

Calm in the storm: Audit committees remain resilient in a volatile world



The key issues driving the audit committee agenda in 2023

By Kristy Carscallen

The role of the audit committee is expanding, and their expertise has never been more in need. We're in a uniquely challenging business environment and the risks companies face are mounting. Organizations are fighting fires in every direction: Interest rates are rising, inflation is at rates not seen in decades and a recession is looming. This is compounded by geopolitical tensions, supply chain disruptions, a war for talent, new work models and impending ESG and cyber regulation.

In this environment it's hard to stay fully informed of the issues, never mind manage for them. In this year's Accelerate insights series, we examine some of the most pressing issues facing organizations and outline the questions audit committees should be asking.

New privacy laws on the horizon

The cyber threat landscape is ever evolving, and organizations are looking for their blind spots, including those posed by their value chain. Meanwhile, Canadian jurisdictions are rolling out new laws governing the protection and use of personal information, with others expected to follow suit. Audit committees will want to ensure management is putting in place the processes and controls to become compliant with this legislation and prepare for future regulations.

Divide between finance and operations teams exposing new risks

In the wake of the rapid digital transformation of the past few years, there is a risk that finance and operations are disconnected. This can lead to poor decision-making and a poor employee and customer experience. Governance will be key to maintaining the newly created data environment.

Mandatory ESG reporting is around the corner

ESG data is among the data that needs to be coordinated through this transformation. Mandatory ESG reporting requirements are on the horizon and



Audit committees must ensure management is keeping up with the evolving threat landscape and has strategies in place to identify and mitigate risk.

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organizations need to be sure they keep apprised of the changes and timelines for these regulations. They should begin treating ESG data as they do financial data—protecting it through the three lines of defense, ensuring it is subject to the same disclosure controls and procedures as financial data and seeking outside assurance. Audit committees will want to be sure the company is preparing to meet these regulatory requirements.

Feeling the heat on climate impacts

Physical impacts of climate risk on business is also garnering increased focus and may also see the implementation of compulsory reporting. Organizations will need to think holistically and seek to identify the direct and indirect effects of physical climate change across the value chain. Management, boards and audit committees need to understand how these can affect their operations—and their financial statements.

Talent attraction and retention takes centre stage

Of course, cybersecurity, digital transformation, ESG reporting and identifying physical climate risks all require unique skillsets, but finding and retaining the

right talent continues to be a challenge. Organizations hoping to attract and retain the best talent will need to look at their hiring practices and their corporate purpose and culture. They'll also need to develop a succession plan that allows them to retain and pass down institutional knowledge. Audit committees should ensure management is working to retain key people in the finance function and has a plan in place for knowledge transfer.

Economic volatility hampers growth

Organizations will be tackling these challenges against a background of unprecedented economic volatility. Decades-high inflation, rising interest rates, a coming recession and geopolitical and social forces are all buffeting companies. They'll need to pay close attention to their debt structures and cash flow while drawing on the financial know-how of their audit committee to weather the storm and possibly even emerge stronger.

In the 2023 Accelerate article series, subject matter experts from across KPMG in Canada examine these issues and the way audit committees—whose role has been expanding in recent years—will be instrumental in helping organizations navigate them.

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