On the audit committee agenda 2024

April 2024

kpmg.com/in

KPMG. Make the Difference.

Introduction

Uncertainty and disruption across the global business landscape has caused 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.

The role of an audit committee is of paramount importance, considering the need for robust corporate governance. Audit committees can expect their company's financial reporting, compliance, risk, and internal control environment to be put to the test by an array of challenges.

Considering the developments that have taken place in the regulatory and legal environment, the audit committee members should be mindful of certain critical amendments having an impact in the upcoming year for which necessary procedures should be in place.

Drawing on insights from our interactions with audit committees and business leaders, we have highlighted seven issues to keep in mind as audit committees consider and conduct their 2024 agendas.

01 Keeping pace with accounting, auditing and regulatory developments

Corporate reporting in India continues to evolve, with both investors and regulators playing a role in shaping the reporting landscape in the country. In order to keep pace with the evolving regulatory mandates and far-reaching expectations of the stakeholders, it has become imperative for the audit committee to keep the finger on the pulse of developments in the recent reporting requirements.

Disclosure of material events

SEBI has issued amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) relating to the requirement of disclosing material events or information to the stock exchanges by the listed entities. The key amendments are as follows:

Determination of materiality

- Revised materiality policy to ensure certain aspects are included i.e. the policy should not dilute any of the LODR requirements. It should be detailed and explanatory to enable identification and reporting of any potential material event or information.
- Introduction of **quantitative threshold** for determination of materiality for disclosure of certain specified events. Further, listed entities should not dilute these thresholds through their materiality policy.
- Additions and modifications to list of events were made. Such events are required to be disclosed by the listed entities. The material events have been bifurcated into two sections Para A and Para B of Schedule III (Part A) of LODR Regulations. The events specified in Para A are deemed to be material i.e. if such events take place, then a listed entity must disclose them without applying materiality consideration. Whereas the events enumerated in Para B are required to be disclosed based on the materiality policy of a listed entity.
- Revised timeline for disclosure of material events or information to the stock exchange ranging from 30 minutes to 24 hours depending on the nature of event/information.

Verification of market rumours

- Top 100 listed entities are required to confirm, deny or clarify market rumours by market capitalisation from 1 June 2024 and the top 250 listed entities with effect from 1 December 2024. Additionally, SEBI in its board meeting on 15 March 2024 approved a revised framework relating to verification of market rumours.

Other amendments

- Listed entities are required to disclose agreements[1] that have a binding impact on the entity even if the listed entity is not party[2] to such an agreement.
- Disclosure of details of cyber security incidents or breaches or loss of data or documents in the quarterly corporate governance report within 21 days from the end of each quarter.

1. Agreements that directly, indirectly or potentially impacts the management, or control of a listed entity, or imposes any restriction, or creates any liability on a listed entity, whether or not the listed entity is a party to such agreements.
2. Such agreements can be entered into by the shareholders, promoters, promoter group entities, related parties, directors, Key Managerial Personnel (KMP) and employees of a listed entity or of its holding, subsidiary and associate company

Areas of focus:

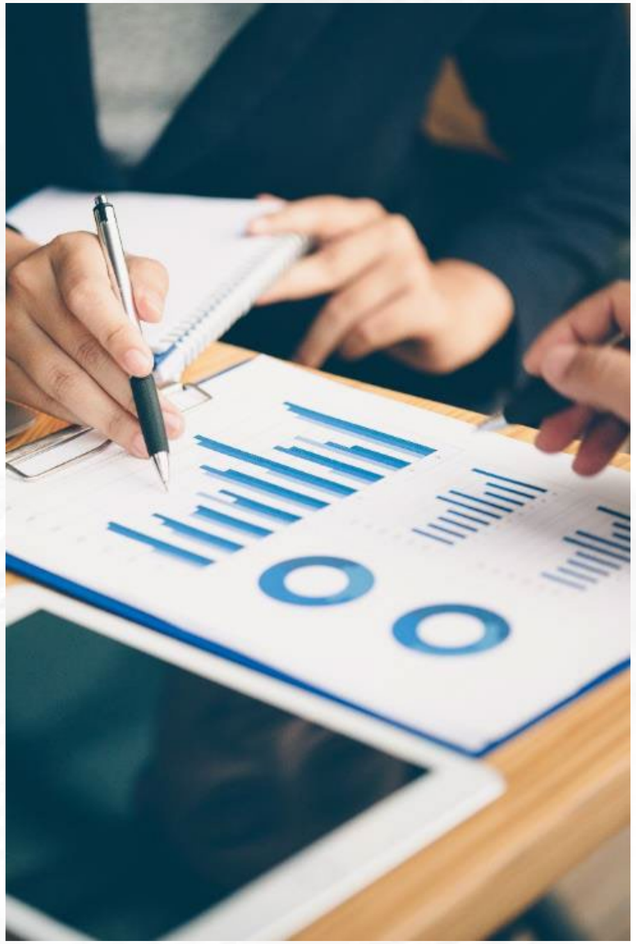
- The amendments aim to remove ambiguity and enhance transparency with respect to the disclosures.
- The amendment to the definition of materiality reduces the scope of use of a 'generic materiality policy' and the discretion of non-disclosure of material events (specified under Para B) on the ground that they were not considered material by a company as per its materiality policy. A quantitative approach will bring uniformity and reduce diversity in determining materiality of events or information for the purpose of disclosure to the stock exchange.
- Independent Directors and management should invest in developing a widespread structure to create awareness about the concept of material events and disclosure timelines specified by SEBI. Adequate training regarding material events should be provided to relevant stakeholders to enable them to assess and identify material events/information that should be reported in a timely manner. They may consider use of technology-based solutions for ease of compliance and faster disclosure of all material events/information.
- Rumours of a material event or information circulating through mainstream media could have an impact on a listed entity and could also establish a false market sentiment. Audit committees are expected to ensure existence of robust systems and internal controls to prevent leakage of such confidential and price sensitive information. The process would also require assessment and sensitisation on a continuous basis of all parties involved in the confidential transactions e.g. employees, bankers, advisors, etc.

Audit trail considerations

- Effective from 1 April 2023, every company is required to incorporate the feature of audit trail in its accounting software used to maintain its books of accounts.
- Further, an auditor is required to include his/her views and comments in the audit report whether a company has used such an accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility. An auditor should also comment on whether the audit trail feature has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with.

Areas of focus:

- Audit committee should deliberate with management on identification of 'books of account' as per the definition stipulated in the Companies Act, 2013 and list of accounting software including peripheral software that require audit trail feature.
- Ensure necessary arrangements and investment in the accounting software have been made by companies from 1 April 2023 and audit trail feature is not disabled or deactivated.
- Ensure management has implemented specific controls over maintenance and monitoring of audit trail in respect of books of account, to demonstrate that audit trail was operating effectively throughout the period of reporting.
- Ensure existence of periodic review mechanism and it is operated by management for any changes to the audit trail configuration.



Stringent norms for banks and NBFCs that invest in Alternative Investment Funds (AIFs)

- The Reserve Bank of India (RBI) noticed instances of possible evergreening through investments in units of AIFs by Regulated Entities (REs) such as banks and Non-Banking Financial Companies (NBFCs), as a part of their regular investment operations.
- Consequently, the RBI issued instructions to REs restricting their investment in AIFs that have further invested in a debtor company of the RE.
- REs are required to liquidate their investment within a 30-day period in case of investment by the AIF in an existing debtor of the RE. Further, provisioning would be required only to the extent of investment by the RE in the AIF scheme which is further invested by the AIF in the debtor company, and not on the entire investment of the RE in the AIF scheme.
- Failing to liquidate the investment would attract the requirement of 100 per cent provisioning in the books of the RE related to that particular investment. However, it has been clarified that provisioning is required only to the extent of investment by the RE in the AIF scheme which is further invested by the AIF in the debtor company, and not on the entire investment of the RE in the AIF scheme.

Questions for the audit committee

1. Does the management have a clear and structured process for the identification and implementation of latest financial reporting and compliance requirements such as disclosure of material information under SEBI Regulations, verification of market rumours, implementation of audit trail, etc.?
2. Has the management discussed the potential impact of the financial reporting and compliance changes with the auditors and Those Charged with Governance (TCWG)?
3. Has the management invested in setting up systems, controls and processes to ensure timely disclosure of material events and information and verification of market rumours?
4. Has the company implemented the requirement of maintaining the audit trail feature for each and every transaction forming part of books of accounts and ensuring that it has not been disabled throughout the period of reporting?

02 Role of audit committee in overseeing a company's ESG and sustainability disclosures

Environmental, Social and Governance (ESG) risks and opportunities, as well as their impact on long-term value creation for both public and private organisations, are top of mind for investors and other stakeholders. As a result, management of ESG-related policies and practices from stakeholders such as investors, employees, and customers is becoming more important. In the year 2024, ESG risks will continue to be on the priority list for audit committees and the management.

With a shift from voluntary to mandatory ESG disclosures, the role of the audit committee in overseeing ESG reporting has become more critical. As with public-facing financial reports, the audit committee may have a fiduciary duty to ensure that ESG reporting is complete and accurate. In situations where ESG reporting falls under the purview of the audit committee, one of the biggest challenges the committee will face is keeping pace with rapidly evolving ESG standards and regulations. This means keeping abreast of what is proposed, what is out for comment, and what is due to be finalised for implementation. Audit committees will need to ensure that management is closely monitoring developments and providing regular updates going forward.

Following are the key regulatory developments in this sphere:

Updated BRSR format and BRSR Core

- The top 1,000 listed entities are mandatorily required to provide Business Responsibility and Sustainability Reporting (BRSR) disclosures in their annual reports. The SEBI introduced BRSR Core framework which prescribes reporting and assurance requirement for prescribed listed entities and their value chain. BRSR Core is a sub-set of the SEBI BRSR format consisting of a set of Key Performance Indicators (KPIs) under nine ESG attributes.
- A glide path spanning across four years has been prescribed to achieve mandatory reasonable assurance on BRSR Core by top 1,000 listed entities from FY 2023-24 up to FY 2026-27. The BRSR Core disclosures for the value chain is applicable to the top 250 listed entities (by market capitalisation), on a comply-or-explain basis from FY 2024-25. Additionally, companies should obtain limited assurance for their value chain disclosures a comply or explain basis from FY 2025-26.
- The existing format of BRSR has been updated to incorporate the KPIs of BRSR Core. Top 1,000 listed entities (by market capitalisation) should provide disclosures as per the updated BRSR format from FY 2023-24.

ESG Rating Provider (ERP) framework

- In July 2023, SEBI introduced a regulatory framework for ERPs as a part of the (Credit Rating Agencies) Regulations, 1999 (CRA Regulations), providing eligibility criteria and categories of ERPs, etc. The ERP framework requires ERPs to offer a separate category of ESG Rating called as 'Core ESG Rating', which will be based on the assured or audited data disclosed by the company.

ESG investing

- The ESG investing framework for mutual funds provides key measures to facilitate green financing with a thrust on enhanced disclosures and mitigation of green washing risk. It introduced a separate sub-category for ESG investments under equity schemes of mutual funds.
- Additionally, from 1 October 2024, it requires ESG schemes to mandatorily invest at least 65 per cent of Assets Under Management (AUM) in listed entities reporting on BRSR and providing assurance on BRSR Core disclosures.
- Mandated Asset Management Company (AMC) to obtain independent and reasonable assurance on an annual basis from FY 2023-24.

Carbon market developments

- In 2022, the Energy Conservation Act, 2001 (EC Act) was amended to insert new provisions relating to carbon credit. Consequently, in June 2023, the Central Government of India notified the Carbon Credit Trading Scheme to operationalise the domestic carbon market in India. The scheme requires obligated entities to comply with the Greenhouse Gas (GHG) emission norms as per the targets notified by the Central Government.
- Subsequently, in October 2023, the Ministry of Environment, Forest and Climate Change (MoEFCC) further issued the Green Credit Rules, 2023 to provide Green Credit Programme. This programme encourages a voluntary environmental activity that results in generation of green credit which would be tradable and made available for trading on a domestic market platform.

Social stock exchange (SSE)

- In 2022, SEBI formed a Social Stock Exchange (SSE) as a separate segment on the existing stock exchanges. The SSE enables Social Enterprises (SEs) to raise funds.
- In December 2023, an entity listed on the SSE for the first time. Further, more NPOs are expected to register with the SSE which could lead to more listings in the near future.
- SEBI recently approved to reduce the minimum issue size of Zero Coupon Zero Principal (ZCZP) by NPOs on SSEs to INR50 lakh from INR1 crore. Further, to enable wider participation the minimum application size will be reduced to INR10,000 from INR2 lakh. These amendments will make more NPOs eligible for registration and fund-raising through the issuance and listing of ZCZPs on SSEs.

Sustainability assurance standards in India

- The Institute of Chartered Accountants of India (ICAI) issued two sustainability standards – the Standard on Sustainability Assurance Engagements (SSAE) 3000 which deals with assurance engagements on an entity's sustainability information and (SSAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*. These standards are applicable for assurance reports covering periods ending 31 March 2024.

International updates

In June 2023, the ISSB issued IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2, *Climate-related Disclosures* which are effective for annual reporting periods beginning on or after 1 January 2024. The sustainability standards are global baseline for investor-focused sustainability reporting and provide general sustainability-related disclosure requirements. Other regulators around the world are also working in this direction. Such as:

- The European Financial Reporting Advisory Group (EFRAG) developed 12 European Sustainability Reporting Standards (ESRS) reporting standards which are applicable to certain EU companies.
- In March 2024, the Securities and Exchange Commission (SEC) issued 'The Enhancement and Standardisation of Climate-Related Disclosures for Investors' (climate-related rules) which require registrants to provide certain climate-related information in their registration statements and annual reports.

As ESG space is developing very fast, the audit committees should proactively engage with management on the implementation plan of regulatory developments. It is important to ensure that that everyone involved in the organisation's external reporting receives the appropriate amount of training and education on ESG and climate-related priorities. Audit committees typically have responsibility for oversight of the company's related disclosures. In relation to ESG, the audit committee can also play an important role of a catalyst by helping to ensure that board of directors and its oversight responsibilities are clear, and that communication and co-ordination among the board and its committees are effective. It is quickly becoming clear that ESG issues touch multiple board committees, and oversight responsibilities should be allocated accordingly.

Audit Committee oversight of ESG reporting may also include ensuring controls are in place to identify any instances where a company may be using unduly positive or misleading language to describe its ESG efforts. It is also important for audit committees to insist on clear definitions and descriptions of the scope and methodology that is used to calculate ESG metrics that are disclosed.

Questions for the audit committee

1. Has the audit committee evaluated the true state of the company's preparedness requiring periodic updates on gap analysis, materiality assessments, resources, assurance readiness and any new skills needed to meet regulatory deadlines?
2. Does the company engage with, and understand, the ESG priorities of its largest shareholders and key stakeholders?
3. How is the ESG lens applied to the organisation's strategic thinking?
4. Sustainability reporting standards will require companies to report on how they ensure that the appropriate skills and competencies are available to oversee strategies designed to respond to sustainability-related risks and opportunities. Are the people responsible for ESG matters is ESG literate? Does the company have compensation policy for senior management linked to ESG factors performance?
5. Has the management put systems and processes in place to review the disclosures and ensured consistency and quality of the data disclosed in the annual report and financial statements? Is management monitoring ESG information included within the annual report with the same rigour as conventional financial data? Is the team handling ESG matters well connected to the core finance function?

03 Impact of technology with focus on cybersecurity, digital risks and GenAI

Technology has revolutionised the way entities conduct their operations and has paved the way for new opportunities. The need for extensive technology brings its own set of risks leading to cyber threats. Cyber security is one of the most complex and evolving space that requires attention of audit committees. It is important to comprehend organisational risks and vulnerabilities relating to digital transformation. Audit committees have a critical role to play in ensuring that their organisations have robust cyber security defences – not only in understanding the specifics of the technology involved, but also in leading governance and policy.

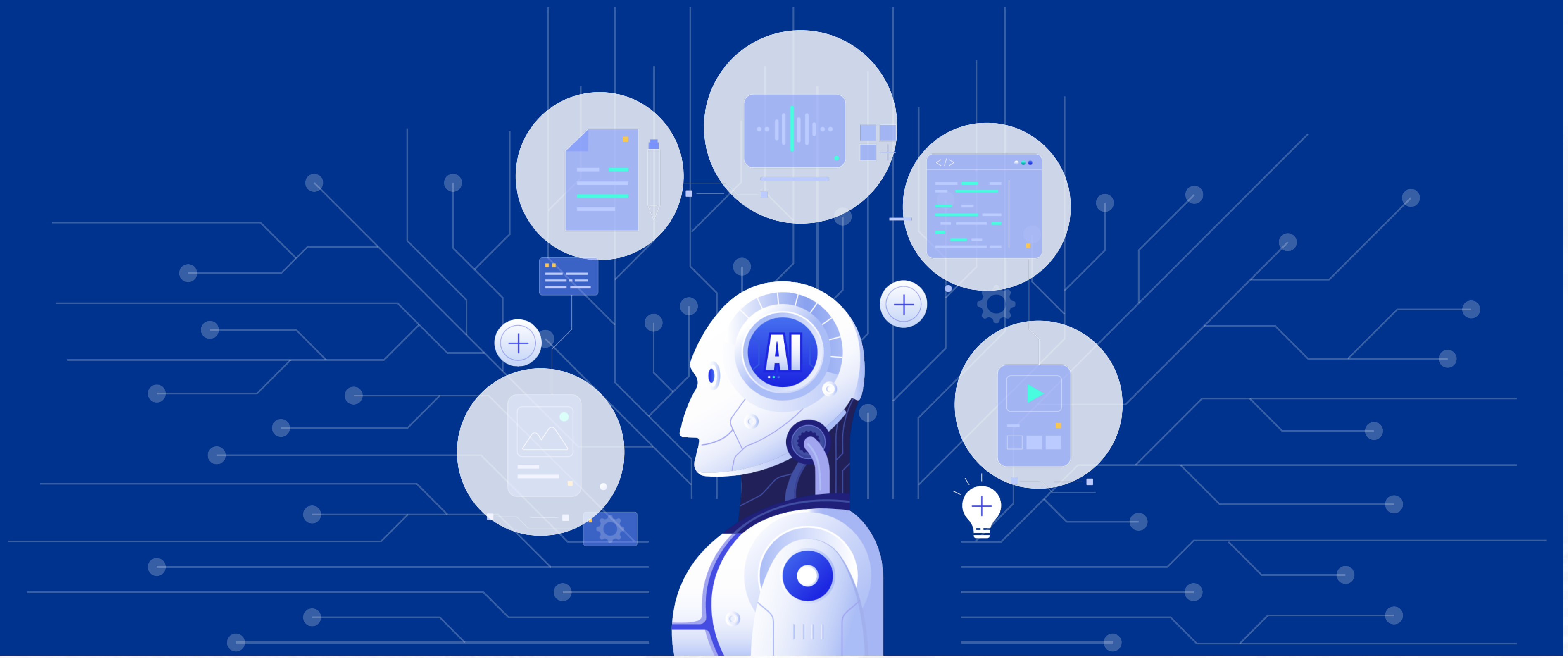
Additionally, companies are looking to leverage generative AI and develop policies to safeguard against reputational and regulatory risks attached with it. Generative AI will be an oversight priority for almost every audit committee in 2024. There are multiple regulatory and political initiatives worldwide related to risks of AI. Many organisations are considering how to oversee generative AI at the full-board and committee levels. Some audit committees may have broader oversight responsibilities for generative AI, including oversight of various aspects of the company's governance structure for the development and use of the technology. With any new technology adoption, the audit committee should take a leadership role in driving conversations with management around cyber security, data privacy and regulatory compliance, and how models will interact with other applications that the organisation uses.

Areas of focus

- Audit committees should be aware of the cyber security trends and should oversee the compliance of cyber security policies with the applicable laws and regulations. As this is a continuously evolving space, technology threats should be an integral part of an organisation's risk management. It is the responsibility of audit committees to test whether the organisation has adequate and efficient controls against such vulnerabilities. Audit committees should undertake periodic reviews of the cyber security protocols established by the organisation to better understand the practical environment.
- The organisations are constantly evaluating and investing in new technologies to cater to the changing roles and expectations. The rapid increase in volume and variety of data, coupled with the power of AI, organisations are evaluating opportunities to take a significant step forward in terms of finance capabilities. Audit committees should ask management about the expected benefits of each instance of AI versus the costs and risks it might introduce.
- Audit committees should ensure that timely training is provided to the employees of the organisation covering the main forms of cyber security attacks and ways to prevent, new digital technologies including AI, etc.

Questions for the audit committee

1. Does the audit committee have a clear understanding of the data flow of the organization and identifying the critical data and systems?
2. Has the management undertaken an analysis of critical information assets which should be protected from cyber-attacks?
3. Whether the data protection strategy of the organisation is in accordance with regulatory requirements?
4. How and when is a generative AI system or model including a third-party model developed and deployed, and who makes that decision? What generative AI risk management framework is used?
5. Is there a documented framework covering cyber-security process, controls and the actions against breaches? If yes, what is the frequency of review of this framework?
6. Has the management ensured that potential risks are mitigated through appropriate processes and controls and that the organisation is engaging the right talent for AI initiatives?



04 Stay focused on audit quality

Audit quality is enhanced by a fully engaged audit committee that sets the tone and clear expectations for the external auditor. It monitors auditor performance rigorously through frequent, quality communications and a robust performance assessment.

In setting expectations for 2024, audit committees should discuss with the auditor how the company's financial reporting and related internal control risks have changed in light of technology advancement, ESG developments, geopolitical, macroeconomic, regulatory and risk landscape, as well as changes in the business.

Further, cases of corporate failures, reviews, and inspections by regulators raise questions on audit quality with focus on conduct of the audit firm, audit methodology and compliance with auditing/accounting standards. In the last year, regulators continue to focus on the quality of corporate reporting by reviewing the financial statements and audit reports to ensure compliance with applicable laws and regulations and also corroborate filings made by companies both within India and internationally. These regulators have enhanced their supervision and have been issuing observations to highlight the instances of non-compliances with respect to financial reporting requirements such as Ind AS, Standards on Auditing, Schedule III to the Companies Act, 2013, Companies (Auditor's Report) Order, 2020 (CARO), etc.

The regulatory scrutiny and inspections contribute to strong reporting and oversight ecosystem and also help audit committees to identify the root cause of audit issues and continuously improve audit quality.

Areas of focus

- Ensure an effective oversight on the appointment and re-appointment decisions of the external auditor with enhanced focus on auditor independence.
- Audit committees should look for direct feedback from the auditor on the management and finance function along with other relevant matters. It is important to set clear expectations for frequent, open, candid communications between an auditor and the audit committee, beyond what is required. Focussing on beyond what is required can enhance the audit committee's oversight, particularly regarding the company's culture, tone at the top, and the quality of talent in the finance organisation.
- Audit committees should also probe the audit firm on its quality control systems that are intended to drive sustainable, improved audit quality—including the firm's implementation and use of new technologies such as AI to drive audit quality.
- Audit committees should look out for the review reports issued by various bodies such as the National Financial Reporting Authority (NFRA), the Financial Reporting Review Board (FRRB), Quality Review Board (QRB), SEBI, overseas regulators, etc. and should understand the implications of the inspection reports on the company. Audit quality is a combined responsibility, requiring the commitment and engagement of everyone involved in the process –the auditor, audit committee, and management.

Questions for the audit committee

1. Has an initial discussion with the audit partner taken place at the commencement stage to discuss the significant risk areas, potential Key Audit Matters (KAMs) based on the planning procedures adopted by the auditor?
2. Has the external auditor agreed to an audit plan, and explained the reason for any changes in the audit plan? Has the committee provided timely advise to the auditors regarding any business or financial risks that have not been addressed in the audit plan?
3. Has the committee reviewed the inspection reports issued by various regulatory authorities and discussed the change in audit approach basis the same?
4. Has the committee engaged with the auditor on any new fraud risk or unusual transactions identified during the current year and the action taken to address them?
5. What is the nature of consultations held (if any) with other accountants, auditors, other subject matter specialists by the management? Has the audit committee evaluated the outcome of such consultations and impact, if any, on the financial statements?

05 Enhancing internal audits: Beyond financial reporting and compliance

One of the many roles of an audit committee within an organisation, is to provide quality-oriented internal audit oversight. Over the years, with the internal audit function becoming increasingly acknowledged, the need for an audit committee's focus on internal audit procedures, strengths and weaknesses has increased exponentially.

Currently, organisations are facing risks related to ESG regulations, geopolitical disruptions and emerging technologies such as generative AI. Internal audit is a valuable resource for the audit committee and a crucial voice on risk and control matters. Audit committees should re-assess if the internal audit plan is risk based and flexible enough to changing business and risk conditions. The audit committee should work with the internal audit head 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 focussed on these key risks and related concerns. In addition to financial reporting and compliance risks, audit committees should also focus on critical operational and technology risks, ESG risks and related controls.

Areas of focus

- Set clear expectations and help ensure that internal audit has the resources, skills, and expertise to succeed –and help the management think through the impact of digital technologies on internal audit. The audit committees should ensure that management performs proper assessment to determine whether an internal audit function should be outsourced or constituted in-house basis the availability of skilled and experienced staff at the company. The audit committee must oversee the internal audit function. This basically involves reviewing the responsibilities, scope, staffing and budget of the internal audit function and holding executive session with the internal audit function. Audit committees should question how internal audit processes contribute to and exemplify the organisation's purpose and values.
- Clarify internal audit's role in connection with ESG risks and enterprise risk management related to ESG disclosures, human capital management, data governance and cyber-security.
- Considering rapid technological advancement, audit committees should consider introducing automation of repetitive processes that will enable internal audit to focus on key areas involving judgement. Additionally audit committee should consider that organisations have robust internal controls and systems in place, specifically, controls over financial reporting and IT controls to address significant risk related to such automation.

Questions for the audit committee

1. What are the risks posed by the company's digital transformation and by the company's extended organisation – sourcing, outsourcing, sales, and distribution channels?
2. Is the coverage of internal audit adequate including periodicity, geography, locations, sites, business units, etc.?
3. Does management plan to include ESG audit/review within the scope of the internal audit process of the organisation?
4. Has a stress test been undertaken on the organisation's planned initiatives and financial forecasts in case of geopolitical disruptions?

06 Help sharpen the company's focus on ethics, compliance and culture

Oversight of ethics, compliance and culture is essential in preserving the integrity and sustainability of an organisation. The reputational costs of an ethics or compliance failure are higher than ever, particularly given increased fraud risk, pressures on management to meet financial targets, and increased vulnerability to cyberattacks. Fundamental to an effective compliance programme is the right tone at the top and culture throughout the organisation, including commitment to its stated values, ethics, and legal and regulatory compliance. This is particularly true in a complex business environment continuously evolving compliance requirements given the digital transformation, regulatory developments and stakeholder demands. Companies move quickly to innovate and capitalise on opportunities in new markets, leverage new technologies and data, and engage with more vendors and third parties across complex supply chains.

Given the impact of AI in various sectors, audit committees should evaluate to understand the ethical implications of AI within the compliance processes to ensure that the AI tools used by the organisation are transparent and capable of explaining the outcome from the tool.

Areas of focus

- Closely monitor the tone at the top and culture throughout the organisation with a sharp focus on behaviours (not just results) and yellow flags. Focus on the "why" instead of "what." Audit committees should have meaningful discussion with the management to understand the cultural drivers and the root cause of misconduct.
- Help ensure that the organisation has a clear strategy focussing on how to build and maintain an ethical culture. Also, that the company's regulatory compliance and monitoring programmes are up to date, cover all vendors in the global supply chain, and communicate the company's expectations for high ethical standards.
- Focus on the effectiveness of the company's whistleblower reporting channels (including whether complaints are being submitted) and investigation processes.
- Audit committees should consider the radical exposure of the company's culture and values and its brand reputation in this evolving digital age.

Questions for the audit committee

1. Does the tone at the top emphasise antifraud culture throughout the company?
2. Is senior management sensitive to ongoing pressures on employees (both in the office and at home), employee health and safety, productivity, employee engagement and morale? Should the directors be spending more time in the field meeting employees to get a true picture of the culture within the organisation?
3. Have the whistle-blower complaints been resolved in time? Does the audit committee see all whistle-blower complaints? What is the process of filtering the whistleblower complaints that reach the audit committee?
4. Does the organisation have an ethics and compliance officer? Have the details of the name and contact details of this officer been communicated within the organisation?
5. Has the organisation timely monitored sources of compliance failures – provided an appropriate response and taken the required action to consistently discipline the employees?

07 Focus on talent within the organisation and the audit committee

Organisations face a challenging environment today –addressing talent shortages, while at the same time managing digital strategies and transformations and developing robust systems and procedures to collect and maintain high-quality ESG data to meet both investor and other stakeholder demands. Many are contending with difficulties in forecasting and planning for an uncertain environment, and working with the workforce to ensure they remain motivated and engaged is becoming harder.

Similarly, apart from financial reporting topics, audit committees have other important focus areas such as cybersecurity, emerging technologies such as generative AI, enterprise risk management and ESG disclosure and reporting (as mentioned above). Therefore, the audit committees are also required to assess on continuous basis whether they have the right composition and skill sets. The composition of the audit committee should be high performing members with the right skill sets and professional experience.

With continuous evolving business environment, emerging technologies such as generative AI getting integrated within various functions of the organisation and increasing focus on environmental and social sustainability, organisations may need to consider new criteria when assessing candidates for management, boards and audit committees. By applying new criteria to recruitment and succession, and by remaining dedicated to continuous learning, organisations can apply a critical lens to these risks and drive new opportunities for the organisation.

Areas of focus

- Audit committee should devote adequate time **in** understanding finance's climate/sustainability/ESG strategy and digital transformation strategy and help ensure that finance is attracting, developing and retaining the leadership, talent, skill sets and bench strength to execute those strategies, as well as its existing responsibilities. Staffing deficiencies in the finance department may pose the risk of internal control deficiencies.
- Reassess whether the committee has the time and expertise to oversee the major risks on its plate today. Such a reassessment is sometimes done in connection with an overall reassessment of issues assigned to each board standing committee.

Questions for the audit committee

1. Does the audit committee include members who have the experience and skill sets necessary to oversee areas of risk (beyond the committee's core responsibility) which the audit committee has been assigned – such as cyber and data security, supply chain issues and geopolitical risk, ESG risks and disclosures?
2. Has adequate consideration been given to the diversity of the team and the pipeline? How far along is the finance organisation in its preparations for any new/enhanced ESG disclosures or adoption of new digital technologies?
3. Does the management ensure that talent in finance function have combined strong analytics and strategic capabilities with traditional financial reporting, accounting, and auditing skills?

KPMG in India contact:

Ritesh Tiwari
Partner,
Board Leadership Center
E: riteshtiwari@kpmg.com

kpmg.com/in

kpmg.com/in/socialmedia