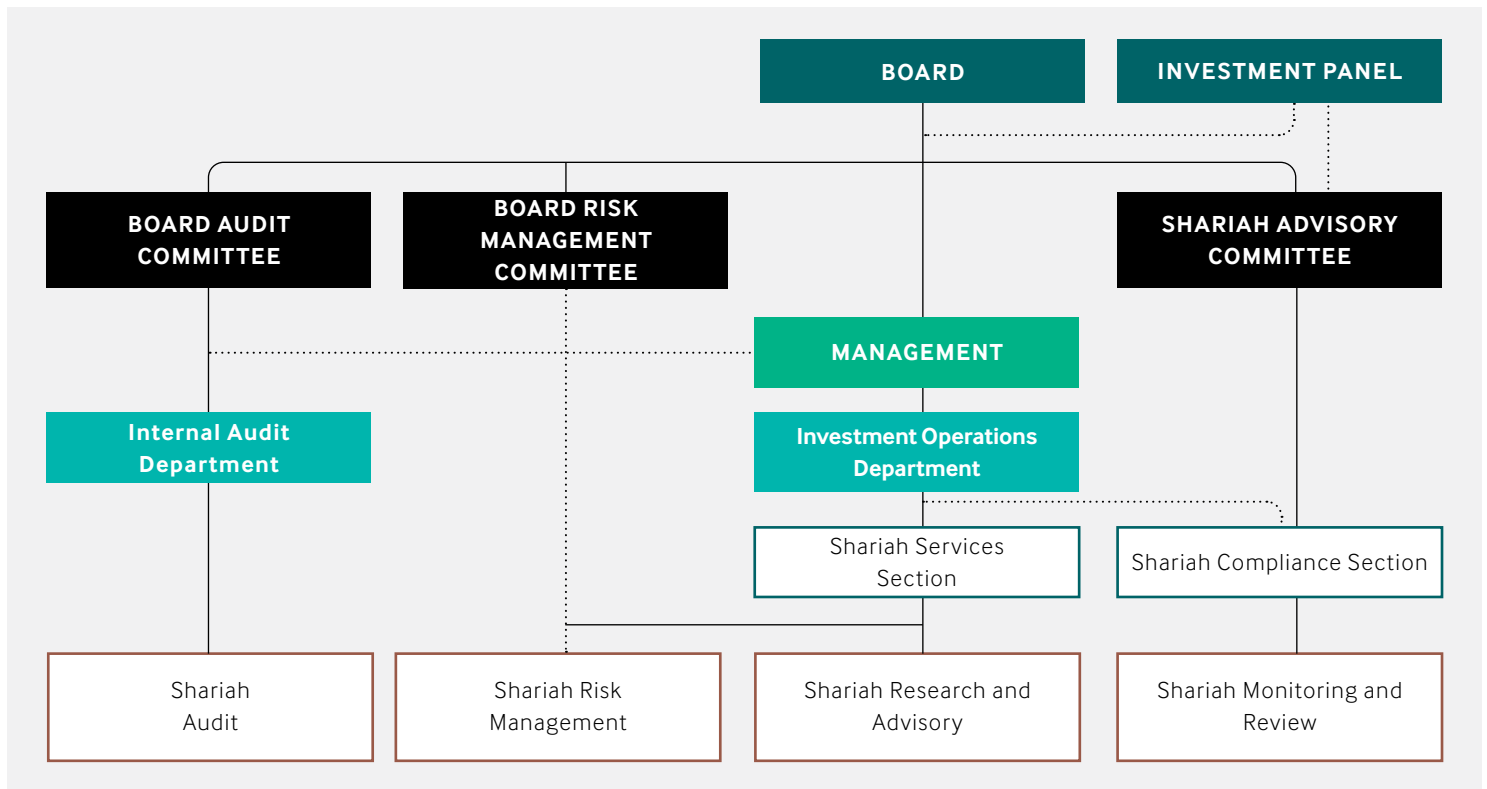
Simpanan Shariah is a savings option for members that is managed and invested by the EPF in accordance with Shariah principles.

A Shariah governance framework has been established to ensure that all aspects of operations and investments of Simpanan Shariah are managed in accordance with 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:



STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

Component	Function in respect of Simpanan Shariah
Board	<ul style="list-style-type: none"> Establishes the Shariah Advisory Committee (SAC) as the authority for the ascertainment of Shariah matters, for the purpose of advising the Board and Investment Panel to ensure that the management of Simpanan Shariah complies with Shariah principles. Refers to the SAC on any matters relating to Shariah in ascertaining Shariah principles. The advice given by the SAC shall be binding on the Board. Establishes a Shariah compliance framework.
Investment Panel	<ul style="list-style-type: none"> 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.
Shariah Advisory Committee	<ul style="list-style-type: none"> Ascertains the application of Shariah principles on any matters relating to Simpanan Shariah. Advises the Board and Investment Panel on any Shariah-related matters and the application of Shariah principles related to Simpanan Shariah. Verifies and approves any Shariah compliance report in relation to the management of Simpanan Shariah for the EPF Annual Report.
Management	<ul style="list-style-type: none"> 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.
Shariah Compliance Framework	<ul style="list-style-type: none"> There are four functions established by the Board under the framework: <ol style="list-style-type: none"> Shariah research and advisory is responsible for conducting Shariah research and providing Shariah advice; Shariah monitoring and review is responsible for Shariah compliance monitoring and review for the purpose of continuous assessment of the degree of Shariah compliance; Shariah risk management 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; and Shariah audit 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.

APPOINTMENT OF SAC MEMBERS

The Board appoints not less than three (3) 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 experience of five (5) years 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 two (2) years and the appointee(s) may be reappointed.

SAC MEETING ATTENDANCE

A total of 13 SAC meetings, including one (1) special meeting, were held in 2021. Details of SAC members' attendance are as follows:

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

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 2021 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 EFFECTIVENESS ASSESSMENT

The EPF carries out the SAC Effectiveness Assessment to evaluate the performance of the SAC. The assessment is carried out once in every two years by an independent professional body.

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 the EPF.

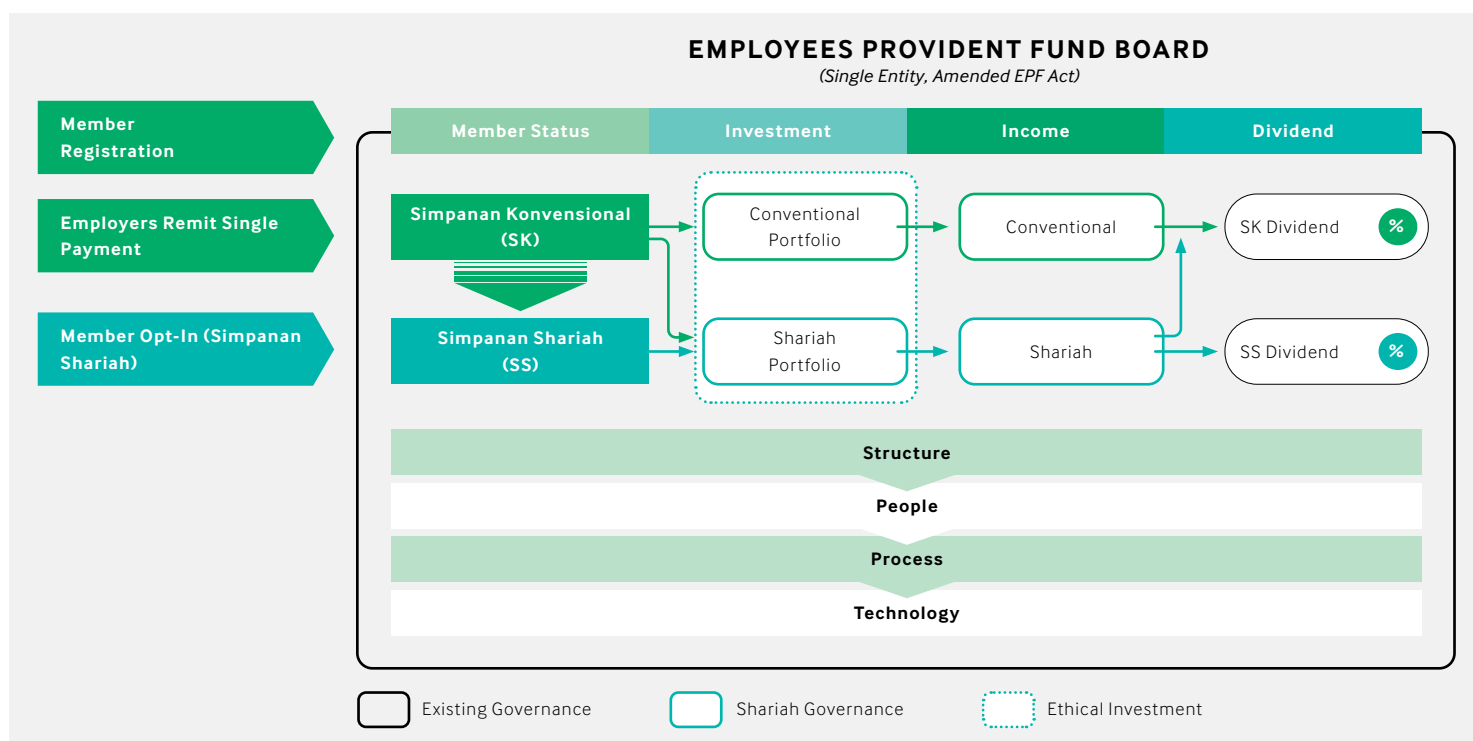
SAC REPORT

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 transaction complies with the Shariah requirements. The SAC has formulated Shariah policies for Simpanan Shariah with respect to its operation, 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 are 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 their accounts in accordance with 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 investments 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 the conventional portfolio. Simpanan Shariah will only invest in the Shariah portfolio.
- (e) Simpanan Shariah leverages on the existing structures and resources, with some enhancements 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, that prohibit investing in sectors that manufacture and promote alcohol, gambling, adult entertainment and military weapons, among others, all EPF's investment assets will undergo a Shariah screening process based on the Shariah criteria and guidelines set by the SAC. This is 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.

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

As of 31 December 2021, 41% or RM407.10 billion of the EPF's investment assets were managed under the Shariah portfolio, comprising only Shariah-compliant investments, while 59% or RM587.06 billion of EPF's investment assets were managed under the conventional portfolio, which comprises largely Shariah non-compliant investments and the remaining Shariah-compliant investments. As the total balance of members' savings for Simpanan Shariah was lower than the total assets in the Shariah portfolio, both Simpanan Shariah and Simpanan Konvensional jointly invested in the Shariah portfolio of 40% or RM164.30 billion, and 60% or RM242.80 billion respectively. The income generated 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 estate 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. Any global market equities that are not screened by Shariah index providers, will be subjected to internal Shariah screening and endorsed by the SAC.

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

Based on the result of the Shariah screening endorsed by the SAC, any of the investments in the Shariah portfolio that failed the Shariah screening, will be reclassified as Shariah non-compliant investments and transferred to the conventional portfolio.

Similarly, any investments in the conventional portfolio that passes Shariah screening will be reclassified as Shariah-compliant investment and transferred to the Shariah portfolio. For Shariah mandates managed by external fund managers, any Shariah-compliant instruments reclassified as Shariah non-compliant will be disposed of in accordance with the guidelines set by the SAC SC.

4. Treatment of Shariah Non-Compliant Income

Any income generated from the operation and investment transactions related to Simpanan Shariah that the SAC determined as the Shariah non-compliant income shall be utilised by the Board for allowable expenses as advised by the SAC in accordance with rule 10 of the EPF (Simpanan Shariah Account) Rules 2016.

Shariah non-compliant income may be derived from the late payment charges that are in excess of actual losses and costs, reclassification of Shariah-compliant investments to Shariah non-compliant, Shariah non-compliant transactions and any other Shariah non-compliant income as determined by the SAC from time to time.

STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

As for the 2021 financial year, the Shariah non-compliant income was derived mainly from late payment charges imposed on employers for late contribution payments; and the gains received from the disposal of reclassified listed equities from Shariah-compliant equities to Shariah non-compliant by external fund managers for the Shariah Equity Mandate.

With regards to Simpanan Shariah, the SAC allows the imposition of late payment charges and/or dividends on employers and other parties for late payment of contribution payments and/or any financial obligations due and payable to the EPF, to safeguard the interest of members.

These charges can be used to cover actual losses and costs (*ta'widh*) as approved by the SAC, while any amount in excess of the *ta'widh* rate is 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 has resolved that 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 2021, the total Shariah non-compliant income was RM29.03 million and 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 2021 was 5.65%.

SHARIAH MATTERS RELATED TO MUSLIM MEMBERS

1. Zakat on EPF Savings

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

- (a) The responsibility to pay zakat on EPF savings is upon Muslim members who have fulfilled the obligatory zakat requirements.
- (b) Savings that have been perfectly owned (*milkut 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 faced 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 *hajah asliyah* expenses to meet basic needs, such as shelter, food and drink, health, education, transportation, or paying debts, for own self or dependents, 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 has fully owned his/her savings but only made a partial withdrawal or no withdrawal at all, the balance of savings that can be withdrawn will be subject to the zakat savings rulings and calculations set by the state zakat authority, after taking into account the member's all other savings that have yet to be zakat if they have reached the *haul* and *nisab*.

Types of withdrawals 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.

STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

2. Nomination

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

For Muslim members, the nominee acts as a *wasi* (administrator) to distribute the member's savings upon the member's death to the rightful beneficiary(ies) 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, had discussed the EPF savings, SOCSO, and other similar funds upon the death of Muslim members.

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 financial year 2016 before Simpanan Shariah was introduced. 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) is also exempted from purification, as the member has no control over 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, also resolved that the EPF is not obliged to purify dividends on EPF savings for all members who opted for Simpanan Shariah.

However, Muslim members who converted their account to Simpanan Shariah after 2017, are advised to purify their 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) channelled 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 2021 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 followed them.



We, members of the Shariah Advisory Committee of the EPF (SAC), have reviewed the operations and investment of the EPF in relation to the EPF's Simpanan Shariah for the year ended 31 December 2021, to form an opinion as to whether the Simpanan Shariah has complied with the Shariah principles and rulings of the SAC on all Shariah-related matters. We hereby submit our report for the financial year ended 31 December 2021:

1. The SAC has advised the Board and Investment Panel on all Shariah-related matters presented to us by the EPF Management through its Shariah decisions made by the SAC in relation to the operations and investment of Simpanan Shariah to ensure compliance with Shariah principles as well as the relevant local and global Shariah resolutions and standards recognised by the SAC.
2. The EPF Management is responsible for ensuring that Simpanan Shariah is managed in accordance with the Shariah principles by referring to the SAC for advice on any Shariah-related matters and implementing all Shariah rulings and policies set forth by the SAC. The EPF Management has also engaged the SAC in obtaining feedback on the EPF's sustainable investment policy and initiatives to enhance Simpanan Shariah.
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 the day-to-day oversight of Shariah compliance for Simpanan Shariah. In addition, the Internal Audit Department (IAD) evaluated the internal control framework and compliance with the Shariah policies and procedures advised by the SAC, on a regular basis.
5. During the period of movement control order (MCO) that the Government of Malaysia imposed 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. The SAC held 13 meetings for the financial year ended 31 December 2021 to discuss the following:
- (a) Shariah screening and issues, including Shariah parameters and guidelines relating to proposals on Shariah-compliant investment and the existing investment of the EPF, including relevant documents;
 - (b) Shariah investment initiatives, including infrastructure investment under a Shariah-compliant separate managed account;
 - (c) Shariah issues relating to the management of Simpanan Shariah's operations;
 - (d) Updates on the Shariah governance framework and Shariah compliance policies and guidelines, relating to the investment of Simpanan Shariah, including financial reporting; and
 - (e) Periodic reports on:
 - (i) reclassification of the Shariah status of the EPF's investments;
 - (ii) Shariah non-compliant income;
 - (iii) Subscription of sukuk and Islamic banking products;
 - (iv) Shariah compliance by external fund managers; and
 - (v) Members registration for Simpanan Shariah.

7. The SAC also received and deliberated on the Shariah review reports presented by the Shariah Compliance Section on a quarterly basis as per the Shariah Compliance Plan for 2021 approved by the SAC. This was done for the purpose of continuous assessment of the degree of Shariah compliance involving operations and investment activities of Simpanan Shariah with regards to new services, handling of Shariah-compliant equity investments reclassifications, Shariah screening on domestic and global Initial Public Offering (IPO), annual Shariah screening of the EPF's holdings in alternative investment, and treatment of non-compliant income.

8. The IAD has reviewed the operation and investment activities in relation to Simpanan Shariah to provide an independent and reasonable assurance on the adequacy and effectiveness of the internal control framework and compliance with the Shariah policies and procedures advised that the SAC has approved. The findings have been communicated to the EPF Management and reported to the Board Audit Committee. The audit observations are being periodically monitored by the IAD to ensure agreed audit observations and resolutions are being promptly addressed. The SAC has been informed about the audit observations and the status of actions taken.

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 2021 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 the SAC had endorsed in accordance with the Shariah principles; and
- (c) All incomes earned by Simpanan Shariah from Shariah non-compliant sources amounting to RM29.03 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 EPF's Simpanan Shariah for the financial year ended 31 December 2021 has been managed in conformity with the Shariah principles.

On behalf of the SAC,



Name: **DATUK PROF. DR. MOHAMAD AKRAM BIN LALDIN**
 Designation: CHAIRMAN OF THE SAC
 Date: 24 June 2022

On behalf of the SAC,



Name: **ASSOC. PROF. DR. AZNAN BIN HASAN**
 Designation: DEPUTY CHAIRMAN OF THE SAC
 Date: 24 June 2022

STATEMENT ON RISK MANAGEMENT

OVERVIEW

2021 was another challenging year for the EPF, with the continuous market volatility, challenging political landscape, and unsettled geopolitical environment which continue to shape the economic, financial, and risk landscape in Malaysia. Thus, the EPF adopts a proactive approach to strengthen and enhance its robust risk management system to remain relevant and resilient against the ever-changing risk landscape to ensure that risks are mitigated and managed effectively within the organisation.



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

EPF Board

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

Investment Panel (IP)

The 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 fund allocation for investment.

Board Risk Management Committee and Investment Panel Risk Committee

BOARD RISK MANAGEMENT COMMITTEE (BRMC)

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

INVESTMENT PANEL RISK COMMITTEE (IPRC)

The IPRC is responsible for assisting the IP in recommending the risk appetite and appropriate allocation of risk budget. The IPRC is delegated with the responsibility to review and approve appropriate risk measurements, policies, processes, and limits to ensure their continued effectiveness.

Dedicated Committees

MANAGEMENT OPERATIONS RISK COMMITTEE (MORC)

The MORC oversees, implements, and executes the EPF's operational risk management (which includes strategies, culture, structure, people, and processes) and to ensure that the risk management framework is implemented effectively throughout the organisation.

RISK MANAGEMENT DEPARTMENT (RMD)

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

DIGITAL RISK MANAGEMENT COMMITTEE (DRMC)

The DRMC provides guidance to the EPF's technology plans and operations, and is responsible for overseeing the development and maintenance of the Information Security and Technology Risk Management Programme within the EPF.

DIVISIONS, DEPARTMENTS AND BRANCHES

All divisions, departments, and branches are responsible for managing risks in their respective functions on a day-to-day basis, as well as for escalating significant potential risks to the MORC via the RMD. Among the principal roles and responsibilities of these divisions, departments and branches are:

MANAGEMENT RISK COMMITTEE (MRC)

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

- (a) Identify, assess, and manage risks;
- (b) Constantly review their risk profiles to ensure relevancy and appropriateness;
- (c) Update the risk status and level of risk management and controls;
- (d) Develop and implement action plans to manage risks; and
- (e) Adhere to risk management practices and guidelines.

MANAGEMENT INVESTMENT COMMITTEE (MIC)

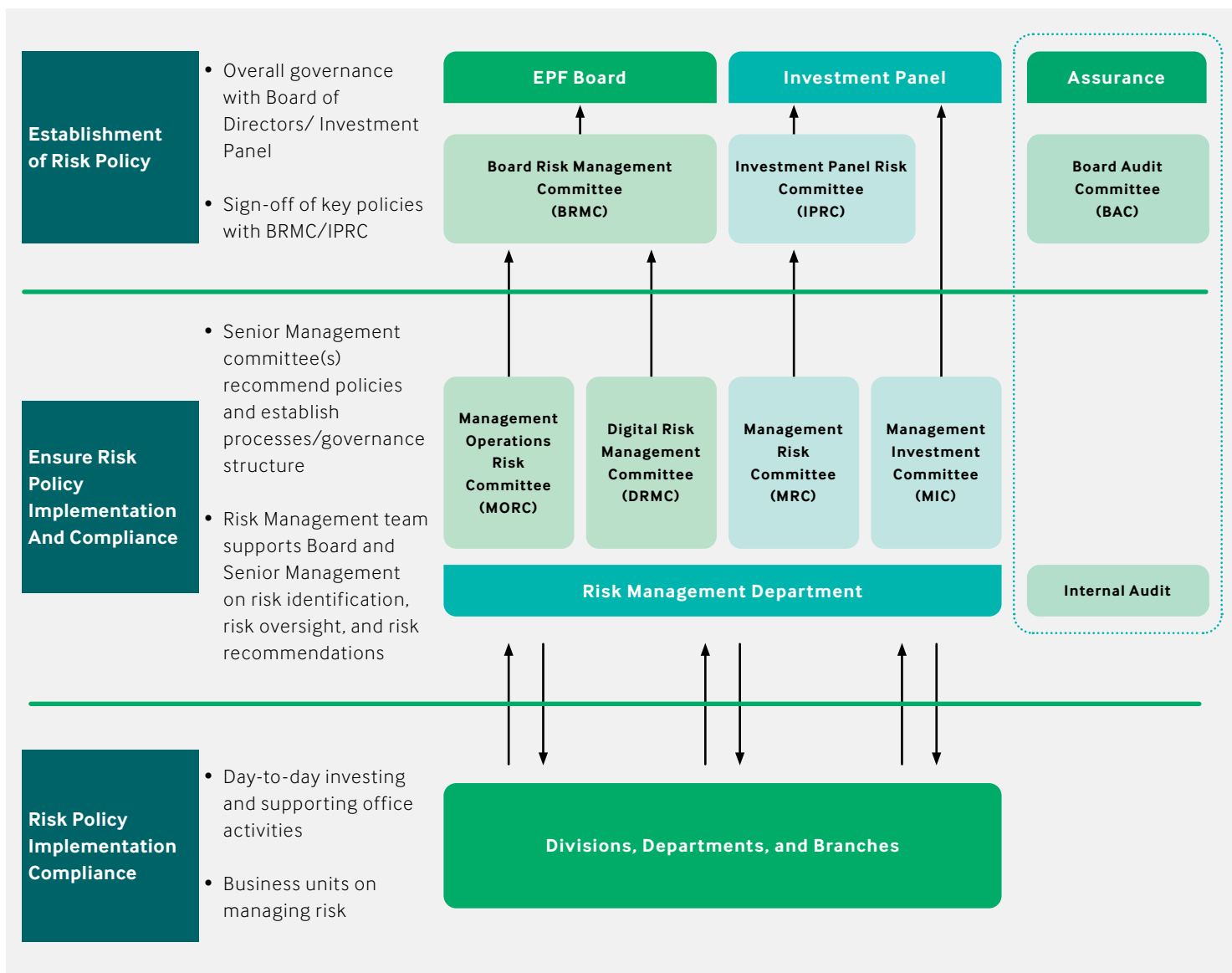
The MIC is responsible for evaluating and recommending investment proposals to the IP. It also evaluates and recommends investment strategies and performance of external fund managers.

STATEMENT ON RISK MANAGEMENT

RISK MANAGEMENT GOVERNANCE

The EPF believes that a strong governance structure is important to ensure 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 management are constantly engaging in healthy and productive discussions on key risk matters and processes to create a robust risk-practicing culture. 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

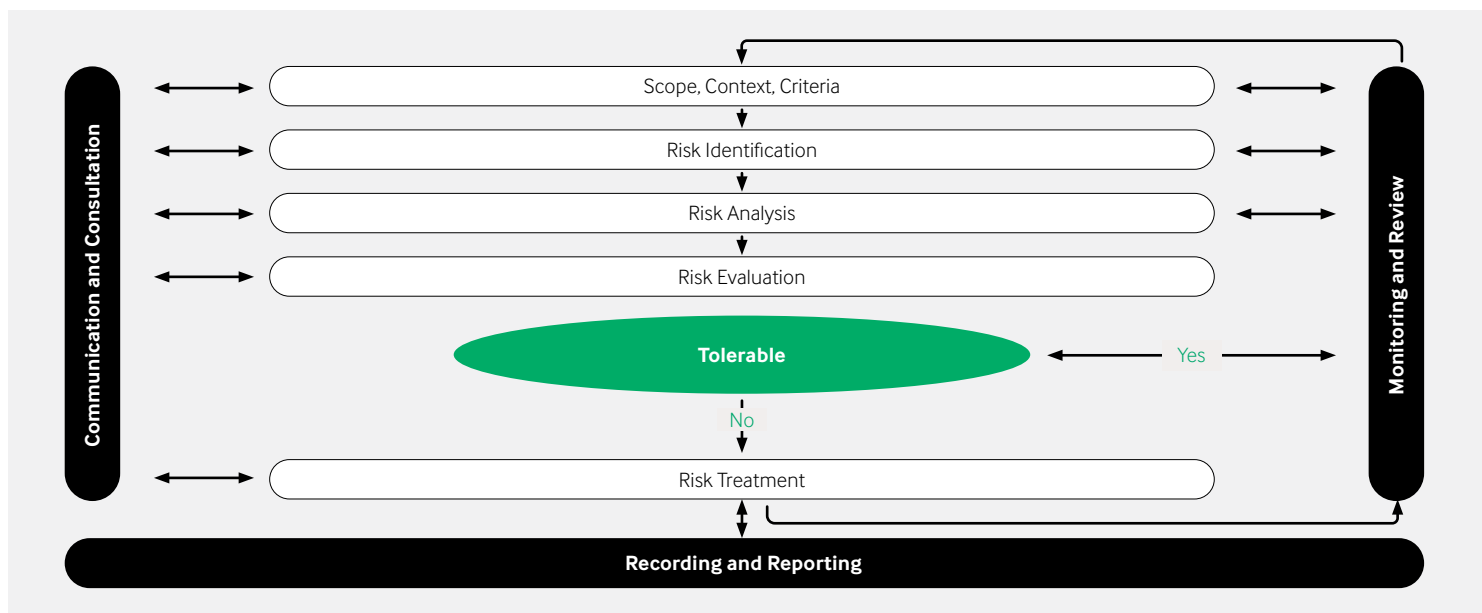
Operational Risk Management Framework

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:

ESTABLISHING THE CONTEXT	RISK ASSESSMENT	RISK TREATMENT	COMMUNICATION AND CONSULTATION	MONITORING AND REVIEW	RECORDING AND REPORTING
Articulates the organisation’s objectives and defines the external and internal parameters to be taken into account when managing risks.	The overall process of risk identification, risk analysis, and risk evaluation.	Actions to be taken to prevent detect, or manage the Net Risks to an acceptable level.	The two-way communication between Risk Management Department and stakeholders about the existence, nature, form, severity, or acceptability of risks.	Both activities are planned and are an integral part of the risk management process that involves regular checking or surveillance.	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, and management actions, and incorporates changes to the risk scorecard. All business units use the risk scorecard as a tool to manage their risks effectively.

A total of 110 risk scorecards were in place in 2021, 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, 34 departments, 2 sections and 68 branches. Risks in the EPF are monitored and managed through ownership from the line management and the assurance process is implemented through the Corporate Digital Assurance (CDA) process.

Owners of scorecard, risk control, and MA are required to provide digital assurance four times a year to the Management to 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 system, enabling the EPF to monitor potential risks before they escalate into serious concerns.

The Risk Management Department reports and highlights risk management-related issues in the 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.

Since the establishment of its own Risk Governance Structure in 2006, there has never been any major review on the approach and practices of the risk process in EPF since then. As we are living in an ever-changing risk landscape and emerging risks, it is of the utmost importance for the EPF to enhance its risk process to ensure that the relevant risks are not only being addressed with effective controls but also to act and respond quickly. It is with this in mind that the Risk Management Department decided that it is about time the risk process in the EPF should be enhanced.

The aim of the enhancement process is to enhance the risk identification process in the EPF by focusing on key risks and significant controls which are reflective of the current risk exposures impacting departments and branches. The risk ownership structure is also revised to give emphasis on the accountability and responsibility of risk owners.

The Enhancement of Risk Process project kicked off in January 2021 where a series of engagements and consultations between the Risk Management Department with both departments and branches were completed in December 2021. With the enhancement, the new risk scorecards are scheduled to be implemented in January 2022.

Corporate Risk Scorecard Methodology

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

Risk Scorecard

↑↓

Risk Owner

Risk Owner

Risk Owner

→ **Control Owners**

→ **MA Owners**

→ **KRI Owners**

Note:
MA = Management Action
KRI = Key Risk Indicator

Ownership is assigned to every scorecard, risk control, and Management Action (MA) to ensure accountability execution.

Risk Scoring

POSSIBILITY	Very High 5	6	7	8	9	10
	High 4	5	6	7	8	9
	Medium 3	4	5	6	7	8
	Low 2	3	4	5	6	7
	Very Low 1	2	3	4	5	6
	Insignificant 1	Minor 2	Moderate 3	Major 4	Very Significant 5	
	IMPACT					

The level of risk is determined upon the assessment of Gross Risk Rating, Control Effectiveness Rating, and Net Risk Rating. The risk score of each risk factor is derived by adding the rating on possibility and impact.

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

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 were tested to ensure their optimal readiness and functionality for staff working from home. The existing infrastructure were ensured to be adequate to cater for business continuity activities in the event of any disaster.

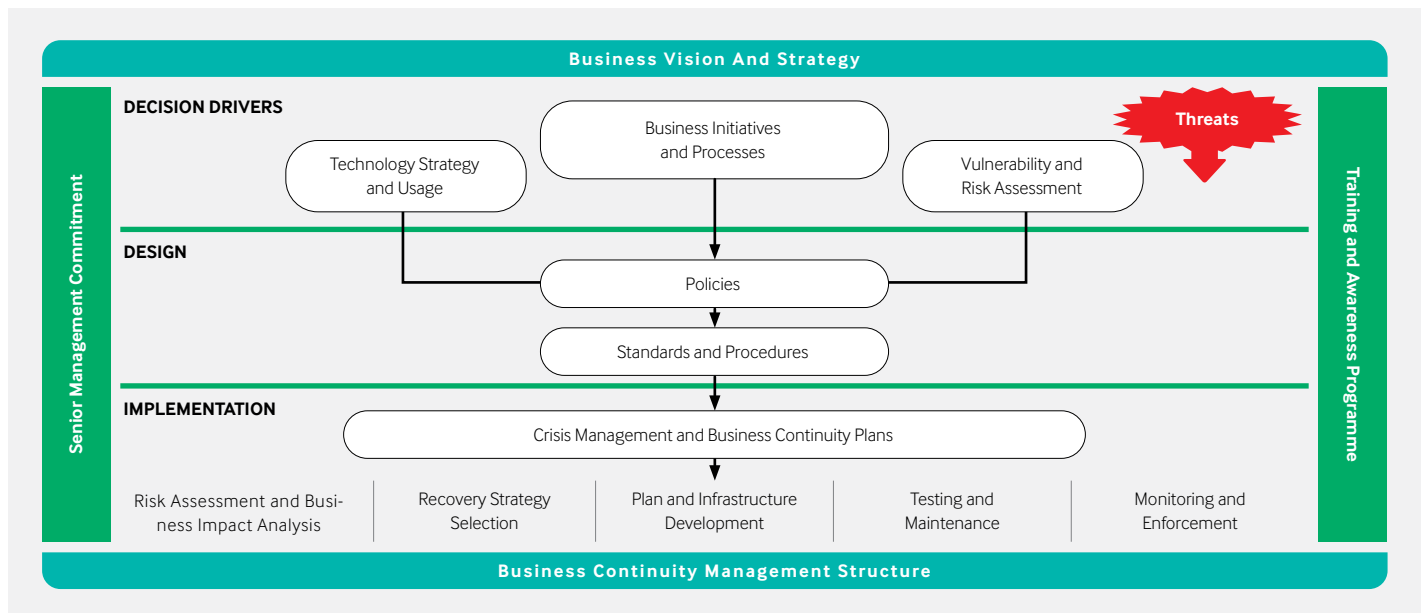
(c) Plan Readiness

Following the outbreak of COVID-19 and the rapid development of technology systems, the EPF has managed to continue providing its services to its customers. New modes of working such as working from home, team rotations, meetings, and virtual trainings were introduced as the new norms in the EPF. To ensure the EPF's preparedness in facing disasters related to technology systems, a cyber-attack crisis simulation exercise was held on 1 April 2021 which covered multiple scenarios. From the exercise, evaluations and proposals for improvement were presented to the management and later were also shared with staff for their knowledge and learning.

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 in the aftermath of a disaster.

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



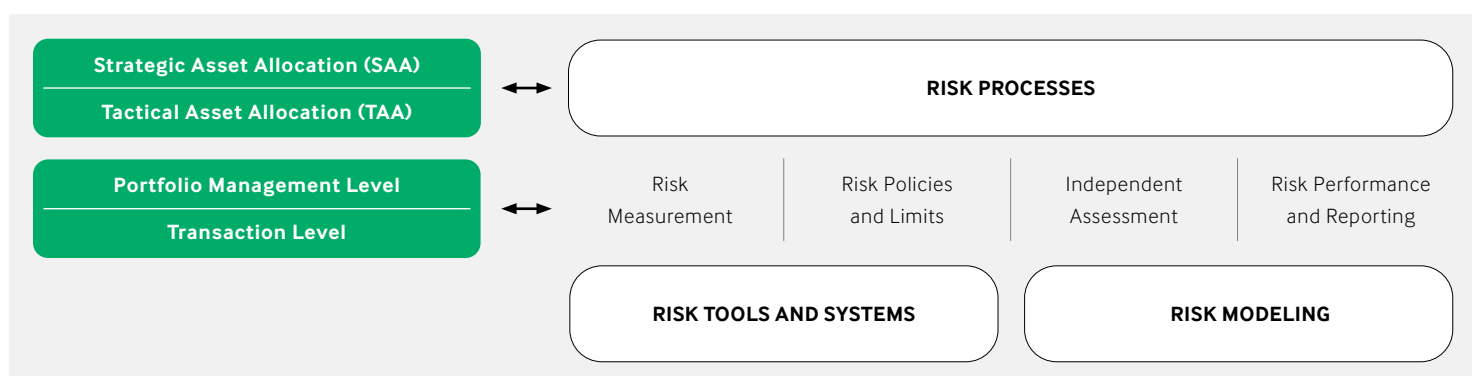
INVESTMENT RISK MANAGEMENT

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

The Investment Risk Management framework is illustrated below:



Market Risk

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.

This is done through an annual review of various policies and limits, periodic reports to monitor market risk at the portfolio level for each asset class, and independent validation performed on the underlying risk methodology:

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

STATEMENT ON RISK MANAGEMENT

Credit Risk

Credit Risk arises when a counterparty's or an obligor's failure to meet its payment obligations results in a loss. EPF's credit risk exposure is in direct correlation with its investing activities within fixed income instruments, private equity, and real estate & 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 at par with other institutional peers.

At the portfolio level, the following credit risk management practices have 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 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 ratings for corporate obligors.
 - (ii) Financial institution rating template which provides internal risk ratings for financial institution obligors.
 - (iii) Credit tool which measures the Expected Default Frequency (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 only allowed to make withdrawals under defined 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 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 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 fixed-income securities. The maturity profile of the EPF's assets and liabilities 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 from the Statement of Financial Position date to the contractual maturity date.

STATEMENT ON RISK MANAGEMENT

TECHNOLOGY RISK MANAGEMENT

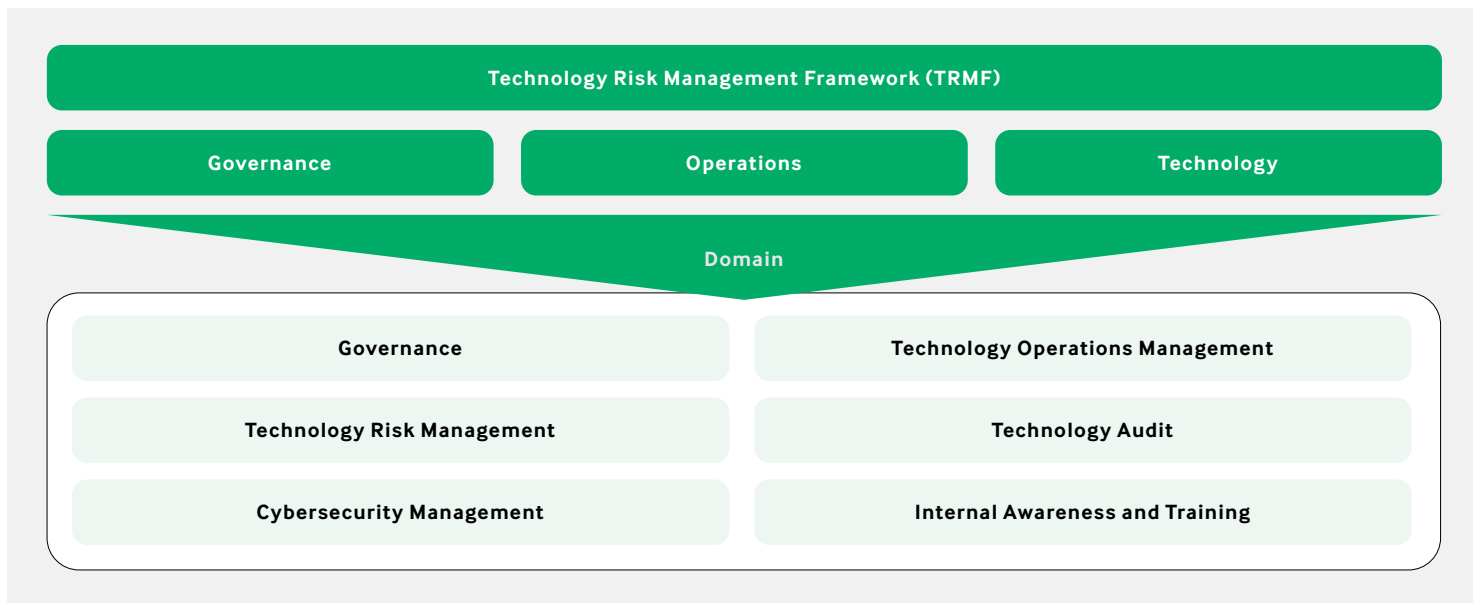
Technology Risk Management (TRM) provides independent risk assessment to enterprise-wide IT systems and projects and recommends effective technology risk controls to mitigate risks for the better protection of mission-critical IT systems that store, process, and transmit sensitive information.

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 resiliency against technology and cyber threats. This will enable the EPF to perform continuous self-assessments in ensuring technology and cyber risks are managed.

The Technology Risk Management Framework is illustrated below:



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

OVERVIEW

This Statement is in accordance with both 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 and Principle B of the Malaysian Code on Corporate Governance updated in April 2021, which states that the Board should establish an effective risk management and internal control framework.



It reflects our commitment in maintaining a high level of efficacy of our risk management and internal control framework in managing the challenges faced by 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.

These frameworks are designed to identify, analyse, and evaluate significant risks, thus, providing insights to the Board in discharging its risk oversight responsibilities in ensuring these risks are properly mitigated. Accordingly, the internal control framework 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 these 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 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 the IPRC is provided in the Statement on Investment Risk Management on page 103 in this Integrated Annual Report.

MANAGEMENT RESPONSIBILITY

The Management is responsible for implementing the Board's policies and procedures on risks and controls, comprising 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 actions and keeping the Board informed on a timely basis.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The EPF has an effective risk management and internal control framework in place as part of good corporate governance practice. It adopts the Three Lines Model.

The first line is represented by departments and branches which are responsible for establishing risk controls and incorporating all these controls in their day-to-day operations.

The second line 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, 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.

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

In the EPF, risk management is an integral part of key organisational processes. These include strategic planning process particularly in establishing the EPF Three Years Rolling Plan, business performance management through Balanced Scorecard, business operations, and decision-making process, enabling the EPF to achieve its strategic objectives.

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. Furthermore, the Technology Risk Management Framework (TRMF) is in place to manage technology-related risks, enhance technology resiliency and governance structure, as well as information protection.

These frameworks enable an integrated view of structured and disciplined processes in managing technology, information security and operational risk in the EPF.

Clear lines of responsibility and accountability have been established for the risk management process. The principal risk and control responsibilities under the risk management structure consist 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 BRMC reviews and recommends risk management strategies, and assesses the adequacy of the risk management framework; and

- (ii) The Management Operational Risk Committee (MORC) and Digital Risk Management Committee (DRMC) which assist the BRMC to review the operational and technology risk management frameworks and ensures that they are 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 BAC with an independent and reasonable assurance of the adequacy and effectiveness of the risk management and internal control framework. The BAC is responsible for reviewing internal control issues identified in reports prepared by both the internal and external auditors.

The BAC also reviews the internal audit function, with particular emphasis on the internal audit's independence, scope, resources, and quality of internal audits. Details of the activities undertaken by the BAC are further described in the BAC Report and the Statement on Internal Audit in this Integrated Annual Report.

KEY ELEMENTS OF INTERNAL CONTROL

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

(a) Control Environment

The control environment sets the tone of an organisation, influencing the control consciousness of its employees. 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's organisational structure has clearly defined lines of accountability, delegations 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 their respective committees.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

(iii) Human Resource Development

The EPF has established proper programmes outlining implementation of human resource development. This is to ensure employees are upskilled and reskilled in order to build an agile, future-ready workforce that can cope with the rapid shift to digitalisation and changes to the work environment. A comprehensive succession plan has also been established and regularly reviewed to strengthen our talent and succession bench strength.

(iv) Culture of Integrity

Entrusted with managing members' savings, the EPF has made efforts to foster a climate of trust and integrity in the organisation.

These include EPF Integrity Pillars, Integrity and Anti-Corruption Plan, Corruption Risk Management, Corporate Integrity Pledge, Integrity Pact, Anti-Corruption Statement, No-gift Policy, declarations of assets by staff, declarations of conflicts of interest in both procurement and investment processes, and zero-tolerance towards corruption.

In 2021, the EPF Anti-Corruption Policy and EPF Sponsorship and Donation Policy were established as part of a continuous effort to uphold the culture of integrity.

(v) Code of Ethics

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

(vi) 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 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 this Integrated Annual Report.

(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) 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.

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

(ii) Information Technology Security Management

Information security management in the EPF is based on ISO 27001, industry standards, and other best practices which outline the appropriate controls and procedures to ensure confidentiality, integrity, and availability of information and application systems.

The EPF's security architecture and design are constantly reviewed and improved to strengthen security controls and mitigate key technology and cyber risks.

(iii) 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

(iv) Business Continuity Management (BCM)

The BCM plans and systems are regularly monitored, tested, updated, and communicated to all levels to ensure that the EPF is able to respond and recover from any crisis or disaster.

In addition, cyber-crisis simulations are conducted to determine the preparedness of the EPF in the event of an actual cyber-attack.

(v) Risk Culture Index

To enhance risk management practices in the EPF, the Risk Culture Index is incorporated as a Key Performance Indicator (KPI) in all departments and branches.

(vi) Insurance Coverage

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

(d) 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 employees to carry out their duties. Relevant 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.

(e) Monitoring

Ongoing monitoring and evaluation of the effectiveness of internal controls 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 their implementations monitored to reduce the gap.

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

- (a) The BRMC, which meets a minimum of four times a year to oversee risk management activities;
- (b) The BAC, which meets a minimum of four times a year to review 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; and
- (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 26 April 2022.

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 consists of the following members:

(a) For the term from 1 June 2021 to 31 May 2023

No.	Members	Representative
(i)	Encik Khalid Hj. Sufat	Chairman – Professionals
(ii)	Puan Zakiah Jaafar YBhg. Datin Setia Nik Roslini Raja Ismail <i>(Alternate Member)</i>	Deputy Chairman – Government
(iii)	YB. Datuk Seri Panglima Sr. Haji Safar Untong YBhg. Datuk (Datu) Rosmadi Datu Sulai <i>(Alternate Member)</i>	Government
(iv)	YBhg. Datuk Dr. Philip Ting Ding Ing	Employers
(v)	Encik Law Kiat Min	Employees
(vi)	Encik Zainal Abidin Mohd Kassim	Professionals

(b) Previous term from 1 June 2019 to 31 May 2021

No.	Members	Representative
(i)	Encik Khalid Hj. Sufat	Chairman – Professionals
(ii)	Puan Zakiah Jaafar <i>(Appointed on 1 February 2020)</i> YBhg. Datin Setia Nik Roslini Raja Ismail <i>(Alternate Member)</i> <i>(Appointed on 1 April 2020)</i>	Deputy Chairman – Government
(iii)	YBhg. Datuk Dr. Philip Ting Ding Ing	Employers
(iv)	Puan Hadiyah Leen	Employees
(v)	Encik Zainal Abidin Mohd Kassim	Professionals

MEETINGS

During the financial year 2021, the Board Audit Committee has met a total of nine (9) times: four (4) Special Board Audit Committee meetings, four (4) Board Audit Committee meetings, and one (1) Board Audit Committee meeting with the external auditors.

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.

SUMMARY OF PRINCIPAL ACTIVITIES

During the financial year 2021, the Board Audit Committee carried out the following activities to discharge its responsibilities as outlined in the Terms of Reference:

(a) Internal Audit

Reviewed and approved the annual audit plan to ensure adequate audit scope and comprehensive coverage of the EPF's activities as planned, based on risk assessment conducted. The 2022 Annual Audit Plan was approved in November 2021 where 110 audits were proposed to be conducted.

Reviewed and deliberated on internal audit reports tabled during the year, including recommendations made, root causes identified, and the Management's response to these recommendations, as well as the timely mitigation actions taken by Management to improve the system of internal controls and its processes on the highlighted areas.

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 conclusions on moving forward actions by Management.

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.

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

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.

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

Monitored the implementation of the initiatives proposed under the QAR report prepared by PwC in 2020.

Reviewed and deliberated the updated Terms of Reference of the Board Audit Committee and recommended the same to the Board for approval.

Reviewed and approved the updates made to the Internal Audit Charter.

Reviewed and approved the Balanced Scorecard 2021 for Head of Internal Audit Department.

(b) External Audit

External auditors were invited to discuss their audit planning memorandum.

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

Met the external auditors on 19 November 2021 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.

(d) Related Party Transactions

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

BOARD AUDIT COMMITTEE REPORT

TRAINING

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

Course
(a) Audit Committee Conference 2021: Agility, Empathy and Resilience: How the Audit Committee Will Thrive in the New Normal
(b) World Pension Summit 2021
(c) International Social Wellbeing Conference (ISWC) 2021
(d) Behavioural Insight
(e) Trends in Customer Behaviours
(f) Best Practices in Pension Design
(g) Social Protection: Towards Responsive System
(h) Data Culture
(i) Managing Cyber Risk in a Rapidly Evolving Threat Landscape
(j) Sustainability Day – In The New Normal

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. Internal audit activities are free from interference in determining the scope of internal auditing, performance of work, and communication of results.

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

SCOPE OF WORK

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

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

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

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

STATEMENT ON INTERNAL AUDIT

The Internal Audit Department formulates the audit plan using a risk-based approach, taking into consideration the EPF's strategic objectives as well as inputs from 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 2021, a total of 141 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 of 31 December 2021, the Internal Audit Department had a staff strength of 92 individuals from diverse background and qualifications, as follows:

Field of Expertise	No. of Auditors	Percentage
(a) Finance and Accounting	62	68%
(b) Information Technology	16	17%
(c) Business Administration	11	12%
(d) Engineering / Quantity Surveying	3	3%
Total	92	100%

PROFESSIONAL QUALIFICATIONS AND CONTINUOUS COMPETENCY DEVELOPMENT

The Internal Audit Department is committed to provide training and continuously encourages auditors to equip themselves 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, 23 of our internal auditors hold a total of 29 professional certifications and qualifications, such as Association of Chartered Certified Accountants (ACCA), Certified Practising Accountants (CPA) Australia, Malaysian Institute of Certified Public Accountants (MICPA), 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 equipped themselves with the requisite knowledge through the following activities:

- Involvement in conferences and trainings in the area of auditing, data analytics, product knowledge, strategic initiatives, leadership and communication, business acumen, and personal development;
- Training sessions organised on EPF processes to keep the auditors updated with latest developments in the organisation; and
- Job rotation among auditors to provide exposure on different audit areas.

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 (5) years. The external quality assessment covers 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 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 risk measurement, independent risk assessment, monitoring, and reporting of the EPF's investment risk exposures.

RISK TOLERANCE

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 12 May 2022.