

BGF Newsletter

Insights from
the KPMG Indonesia
Board Governance
Forum (BGF)

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Foreword

The unprecedented events of the past two years have clearly put corporate governance processes to the test. The board and audit committee (AC)'s oversight role have perhaps never been more important or more challenging.

As the country focuses on reopening and companies reposition for the future, it is increasingly clear that resilience is proving to be the great differentiator of the pandemic era - from pivoting to "remote everything" and focusing on workforce well-being to deepening digital engagement with customers and recalibrating supply chains.

To keep this momentum, board agendas should be flexible enough to allow time for discussion of new challenges while also addressing an array of oversight issues and must-do's that require focused attention and deeper dives.

In this edition of BGF Newsletter, we share a list of considerations that should be high on board and audit committee agendas for the year ahead. We also share key geopolitical trends for 2022 as well as our latest insights.

We hope you find BGF Newsletter helpful as you shape your board and committee agendas for 2022. Our best wishes for the year ahead.



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On the 2022 Board Agenda

Drawing on insights from our work and conversations with directors and business leaders, we have highlighted some key issues for board as they approach and execute their 2022 agendas.

1 Deepen the board's engagement in strategy and in envisioning the future.

Investors expect boards to engage management effectively in strategy discussions. This calls for a collaborative mindset.

2 Embed ESG, including climate risk and diversity, equality and inclusion (DEI) issues, into risk and strategy discussions.

Expect the intense regulatory focus on climate change, DEI issues, and other ESG risks to continue in 2022. Take care to address "transition risks" that companies face as they work to reduce reliance on carbon and the impact on the climate.

3 Engage proactively with shareholders, activists, and other stakeholders.

Transparency, authenticity, and trust are not only important to investors, but increasingly to employees, customers, suppliers, and communities – all of whom are holding companies and boards to account.

4 Make talent, human capital management, and CEO succession a priority.

Boards should have a good grasp of the company's talent strategy, and whether it aligns with the company's broader strategy and forecast needs. Boards should also develop a pipeline of potential CEO candidates as well as all other C-suite positions.

5 Approach cybersecurity and data privacy holistically as data governance.*

Cybersecurity and protection of sensitive data will continue to be a key challenge ahead and boards need to ensure that the organization's data and customers' data under their care are managed appropriately with the necessary safeguard in place.

6 Reassess the company's crisis prevention and readiness efforts.

Boards should periodically reassess the clarity and appropriateness of risk oversight responsibilities among its committees. Put in place a system of reporting and controls to help prevent or mitigate the impact of risk events.

7 Help set the tone and closely monitor the culture of the organization.

Boards need to understand the company's actual culture by using all available tools to monitor the culture and see it in action.

8 Think strategically about talent and diversity in the boardroom.

From 2022, it is highly recommended that listed issuers will be required to set a board diversity policy that addresses aspects, such gender, skill and experience. Some stock exchanges are even putting it as a requirement for issuers listed in their stock exchange (e.g. Singapore Stock Exchange/SGX). They are required to describe the board diversity policy and give details, such as targets, plans, timelines and progress in their annual reports.

9 Strengthen tax governance and unlock process enhancement opportunities.

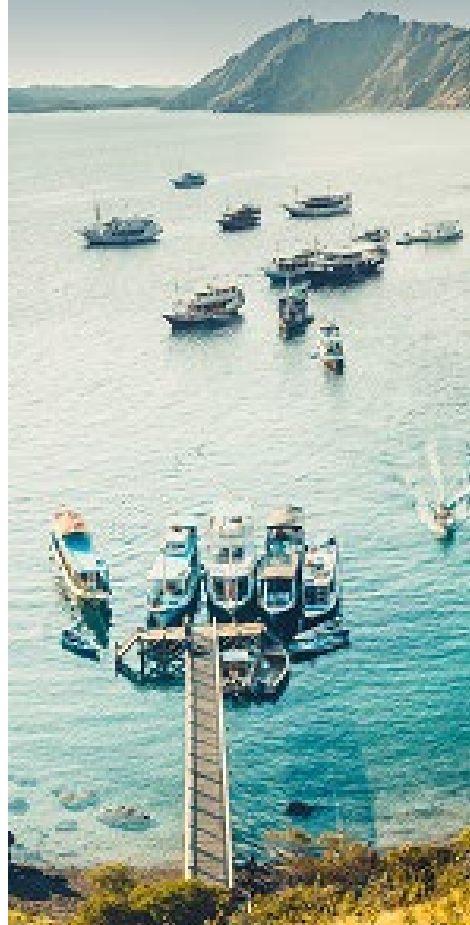
Boards should consider a more proactive approach to tax governance as part of its tax strategy and transformation. This unlocks opportunities to harness process enhancements.

* It has been reported that days leading up to February 24, Ukraine faced cyber attacks against their critical infrastructure, including denial of service rendering satellite communications breakdown. US Critical Infrastructures including energy, healthcare and financial sectors are on heightened alert to protect against cyber attack.

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

On the 2022 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 2022 agendas.



Stay focused on financial reporting and related internal control risks. As the financial reporting, accounting, and disclosure impacts of COVID-19 continue to unfold in 2022, key areas of focus for ACs include: COVID- related forecasting and disclosures, control over financial reporting, and audit adjustments.



Monitor climate and other ESG disclosures and clarify the audit committee's related oversight responsibilities. ACs should encourage management to reassess the scope and quality of the company's sustainability/ESG reports and disclosures. Other stock exchanges, such as SGX, has mandated climate and board diversity disclosures.



Reinforce audit quality and set clear expectations for the external auditor. Setting clear expectations and frequent quality communications with the external auditor is vital to enhancing audit quality.



Understand how technology is impacting the finance function's talent, efficiency, and value-add. Challenges of finding, developing, and retaining talent, amid a shifting working trends and a labour constrained market has created talent war – particularly for finance functions and internal audit.



Help ensure that internal audit is focused on the company's critical risks. ACs should work with the head of internal audit (HoIA) and chief risk officer (CRO) to help identify the critical risks and to help ensure that internal audit is focused on these key risks and related controls.



Stay apprised of global tax developments and risks – now a crucial element of ESG. Efforts to achieve consensus for global tax reform to enable jurisdictions to tax automated digital services. Tax has also emerged as an important element of ESG, with stakeholders expecting companies to practise good tax governance and paying a "fair share".



Make the most of the audit committee's time together. Streamline committee meetings by insisting on quality pre-meeting materials, making use of consent agendas, and reaching a level of comfort with management and auditors so that financial reporting and compliance activities can be "process routine".

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

Geopolitical Risk Outlook 2022

What to watch out for in 2022?

The year 2022 will be a year that is dominated by several crises in dire need of a coordinated international response: Ukraine – Russia war, the COVID-19 pandemic and climate change. Each of these will have its corresponding impact that will be felt around the world particularly the war, which is a dynamic situation and changing in minutes. According to Eurasia's latest predictions, which were made on the onset of the war, here are the 10 greatest geopolitical risks in 2022:

- 1 No zero Covid:** China's zero-Covid policy was initially successful but has since become increasingly unsustainable. It will fail to contain new waves of infections, leading to larger outbreaks, severe lockdowns, and ultimately, greater economic disruptions, more state intervention, and a more dissatisfied population.
- 2 Technopolar world:** The poorly governed digital space impose costs on society and businesses. As tech firms and governments disagree on how to protect data privacy, cybersecurity, and the safe and ethical use of artificial intelligence, U.S.-China as well as U.S.-Europe tensions on these issues will grow.
- 3 US midterms:** The 2022 midterms represents a historic tipping point. Control of Congress and key states are at stake and it could set the stage for a broken or stolen 2024 presidential election.
- 4 China at home:** President Xi Jinping's reform plans will unsettle markets and companies in 2022. Expect scrutiny on firms and sectors that Beijing considers too politically powerful, systemically risky, or socially harmful.
- 5 US-Russian relations are on a knife-edge*:** Economic sanctions would give rise to significant winter energy shortages, which, in turn, could strain U.S.-Europe relations, potentially being "deeply divisive".
- 6 US-Iranian:** Iran's nuclear program is advancing rapidly, but with diplomacy stalled, the Biden Administration has few options. Israel will likely take matters into its own hands and the possible developments will leave oil prices and regional states jittery, and increasing the risk of conflict.
- 7 Two steps greener, one step back:** Continued upward pressure on energy costs will force governments to favour policies that lower energy costs but delay climate action. Climate pressures on government will increase.
- 8 Empty lands:** There is a global power vacuum and many countries and regions will suffer the consequences. For example, civil wars will create new risks in Yemen, Myanmar and Ethiopia, while Venezuela and Haiti risk growing refugee crises.
- 9 Corporates losing the culture wars:** Morality-minded consumers and employees, empowered by "cancel culture" and enabled by social media, will make new demands on multinational corporations and the governments that regulate them. More time and money will be spent to navigate these environmental, cultural, social, and political minefields.
- 10 Turkey's troubles:** As Turkey's economy struggles, President Erdogan's foreign policy will grow more antagonistic this year to distract voters from the unfavourable domestic state. In the unlikely event of early elections in 2022, existing risks will be exacerbated.

* On February 24, President of Russia announced the beginning of a full-scale land, sea, and air invasion of Ukraine targeting Ukrainian military assets and cities across the country. The Russian invasion of Ukraine received widespread international condemnation, including new sanctions imposed on Russia and led to widespread boycotts of Russia and Belarus in the areas of entertainment, media, business, and sport.

Source: [Eurasia Group's Top Risks For 2022](#)

Third-Party Risk Management Outlook 2022

KPMG International surveyed 1,263 senior third-party risk management (TPRM) professionals across six sectors and 16 countries worldwide. Our research reveals that TPRM is a **strategic priority for 85 percent of businesses** but, the outlook for TPRM presents no shortage of challenges. Here are some key findings:



Third-party incidents are disrupting the business and damaging reputation

About 73 percent have **had at least one major disruption** that is directly attributable to third parties, within the last three years alone. Some 38 percent said they have **had three or more** in that time.



Businesses underestimate the need for a sound TPRM program, resulting in insufficient budgets

Some 61 percent believe **TPRM is undervalued**, while one in two say they **do not have sufficient capabilities in-house** to manage all the third-party risks they face.



Technology is not yet fulfilling its promise

About 59 percent are frustrated by the lack of visibility that **their technology gives them around** third-party risk across the supply chain.



The challenge of limited resources is here to stay

About 30 percent of respondents are planning to **assess all third parties for the environmental risk component of ESG** within three years. Larger companies are more likely to have these plans.



Most businesses struggle to maintain a fit-for-purpose TPRM operating model

Some 55 percent of respondents say **it was luck, rather than their TPRM programme**, that enabled them to avoid a major third-party incident during the pandemic. In turn, 77 percent say that **overhauling the TPRM operating model is overdue**.

There are no quick fixes to the five thematic challenges outlined in this research, especially as budgets are limited and executives find themselves continually prioritizing resources in an evolving business landscape. However, TPRM leaders need to make a step change in their operating models and their approach to third-party risk. This need will only grow as supply chains and broader ecosystems continue to expand, and the risk presented by fourth parties creates further complexity.

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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