



On the 2018 audit committee agenda

Board Leadership Center

Financial reporting, compliance, and the risk and internal control environment will continue to be put to the test in 2018 - by slow growth and economic uncertainty, technology advances and business model disruption, cyber-risk, greater regulatory scrutiny and investor demands for transparency, as well as dramatic political swings and policy changes in the U.K., U.S., India and elsewhere. Focused, yet flexible agendas - exercising judgment about what does and does not belong on the committee's agenda, and when to take deep dives - will be critical.

Drawing insights from KPMG International's recent survey work and interactions with audit committees and business leaders over the past 12 months, we've highlighted seven items that audit committees should keep in mind as they consider and carry out their 2018 agendas:

Stay focused on job No. 1 — Financial reporting integrity



In the 2017 Global Audit Committee Survey, nearly half of the 800 audit committee members who responded said it is 'increasingly difficult' to oversee the major risks on the audit committee's agenda in addition to the committee's core oversight responsibilities (financial reporting and related internal controls, and oversight of internal and external auditors). Aside from any new agenda items, the risks that many audit committees have had on their plates for some time - cybersecurity and IT risks, supply chain and other operational risks, legal and regulatory compliance - have become more complex, as have the audit committee's core responsibilities. Reassess whether the committee has the time and expertise to oversee these other major risks.

Financial reporting quality starts with the CFO and the finance organisation; maintain sharp focus on leadership and bench strength:



In the global survey, 44 per cent of respondents were not satisfied that their agenda is properly focused on CFO succession planning, and another 46 per cent were only somewhat satisfied. In addition, few were satisfied with the level of focus on talent and skills in the finance organisation. Given the increasing demands on the finance organisation and its leadership - financial reporting and controls, risk management, analysing mergers and acquisitions and other growth initiatives, shareholder engagement, and more - it is essential that the audit committee devotes adequate time to the finance talent pipeline, training and resources, as well as succession plans for the CFO and other key executives in the finance team.

Focus internal audit on the company's key risks, beyond financial reporting and compliance:



As recent headlines demonstrate, failure to manage key risks - tone at the top, culture, legal/ regulatory compliance, incentive structures, cybersecurity, data privacy, global supply chain and outsourcing risks, and environmental, social, and governance risks, etc. can potentially damage corporate reputations and impact financial performance.

The audit committee should work with the chief risk officer and head of internal audit to help identify the risks that pose the greatest threat to the company's reputation, strategy, and operations and to help ensure that internal audit is focused on these key risks and related controls.

Monitor the impact of the business and regulatory environment, as well as tone at the top and corporate culture, on the company's compliance programmes:



In recent years, a number of highly publicised corporate crises that have damaged corporate reputations were due, in part, to failures to manage key risks posed by the company's culture, tone at the top, and incentive structures. Fundamental to any effective compliance programme is the right tone at the top and culture throughout the organisation, including commitment to the company's stated values, ethics, and legal/regulatory compliance.

Make the most of the audit committee's time together - effectiveness requires efficiency:



As noted previously, keeping the audit committee's agenda focused on financial reporting and related internal control risk is essential to the committee's effectiveness, but meeting the workload challenge also requires efficiency. Streamline committee meetings by insisting on quality pre-meeting materials (and expect pre-meeting materials to have been read), making use of consent agendas, and reach a level of comfort with management and auditors so that routine financial reporting and compliance activities can be 'process routine'.

Continue to reinforce the audit committee's direct responsibility for the external auditor:



Overseeing the auditor selection process including any tender process and auditor independence is a key part of an audit committee's role. Regular audit tendering and rotation is already 'business as usual', but the new regulatory regime includes some requirements that are difficult to navigate and in some cases will significantly impact the audit committees.

Engage in early and open communication with the auditor on the new enhanced audit reports:



There continues to be significant discussion internationally about the need for increased transparency by the external auditor around the audit process. Auditors may have the primary responsibility for implementing the requirements, but they are relevant to and affect other stakeholders as well, in particular the audit committee. Audit committees should interact comprehensively with the auditor from the audit planning stage through to the finalization of the audit report. Engaging in early and open communication with the auditor is crucial in this regard.

About KPMG's Board Leadership Center

KPMG's Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence through an array of programmes and perspectives. The Center engages with Directors and business leaders to help articulate their challenges and promote corporate governance. Drawing on insights from professionals and governance experts from KPMG member firms worldwide, the Center delivers actionable thought leadership – on risk and strategy, talent and technology, globalisation and compliance, financial reporting, and audit quality, and more – all through a Board's lens.

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