



# BGF Newsletter

**1<sup>st</sup>**  
Edition

Insights from  
the KPMG Indonesia  
Board Governance  
Forum (BGF)

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## Foreword

The year 2020 has been unforgettable and challenging for many companies across the globe. With the rollout of COVID-19 vaccines in many countries since the beginning of 2021, including in Indonesia which is currently in the early stages of vaccination, the possibility of an end to the global pandemic seems to be within sight. However, 2021 stands to be a defining year for most companies, where their corporate strategies, culture, reputations and resilience will be put to the test in an uneven economic recovery. Stakeholders' expectations may change and this will require companies to maintain a sharp focus on understanding the short-term and long-term effects of the pandemic, continually navigate the risk and control challenges presented by COVID-19, and finally to be ready for new opportunities in this new environment. What are some lessons that the company—and the board—can take from 2020 to position itself for the future?

In this 1<sup>st</sup> edition of BGF Newsletter, KPMG Indonesia shares insights on the critical issues that should be high on board and audit committee agendas this year, including key geopolitical trends for 2021 and critical risk areas that internal auditors need to consider. In addition, we also share what boards need to be aware of regarding personal data privilege rights. Last but not least, we introduce the new reporting requirement for Key Audit Matters, a major breakthrough in the financial reporting ecosystem, that will take effect in the near future.

We hope you find this 1<sup>st</sup> edition of BGF Newsletter helpful as you consider your board and committee agenda for 2021. Our best wishes to all of you as we navigate this new normal together.



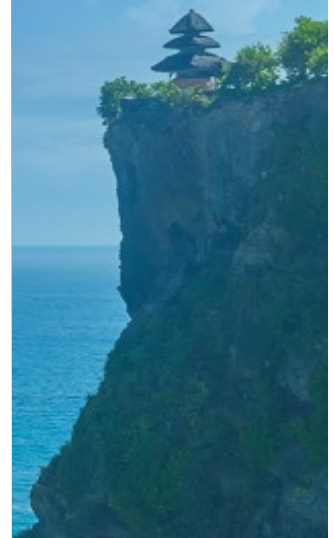
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# On the 2021 Board Agenda

Insights from our work and conversations with directors and business leaders on some key issues that boards should note as they approach and execute their 2021 agendas.



**Maintain focus on management’s response to COVID-19, while keeping sight of the bigger picture.** Navigating the uncertainty will require a sharp focus on people, liquidity, operational risks, and contingencies while keeping sight of the bigger picture: strategy, risk, and resilience.



**Re-evaluate the company’s focus on ESG and corporate purpose.** Is there a clear commitment and strong leadership from the top as well as enterprise-wide buy-in?



**Be proactive in engaging with stakeholders.** In light of COVID-19, transparency, authenticity, and trust (or lack thereof) are increasingly important themes for engagement with stakeholders.



**Make human capital management and CEO succession a priority.** Deepen the board’s understanding of the company’s HCM strategies and help ensure that the company is well prepared for CEO and key management personnel changes.



**Help set the tone and monitor the culture throughout the organization.** Take a more proactive approach to understanding, shaping, and assessing corporate culture.



**Build the talent in the boardroom around the company’s strategy and future needs.** Board composition and diversity should remain a board focus area in 2021.



**Reassess whether crisis readiness and resilience plans are effectively linked to the company’s key risks.** Are the company’s risk governance processes keeping pace with its changing risk profile?



**Approach cybersecurity and data privacy holistically as data governance.** Boards need to ensure that their organizations' data and information assets are managed consistently and used properly.



**Factor emerging and disruptive technologies into the boards thinking around strategy and risk.** Where disruptive technology is identified as a risk management opportunity, does the business have the right skills to deliver on it?



**Strengthen tax governance and unlock process enhancement opportunities.** Boards can look at helping their organization better manage key tax governance risks.

# On the 2021 Audit Committee Agenda

Drawing on insights from our work and conversations with directors and business leaders, we have highlighted some key issues for audit committees as they approach and execute their 2020 agendas.



**Maintain focus on the corporate reporting and control implications of COVID-19.** Forecasting and disclosures as well as internal control over financial reporting will be key focus areas for ACs.



**Understanding the impact of COVID-19 on the external audit process.** ACs should discuss with the auditor the challenges and risks of conducting the audit remotely, and also understand the changes to the audit process as a result of COVID-19.



**Oversee the scope and quality of the company's ESG reports and disclosures.** ACs should also ask what controls are in place to ensure the quality of the ESG information being disclosed.



**Understand how technology is impacting the finance function's talent, efficiency and value-add.** It is essential that the audit committee devote adequate time to understand finance's transformation strategy.



**Ensure that internal audit remains focused on key risks and related controls.** AC should work more closely with the internal audit to help identify the risks that pose the greatest threat to the company's reputation, strategy, and operations.



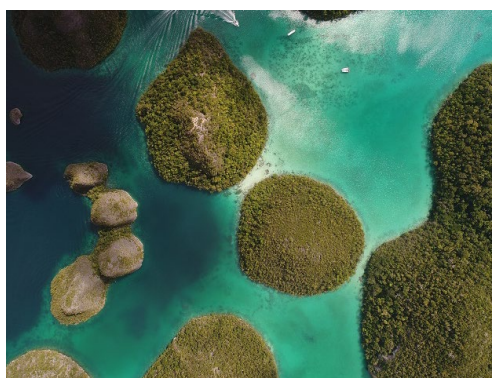
**Sharpen the focus on the company's ethics, compliance and whistleblower programs.** The company's regulatory compliance and monitoring programs may need updating. These should cover all vendors in the global supply chain, and clearly communicate the company's expectations for high ethical standards.



# Geopolitical Risk Outlook 2021

## What should you watch out for in 2021?

Just as 2020 was about healthcare responses to COVID-19, 2021 will overwhelmingly be about economic responses to the COVID-19 crisis, even as vaccines roll out and the healthcare emergency fades. As economic issues come to the fore, there is no global leadership on political models, trade standards, and international architecture to follow. The following 10 geopolitical risks are most likely to play out over the course of the year:



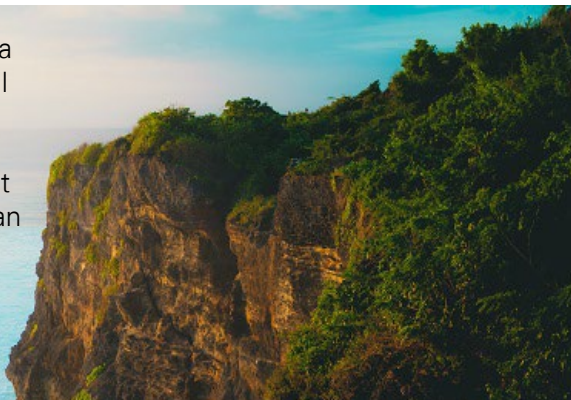
- 1 46\*:** Joe Biden won the 2020 presidential election but his presidency will face both structural and legitimacy challenges. The major risks of 46\* are domestic, but the consequences of no-holds-barred party warfare extend beyond America's borders.
- 2 Long COVID:** Countries will struggle to meet vaccination timelines, and the pandemic will leave a legacy of high public debt, displaced workers, and lost trust. Governments will grapple with the impact of COVID-19's economic blow, debt increases, and thinner social safety nets.
- 3 Climate: net zero meets G-Zero:** In 2021, beyond the headlines, the energy transition will be dominated by competition and a lack of coordination globally.
- 4 US-China tensions broaden:** Following Trump's exit, the US-China relationship will not be as overtly confrontational. However, efforts by the US to enlist allies, vaccine diplomacy, and climate tech competition will further complicate US-China relations.
- 5 Global data reckoning:** Growing data protectionism and sovereignty will slow down or halt the flow of sensitive data across borders. This will disrupt business models that rely on free flows. App bans and other issues will hamper global cooperation on public health and climate challenges.
- 6 Cyber tipping point:** A combination of low-probability, high-impact risks and inexorable technology trends make 2021 the year that cyber conflict will create unprecedented technological and geopolitical risk.
- 7 (Out in the) cold Turkey:** As geopolitical pressures drive Turkey's financial risk premium higher, the odds of a balance-of-payments crisis will rise.
- 8 Middle East: low oil takes a toll:** Energy prices will remain low, keeping the pressure on governments. Many will cut spending, damaging nascent private sectors and fuelling unemployment.
- 9 Europe after Merkel:** Angela Merkel has been Europe's most important leader. Her departure later in 2021 after 15 years as chancellor drives the continent's top risk.
- 10 Latin America disappoints:** As they emerge from the pandemic, countries in Latin America will face sharper versions of the political, social, and economic problems they were confronting before the crisis.

Source: [Eurasia Group's Top Risks For 2021](#)

# Internal Audit: Key risk areas 2021

Without a question, the COVID-19 pandemic and a series of unprecedented natural disasters and civil unrests, have defined a new business normal for years to come. These developments are accompanied by emerging risks that Internal Audit (IA) should take into consideration in its annual plan without neglecting key established risks.

Here are some key risks that IA should be looking into:



- 1 Business resilience** – Is there evidence of the governance around crisis decision-making?
- 2 Staff well-being and talent management** – Is there evidence that the business understands and is forecasting the future skills, competences and attitudes required?
- 3 Fraud and the exploitation of operational disruption** – Have potential fraud risks been identified? Are established controls still in place and operating effectively?
- 5 Climate change: the next crisis** – Has IA assessed how prepared their companies are for the climate crisis and what actions they are taking?
- 4 Third-party management: supply chain disruption and vendor solvency** – Is there a holistic view towards third-party risk management, beyond contract management?
- 6 Culture and behavior & soft controls** – Has culture and soft control audits been conducted?
- 7 Cyber security and data privacy in the expanded work environment** – Has the increased risk of data leakage or security breaches been properly assessed?
- 8 Regulatory driven risk** – Has IA assessed the organisation's compliance with relevant regulatory laws and regulation?
- 9 Digitalization and intelligent automation** – Have the appropriate governance and control frameworks been developed for technologies?
- 10 Data management and data & analytics** – Has IA identified the possibilities and risks of integrating technological capabilities into their business operations and strategies?

# The new reporting requirements for Key Audit Matters (KAMs)



In January 2021, Auditing and Assurance Standard Board 1 of the Indonesian Institute of Certified Public Accountants issued the exposure draft of SA 701, “Communicating Key Audit Matters in the Independent Auditor’s Report,” which is planned to take effect for financial statement audits beginning on or after 1 January 2022, starting with listed entities.

Including KAMs in the auditor’s report is a major breakthrough for both auditors and users of the financial statements.

The inclusion of KAMs is intended to:

- 1 Improve the communicative value of the audit report by enhancing the transparency of the audit
- 2 Provide additional information to allow users to understand the auditor’s professional judgment and helps to recognize the areas of crucial management judgment in the audited financial statements.
- 3 Encourage users to further engage with the audit committee and management.

To ensure a smooth implementation of KAMs, it is important to take advantage of the time before the KAMs reporting requirements take effect to discuss them with your auditor. Dry runs are strongly encouraged so that auditors, the audit committee and management have the opportunity to experience the process, particularly with regard to communication, and understand what might be in the KAMs, how they will be written and compare them to management’s disclosures regarding the same matters.

Enhancing communication between auditors and the audit committee will set the tone and establish clear expectations for external auditors. Monitoring their performance through frequent and quality communication will reinforce audit quality, which is crucial to building public trust.

# Privacy as a source of competitive advantage

With the world becoming more and more sensitive towards the privacy of the individuals, the enactment of the Personal Data Privacy (PDP) Bill is expected to strengthen country's privacy status as a safe country. Organizations will be required to upskill their staff to perform the business transformation to meet the obligations. Compliance deadlines inevitably focus the corporate mind. But in the case of the PDP Bill, any attempts to meet regulatory obligations should not be at the expense of a long-term strategy that acknowledges privacy as a source of competitive advantage. It is essential that data protection is taken up as a key boardroom agenda to drive wide compliance across organizations. By considering how your organization can meet the needs of customers and employees, organizations can build a privacy-aware culture, and a governance infrastructure, which puts the right information at individual's fingertips and consistently demonstrates transparency. To lead the new privacy regime, it is time for organizations to rethink their obligations and find new ways to restore stakeholder trust.

## Key questions for boards



- Who is in charge of privacy compliance? Are the right accountability and governance structures in place?
- Are we prepared to speak publicly and to our customers about how we manage their privacy?
- How do I know whether employees are taking an ethical stance towards privacy?
- Do we have a data strategy? Is it focused on what's best for the customer?
- Are we handling our key customer touch points efficiently and appropriately?
- What actions are we taking to nurture a privacy-aware culture to earn and retain our customers' trust?
- Do we view the PDP Bill as a one-off initiative? Or is it part of a proactive risk management approach, enabling us to put our customers at the center of everything we do?



**While the controller has ultimate accountability, the shift in liability for processors reinforces the need for controllers and processors to work closely together, to help maintain the privacy rights of data subjects in line with the PDP Bill.**



Click [here](#) to read the full report.



# About KPMG Board Governance Forum

The KPMG Indonesia Board Governance Forum (BGF) is a dedicated forum focused on board level challenges, insights and emerging hot topics. BGF offers thought leadership and timely resources to support board members (including the board of commissioners, board of directors and board sub-committee members) in clarifying and enhancing their governance practices in a rapidly evolving corporate governance landscape in Indonesia through practical thought leadership on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more — all through a board-focused lens.

Learn more at  
<https://home.kpmg/id/en/home/insights/2015/06/board-governance-forum.html>

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