












# 2023 Audit Committee Insights

Board Leadership Centre

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A decorative graphic element consisting of a thick, wavy line that transitions from purple to blue. The line starts on the left, dips, rises, dips again, and then rises sharply, crossing a light blue rectangular area that occupies the right half of the page. The line continues to rise and curve to the right, ending at the top edge of the page.

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# Confidence and concerns

The audit committee's perspective continues to be a bellwether for the business and the board.

As highlighted by our survey, the expanding scope and complexity of the audit committee's workload and oversight responsibilities are an important indicator of the challenges facing corporates. Uncertainty and disruption across the global business landscape are intensifying pressures on the risk and control environment in new and unexpected ways. From economic and geopolitical volatility, growing cyber threats, and artificial intelligence to climate, talent, and other environmental, social, and governance (ESG) issues, the range and interconnectedness of risks and macro forces are putting corporate governance to the test.

Encouragingly, our survey results show that most audit committees view their company's risk management processes as sophisticated or keeping pace. But their confidence is muted by sobering concerns— particularly risks posed by the company's digital activities, potential gaps in the oversight of emerging risks, and talent needs in the finance and internal audit organisations.

The top ways to improve the audit committee's effectiveness? - Better information quality and flow from management and adding specific expertise to the committee.

To that end, we hope this survey report helps spark robust conversations with your audit committee, board, and management as you navigate the challenges ahead.

*KPMG Audit Committee Institute and Board Leadership Center*

# Key takeaways



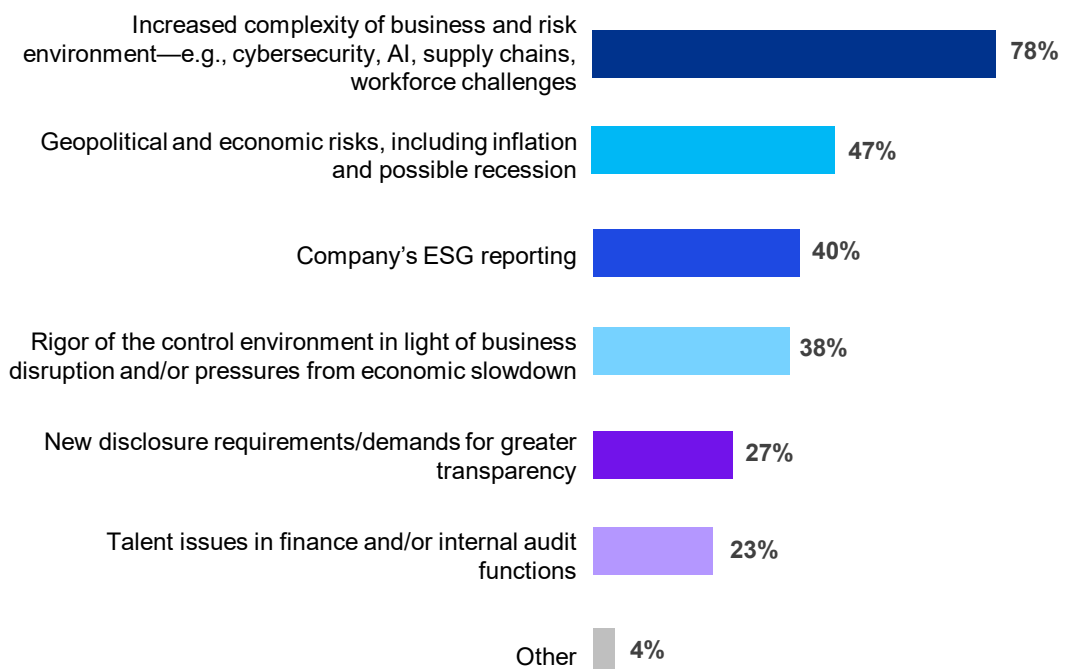
## The audit committee's focus and agenda are being impacted by macro trends and related risk and complexity.

Among the macro trends driving the audit committee's priorities are the increasing complexity of the business and risk environment posed by cybersecurity, AI developments, supply chain disruptions, and workforce challenges; geopolitical and economic risks, including inflation and risk of

recession; and regulatory and stakeholder demands for disclosure and transparency, including ESG reporting. All of those factors will put pressure on the company's risk and internal control environment, as well as the finance and internal audit functions.



### Which macro trends will have the greatest impact on your audit committee's focus and agenda in the months ahead?



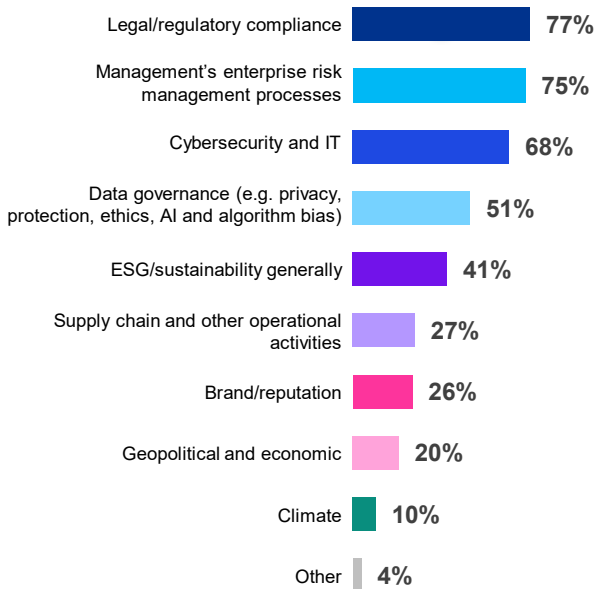
## While the full board oversees mission-critical risks, the audit committee’s risk oversight responsibilities continue to expand.

Although 65% of survey respondents reported that their full board has oversight responsibility for the company’s mission-critical risks, most say the audit committee continues to shoulder heavy risk agendas and oversight responsibilities beyond its core responsibilities. Respondents reported their audit committees having substantial oversight responsibility for legal/regulatory compliance; management’s enterprise risk management (ERM) system and processes; cybersecurity and IT; and data governance. Many audit committees also have

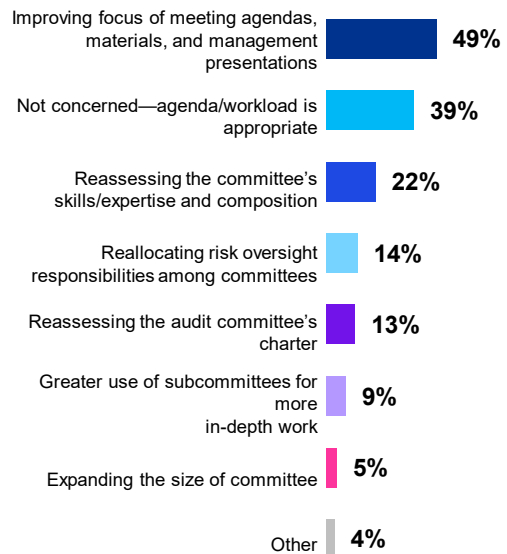
significant oversight responsibilities for other risks, including ESG, geopolitical and economic risks, brand/reputation relevant risks, as well as supply chain and other operational risks. And while many survey respondents expressed concern about their audit committee’s workload, only 14% said their boards were reallocating risk oversight responsibilities among committees.



**In addition to financial reporting and related control risks, for which risks does your audit committee have significant oversight responsibilities? (Select all that apply.)**



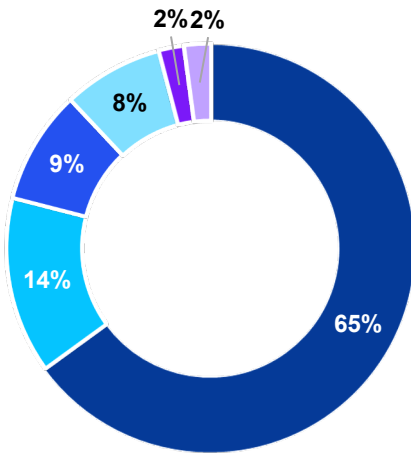
**How is your audit committee addressing concerns about the committee’s workload? (Select all that apply.)**



# While the full board oversees mission-critical risks, the audit committee’s risk oversight responsibilities continue to expand. (cont’d)



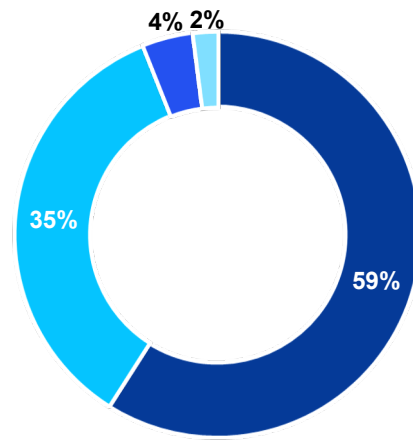
Where does responsibility for oversight of the company’s key/mission-critical risks reside?



- Full board
- Audit committee
- Board committee other than the audit committee
- Undeclared
- Allocated among different committees
- Other



How confident are you that there is a clear, common understanding — across the board and management — of what the company’s key/mission-critical risks are?



- Confident
- Somewhat confident
- Not confident --- but actively being discussed
- Not confident



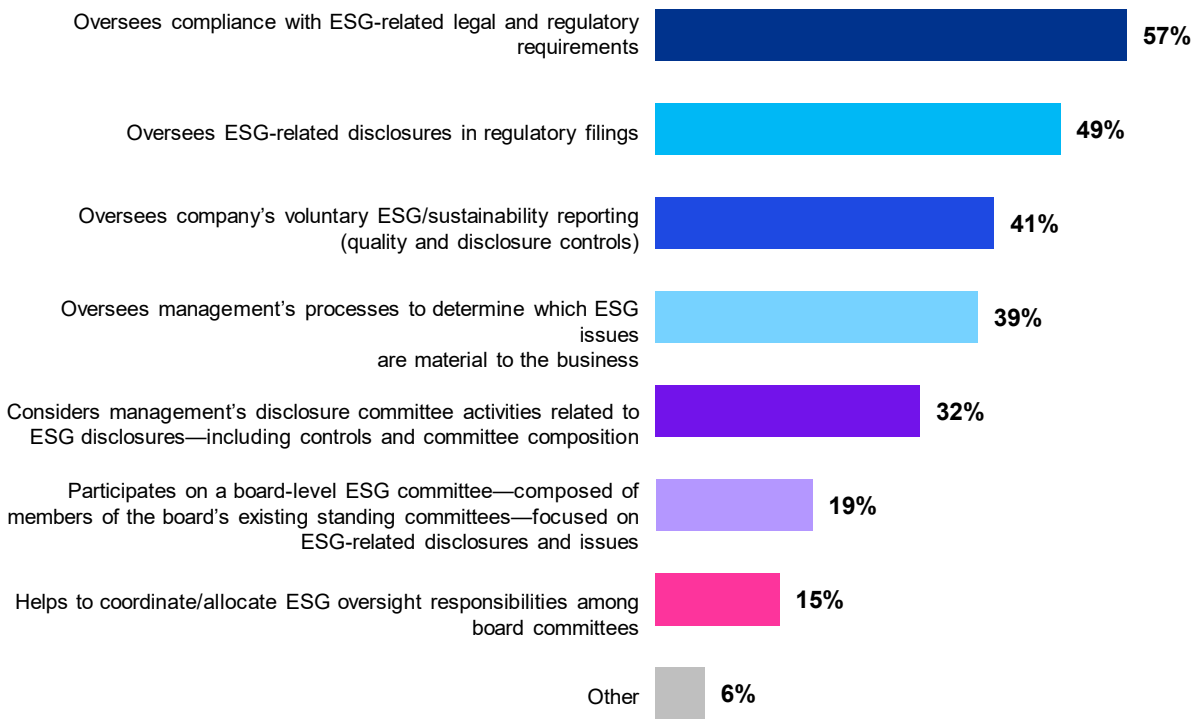
## Audit committees are heavily involved in overseeing ESG and sustainability disclosures, and many should anticipate even deeper involvement.

Most survey respondents said that their audit committee oversees compliance with ESG-related legal and regulatory requirements, 49% reported that their committee oversee ESG-related disclosures in regulatory filings, and 32% consider management’s disclosure committee’s activities in connection with these disclosures. Audit committee members reported

significantly more involvement in oversight of ESG and sustainability reporting—including voluntary ESG and sustainability reporting, overseeing management’s disclosure committee’s activities in connection with these disclosures, and helping to coordinate ESG oversight responsibilities among the board’s standing committees.



### What is your audit committee’s role in the oversight of ESG-related issues? (Select all that apply.)



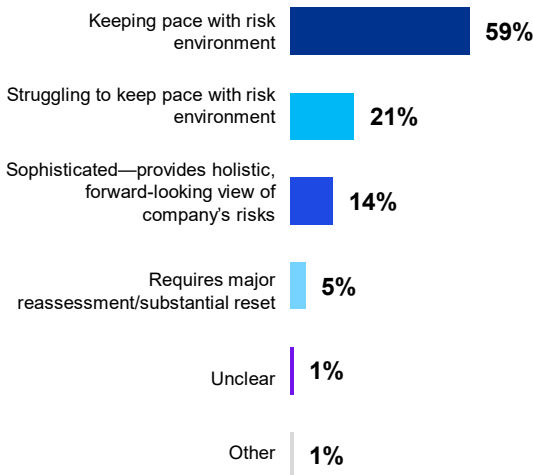
## Risk management and reporting are generally viewed as strong, but with key areas of concern related to digital activities, potential gaps in oversight, and talent.

While 94% of all survey respondents said their company’s risk management and reporting capability was “keeping pace with the risk environment,” “struggling to keep pace with risk environment” or “sophisticated”, they identified three critical challenges ahead: the risks posed by the company’s data/digital activities—cybersecurity (including ransomware and IP),

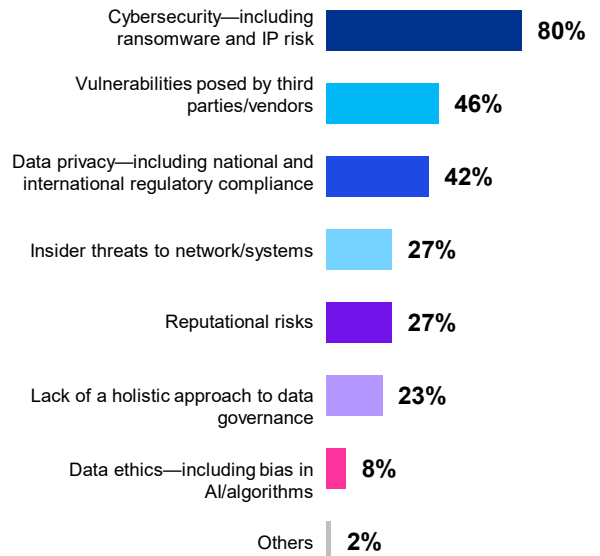
vulnerabilities posed by third parties/vendors, and data privacy; potential oversight gaps when multiple standing committees have oversight responsibilities for a category of risk such as cybersecurity, data privacy, compliance, and supply chain issues; and whether talent and skill sets in the finance and internal audit organisations are keeping pace.



### How would you describe the company’s risk management and reporting capability?



### Of the risks posed by the company’s data/digital activities, which elements are particularly concerning or challenging from the audit committee’s oversight perspective?





## Risk management and reporting are generally viewed as strong, but with key areas of concern related to digital activities, potential gaps in oversight, and talent. (cont'd)

Although 65% of survey respondents reported that their full board has oversight responsibility for the company’s mission-critical risks, most say the audit committee continues to shoulder heavy risk agendas and oversight responsibilities beyond its core responsibilities. Respondents reported their audit committees having substantial oversight responsibility for legal/regulatory compliance; management’s enterprise risk management (ERM) system and processes; cybersecurity and IT; and data governance. Many audit committees also have

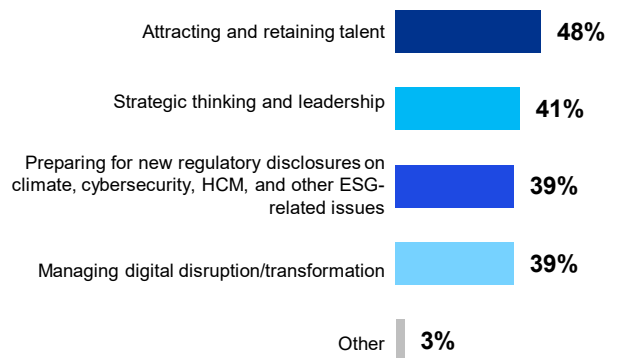
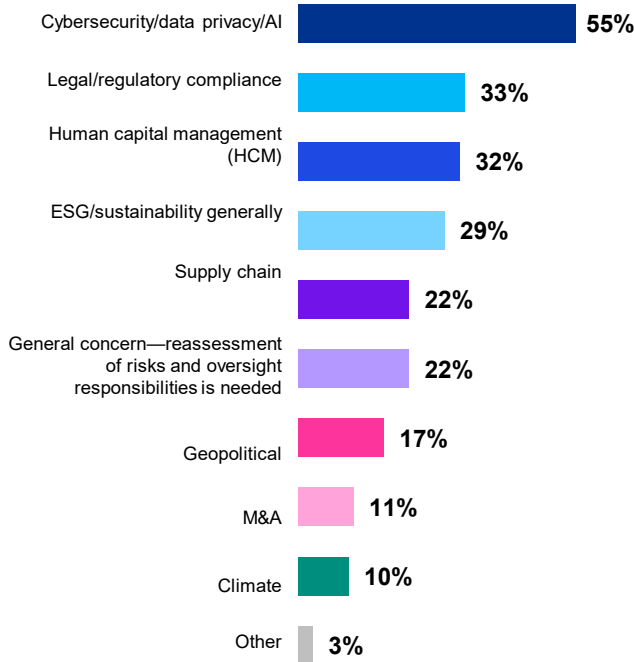
significant oversight responsibilities for other risks, including ESG, geopolitical and economic risks, brand/reputation relevant risks, as well as supply chain and other operational risks. And while many survey respondents expressed concern about their audit committee’s workload, only 14% said their boards were reallocating risk oversight responsibilities among committees.



**Of the various enterprise risks under the purview of multiple board committees, which ones are you most concerned about in terms of potential oversight gaps?**



**In your view, what are the top challenges facing the finance organisation?**





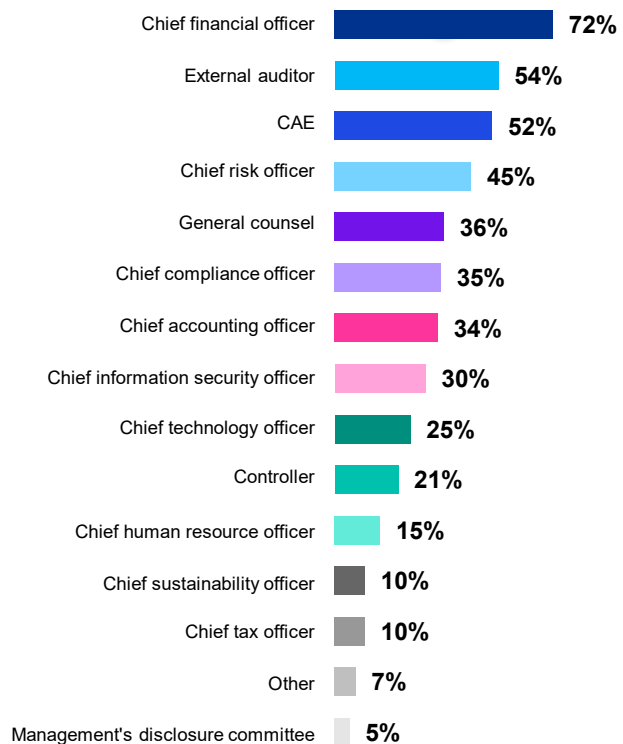
## Risk management and reporting are generally viewed as strong, but with key areas of concern related to digital activities, potential gaps in oversight, and talent. (cont'd)



**In what ways can the internal audit function increase its value to the audit committee? (Select all that apply.)**



**In addition to regular interactions/reporting to the board, with whom is the audit committee spending significantly more time in light of the evolving risk & disclosure environment? (Select all that apply.)**



## The audit committee's skills and expertise are getting a closer look.

While 35% of respondents said they had “no concerns” about their committee’s composition and skill sets, 39% had concerns about lack of expertise in cybersecurity, 28% were concerned about lack of expertise in climate and other ESG issues, and 15% were concerned about lack of expertise in risk management. In

addition, 23% of respondents expressed concern that their audit committee was overrelying on the chair or a single member who has the background and expertise to oversee complex financial reporting, disclosure, and control issues.



### What concerns, if any, do you have about your audit committee’s composition and skill sets? (Select all that apply.)



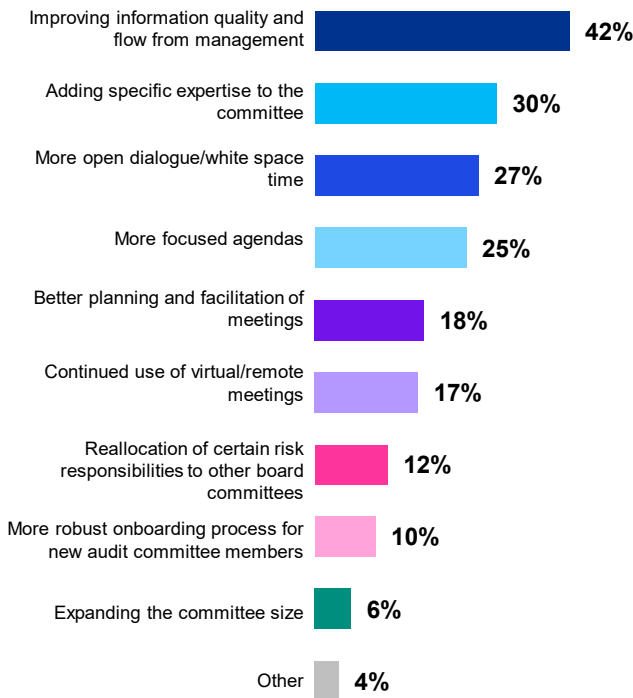
## Key adjustments would improve the audit committee’s effectiveness – starting with the quality and flow of information.

When asked about the most important opportunities to maximise their audit committee’s effectiveness, respondents cited improving information quality and flow from management, adding specific expertise to the

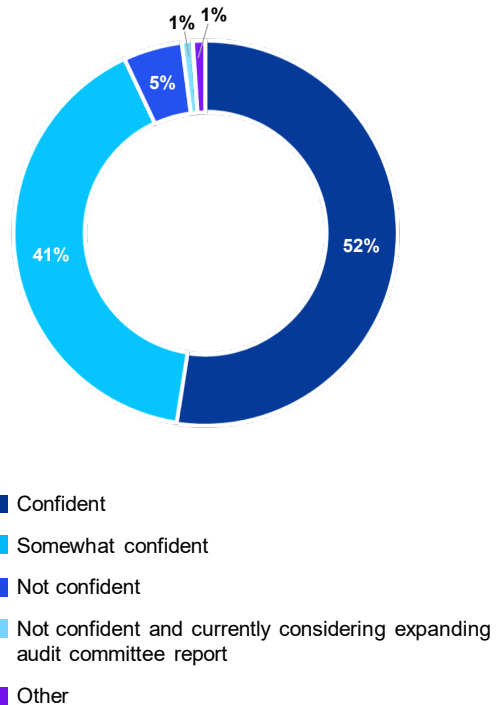
audit committee, more open dialogue/white space time, more focused agendas, and better planning and facilitation of meeting.



### Going forward, what will be most important to maximising the audit committee’s effectiveness and time?



### How confident are you that the audit committee currently provides investors, regulators, and other external stakeholders with a robust description of the committee’s oversight work?



# Appendix

This appendix contains detailed data from all 19 participating countries based on a survey of 768 audit committee members and chairs conducted from February to March 2023, the highlights and data in this report reflect the global responses. Some columns may not total 100% due to rounding.

## Which macrotrends will have the greatest impact on your audit committee's focus and agenda in the months ahead? (Select up to 3.)

	%
Increased complexity of business and risk environment—e.g., cybersecurity, AI, supply chains, workforce challenges	78
Geopolitical and economic risks, including inflation and possible recession	47
Company's environmental, social, governance (ESG) reporting	40
Rigor of the control environment in light of business disruption and/or pressures from economic slowdown	38
New disclosure requirements/demands for greater transparency	27
Talent issues in finance and/or internal audit functions	23
Other	4

## In addition to financial reporting and related control risks, for which risks does your audit committee have significant oversight responsibilities? (Select all that apply.)

	%
Legal/regulatory compliance	77
Management's enterprise risk management processes	75
Cybersecurity and IT	68
Data governance (e.g. privacy, protection, ethics, AI and algorithm bias)	51
ESG/sustainability generally	41
Supply chain and other operational activities	27
Brand/reputation	26
Geopolitical and economic	20
Climate	10
Other	4

## What is your audit committee's role in the oversight of ESG-related issues? (Select all that apply.)

	%
Oversees compliance with ESG-related legal and regulatory requirements	57
Oversees ESG-related disclosures in regulatory filings	49
Oversees company's voluntary ESG/sustainability reporting (quality and disclosure controls)	41
Oversees management's processes to determine which ESG issues are material to the business	39
Considers management's disclosure committee activities related to ESG disclosures—including controls and committee composition	32
Participates on a board-level ESG committee—composed of members of the board's existing standing committees—focused on ESG-related disclosures and issues	19
Helps to coordinate/allocate ESG oversight responsibilities among board committees	15
Other	6

## How is your audit committee addressing concerns about the committee's workload? (Select all that apply.)

	%
Improving focus of meeting agendas, materials, and management presentations	49
Not concerned—agenda/workload is appropriate	39
Reassessing the committee's skills/expertise and composition	22
Reallocating risk oversight responsibilities among committees	14
Reassessing the audit committee's charter	13
Greater use of subcommittees for more in-depth work	9
Expanding the size of committee	5
Other	4

### How confident are you that there is a clear, common understanding—across the board and management—of what the company’s key/mission-critical risks are?

	%
Confident	59
Somewhat confident	35
Not confident—but actively being discussed	4
Not confident	2

### Of the risks posed by the company’s data/digital activities, which elements are particularly concerning or challenging from the audit committee’s oversight perspective? (Select up to 3.)

	%
Cybersecurity—including ransomware and IP risk	80
Vulnerabilities posed by third parties/vendors	46
Data privacy—including national and international regulatory compliance	42
Insider threats to network/systems	27
Reputational risks	27
Lack of a holistic approach to data governance	23
Data ethics—including bias in AI/algorithms	8
Others	2

## Where does responsibility for oversight of the company's key/mission-critical risks reside?

	%
Full board	65
Audit committee	14
Board committee other than the audit committee	9
Allocated among different committees	8
Unclear	2
Other	2

## Of the various enterprise risks under the purview of multiple board committees, which ones are you most concerned about in terms of potential oversight gaps? (Select up to 3.)

	%
Cybersecurity/data privacy/AI	55
Legal/regulatory compliance	33
Human capital management (HCM)	32
ESG/sustainability generally	29
Supply chain	22
General concern—reassessment of risks and oversight responsibilities is needed	22
Geopolitical	17
M&A	11
Climate	10
Other	3



## How would you describe the company's risk management and reporting capability?

	%
Keeping pace with risk environment	<b>59</b>
Struggling to keep pace with risk environment	<b>21</b>
Sophisticated—provides holistic, forward-looking view of company's risks	<b>14</b>
Requires major reassessment/substantial reset	<b>5</b>
Unclear	<b>1</b>
Other	<b>1</b>

## In your view, what are the top challenges facing the finance organisation? (Select up to 2.)

	%
Attracting and retaining talent	<b>48</b>
Strategic thinking and leadership	<b>41</b>
Preparing for new regulatory disclosures on climate, cybersecurity, HCM, and other ESG related issues	<b>39</b>
Managing digital disruption/transformation	<b>39</b>
Other	<b>3</b>

**In addition to regular interactions/reporting to the board, with whom is the audit committee spending significantly more time in light of the evolving risk & disclosure environment? (Select all that apply.)**

	%
Chief financial officer	72
External auditor	54
CAE	52
Chief risk officer	45
General counsel	36
Chief compliance officer	35
Chief accounting officer	34
Chief information security officer	30
Chief technology officer	25
Controller	21
Chief human resource officer	15
Chief sustainability officer	10
Chief tax officer	10
Other	7
Management's disclosure committee	5

### In what ways can the internal audit function increase its value to the audit committee? (Select all that apply.)

	%
Greater focus on critical enterprise risks	62
Evolving its data/technology-related skills and capabilities	51
Helping to connect dots and seeing the big picture	47
Gauging the culture/tone throughout the organisation	36
Ensuring CAE has stature/visibility at the board and C-suite level	33
Better CAE reporting/communication with the audit committee	31
Other	4

### What concerns, if any, do you have about your audit committee's composition and skill sets? (Select all that apply.)

	%
Lack of expertise in cybersecurity, technology	39%
No concerns	35%
Lack of expertise in climate and other ESG issues	28%
Overreliance on the chair or a single member who has deep background /experience to oversee complex financial reporting, disclosures, and control issues	23%
Lack of expertise in risk management	15%
Committee size—potential need to add members to spread the workload and/or add expertise	14%
Lack of diverse views	11%
Need for turnover to bring in fresh perspectives	9%
Other	3%

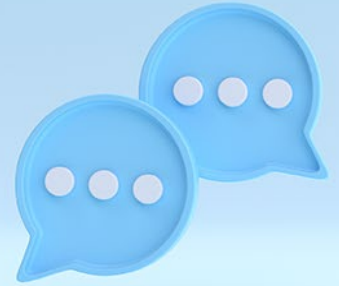
## Going forward, what will be most important to maximising the audit committee's effectiveness and time?

	%
Improving information quality and flow from management	42
Adding specific expertise to the committee	30
More open dialogue/white space time	27
More focused agendas	25
Better planning and facilitation of meetings	18
Continued use of virtual/remote meetings	17
Reallocation of certain risk responsibilities to other board committees	12
More robust onboarding process for new audit committee members	10
Expanding the committee size	6
Other	4

## How confident are you that the audit committee currently provides investors, regulators, and other external stakeholders with a robust description of the committee's oversight work?

	%
Confident	53
Somewhat confident	41
Not confident	5
Not confident and currently considering expanding the audit committee report	1
Other	1

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