

# Independent Validation of FNPF

The Fiji National Provident Fund's role as custodian of members' funds means that due care and diligence must be practiced at all times to ensure that members' retirement savings are protected. The FNPF Act 2011 and Regulations give mandate to the Board on how the affairs of the Fund must be administered. Through various policies, these powers are then delegated to Management to run the day-to-day operations of the Fund. Apart from the various protections in the FNPF Act to safeguard members' interests, there are other independent parties that are either required by the legislation and/or engaged by the Board to ensure that the operation of the Fund is conducted to the best international standards.

This includes the following:

1. The RBF as the Regulator
2. Appointment of Fund Actuary
3. Appointment of international Accounting Firms
4. The use of independent consultants especially for valuations
5. Engagement with ISSA
6. Engagement with international bodies like the ADB, WBG and IFC

These independent validations are important for the Fund and more importantly, its members. Not only does it reaffirm the Fund's financially sound position, but it also ensures that members' funds are managed in accordance with international standards. This should provide another level of assurance for members.

This week, we will shed some light on the importance of getting the additional validations from external parties.

## External Auditors

### Are the Fund's annual financial statements audited by an external party?

Yes, the Fund is required by law to ensure its annual financial statements are audited. This is clearly outlined in Section 26 of the FNPF Act 2011. The 2020 financial year statements were audited by PricewaterhouseCoopers (PwC).

### Does the Fund use the same auditor every year?

The FNPF External Auditors are rotated every five years. The selection of external auditors are undertaken through a transparent open tender process. After selection, the FNPF notifies RBF within 14 days of selection to review the appointment and the RBF as the regulator, at its discretion, may rescind or reject the appointment.

### What was PwC's opinion on the Fund's 2020 financial statements?

According to the Independent Audit Report, which is included in the Annual Report, PwC is of the opinion that the financial statements were a true and fair reflection of the Fund's financial position as at 30 June, 2020 and of its financial performance, changes in members' benefits, changes in reserves and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### The PwC Report in the FNPF 2020 Annual Report mentions an Emphasis of Matter – what does that mean?

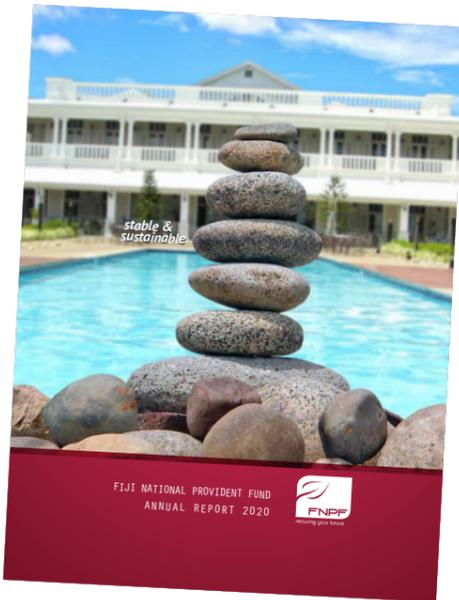
Whilst the auditors (PwC) issued an unqualified opinion for the financial year, the continued impact of COVID-19 and uncertainty in the economic environment in future may cause material adjustments to the carrying amounts of financial assets and investment properties in the next financial year.

## Role of the Actuary

### What is the role of the Actuary?

The FNPF Act 2011 requires that its Board must ensure that an Actuary is appointed for the Fund at all times. The Actuary is required under the FNPF Act to prepare statutory reports and certificates which are provided to the FNPF Board and the regulator.

Under the FNPF Regulations 2014, the Actuary is required to sign-off the proposed determination of crediting rate for a financial year to ensure that the crediting rate decision is made without placing undue stress on the solvency position of the Fund.



FNPF's 2020 Annual Report can be accessed on the website [www.myfnpf.com.fj](http://www.myfnpf.com.fj)

### What reports are prepared by the Fund Actuary?

The Actuary prepares the following reports, as required by the Act, on a regular basis:

- Financial Condition Report (FCR)
- Liability valuation report for the Retirement Income Fund (RIF)
- Fund and Solvency certificates for the Retirement Income Fund and for the Special Death Benefit Fund (SDBF)
- Regulation 41(4) Certificate

### What is the Financial Condition Report (FCR)?

In the 2020 FCR, the Actuary provides an opinion on the overall financial health of each of: the FNPF Member Fund, the Retirement Income Fund and the Special Death Benefits Fund.

In detail, the report includes:

- the Actuary's opinion on the ability of the Member Fund to continue to meet its liabilities to members (in other words, the ability of the FNPF to continuously comply with the legislative solvency requirement);
- the Actuary's opinion on the ability of the RIF and SDBF to meet their obligations when they fall due, as well as the ability of the two sub-funds to meet their obligations in respect of new business expected in the near future. The solvency position and capital adequacy of the RIF and SDBF are certified in their liability valuation reports and/or Funding and Solvency certificates.
- It also provides an appropriate forum for the Actuary to raise his opinion on other aspects of FNPF, including operation, policy issues, as well as potential risks and its possible mitigation actions.

In order to provide the opinions, the Actuary needs to undertake a comprehensive analysis of the past financial experience of each fund, including: contributions, withdrawals, investment performance, administration costs, annuity payments and death benefits. This analysis is then used to prepare forward projections of the financial experience of each fund. Forward projections of financial experience are, of course, subject to uncertainty. However, to provide an opinion that the financial health is sound, the Actuary needs to be satisfied that the fund(s) will be able to continue to meet its obligations to members even if the future financial experience is adverse.

### What were the Actuary's findings on the Fund's 2020 FCR and was an external opinion sought on the FCR?

The Actuary found that the financial condition of each fund was sound. Mercer Consulting (Australia) Pty Ltd carried out an independent peer review of the FCR and found the actuary's conclusions were appropriate. Every three years, independent peer reviews of FNPF's actuarial reports are carried out. Independent peer reviews represent an important part of the overall financial governance system for the FNPF. For the 2020 actuarial peer review, FNPF has received the review letters from Mercer, covering their review opinion in respect of:

- compliance with relevant actuarial standards of practice and statutory requirements;
- the quality of the data used for analysis, the reasonableness of the methodology

and assumptions adopted for the liability valuation and other analyses;

- compliance of the calculation and report with international actuarial best practice;
- appropriateness of the control processes for dealing with risks associated with preparing the calculations.

## Investment Valuation

### In terms of the value of the Fund's investments, are these also assessed by external parties?

Yes and for the 2020 financial year, FNPF engaged BDO Christchurch Ltd and Colliers International (NZ) to undertake independent business valuations of FNPF's key investments in subsidiaries as at 30 June 2020. This is a requirement under the International Financial Reporting Standards (IFRS) and FNPF's accounting policy.

### Which investments were valued by these external parties?

BDO Christchurch Ltd undertook independent valuations for Amalgamated Telecom Holdings Ltd (ATH), Vodafone Fiji Ltd (VFL) and HFC Bank (HFC). Colliers International (NZ) conducted independent valuations for all of FNPF's hotel entities. Primary business valuation methodology was discounted cash flow, which took into account the impact of COVID-19 on the respective company's cash flows at the current time and in the future cash flows at 30 June 2020. However, being mindful that we are in a dynamic and continually changing operating environment as a result of COVID-19, these forecasts would be quite different if viewed from another point in time.

### Why is it important to get these independent valuations done on the Fund's investments?

The intention of the exercise is to reflect the fair value of FNPF's investments in these companies in light of COVID-19. This also ensures that FNPF does not overstate the fair value of its investments. As a result, hotel entities were significantly impacted in terms of the reduction in its fair values versus 30 June 2019 (impairment provision). Similarly, there were downside impacts as well for HFC Bank, however, the investment in the TelCos, showed resilience.

## The Regulator's Role

### How does the Reserve Bank of Fiji carry out its role as the Fund's regulator?

The Reserve Bank of Fiji (RBF) as part of its role as the Fund's Regulator is mandated to oversee the operations of the Fund in accordance with the FNPF Act 2011, RBF issued Policy statements for FNPF and licence institutions (where applicable), the relevant prudential supervision guidelines and on-site and off-site prudential examinations from time to time. In the past 15 years, the RBF has conducted 9 on-site examinations focusing on the strategic areas of the Fund. (Refer to the table below)

### When was the last RBF on-site examination conducted?

This was done in 2018, targeting Governance Risk aspects of the Fund. The scope of the onsite examination involved an appropriateness of the adequacy of the governance framework, arrangements

and practices in place to ensure that the objectives and strategies of the Fund continue to be effectively met. The review focused on the oversight provided by:

- The FNPF Board;
- The senior Management;
- The Risk Management;
- The Internal Audit;
- The Compliance Function;
- Inherent Risk Assessment; and
- FNPF's capital and earnings;

The overall assessment noted the Fund as having a sound and effective corporate governance framework that is aligned to best practices, local and international prudential standards on corporate governance which is reinforced by an established risk governance framework. The assessment pointed out that the Board continued to be effective in providing the required quality oversight on the Fund's strategic direction, investment and operating performance ensuring accountability and transparency. It concluded that the senior management oversight function was strong noting the effective management structure and the competencies of senior management. It also pointed out an established risk management coupled with an effective control environment. In addition, the examination pointed out strong internal audit function and compliance function to be performing well.

The composite risk rating issued was moderate and stable with the capital and earnings assessed as strong and stable for the next 12 months.

### What is the status of the Fund's Risk Profile?

The final report issued in October 2019, highlighted that the Fund's Risk Framework and Risk Profile reflects the strong commitment and proactive approach of the Board and Management over the years in setting the direction and driving the key initiatives to strengthen risk management within the Fund. Whilst there were a number of recommendations arising from this review, the overall assessment of the Fund against KPMG's Risk Maturity Framework resulted in ratings ranging from mature to integrated.

### Who carried out this assessment?

KPMG (Fiji) was selected through an open tender process to carry out the independent review.

They were engaged to undertake an assessment of the Fund's Risk Profile and comment on the established risk management framework as part of an assurance exercise that all pertinent areas of risks are effectively covered. The report pointed out that the Fund's Risk Framework reflects the strong commitment and proactive approach to manage risks.

### What were KPMG's findings?

Having undertaken a very thorough review of the Risk Management practices in the Fund, the report rated risk management as mature to integrated. This is a good result as the final stage of risk rating used by the Assessor is Advanced.

The Fund continues to review its risks on an on-going basis and an independent assurance similar to the KPMG assessment will be undertaken in the near future to be on par with the emerging risks for the Fund.

On-site Examinations Conducted by the Reserve Bank of Fiji (2007 to 2018)		
Year	Title	Composite Risk Rating
2007	Risk Based Review of the Fund's Corporate Governance	Moderate
2008	On-site of the Effectiveness of the Oversight functions in mitigating Inherent Risks for Investments	Moderate
2009	Operational Risk Management	High
2011	Adequacy of the Fund's Risk management Framework	Moderate
2012	Adequacy of the Fund's Risk Management Framework in Relation to its management of Governance, strategy, investment and Pension Risks	Moderate
2014	Pension Risk	Low
2014	Market and Investment Risk	Moderate
2016	Operational Risk	Low
2018	Governance	Moderate