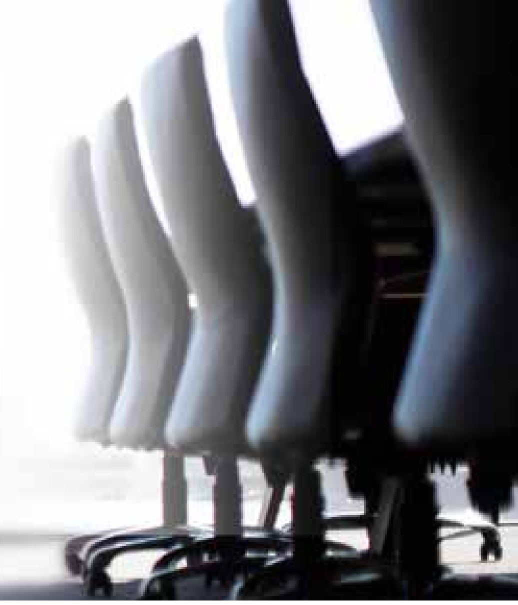

On the 2018 audit committee agenda

Audit Committee Institute

One of the key changes affecting the Audit Committee landscape in Singapore in 2018 will be the introduction of the revised Singapore Code of Corporate Governance ("Code"). The changes in the revised Code will impact several areas, most notably in director independence and Board composition, as well as Board effectiveness and protocols.

In addition, financial reporting, compliance, and the risk and internal control environment will continue to be put to the test. 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 on insights from our 2017 Global Audit Committee Survey and interactions with Audit Committees and business leaders in the last 12 months, we focused on 10 items that Audit Committees should keep in mind as they carry out their 2018 agendas.

Stay focused on the number 1 priority: financial reporting integrity

In our 2017 Global Audit Committee (AC) Survey, nearly half of AC members said it is "increasingly difficult" to oversee the major risks on the AC's agenda in addition to the committee's core oversight responsibilities. The AC now needs to oversee the increasingly complex areas of cybersecurity and IT risks, supply chain and other operational risks, legal and regulatory compliance.

Questions to ask:

- Does the AC have the time and expertise to oversee these other major risks?
- Does cyber risk require more attention at the full-board level or, perhaps, the focus of a separate board committee?
- Is there a need for a risk and compliance committee?

Impact of the proposed Code for the Audit Committee and Internal Audit

The proposed Code reinforces the broad remit of the AC. In particular, it refocuses the AC on the need to review the adequacy, effectiveness and independence of Internal Audit (IA) and External Audit (EA).

Questions to ask:

- Does the AC have a process in place to assess the independence of the IA and EA?
- Does the AC have a process in place to review and evaluate the assurance of the CEO and CFO on the financial records and financial statements?
- What policies and arrangements does the AC have in place to ensure potential concerns or improprieties are safely raised, and the process is publicly disclosed?

Monitor implementation plans and activities for major accounting changes on the horizon, in particular, the new international accounting standards for revenue recognition and leases

The new accounting standards will have an impact on business, systems, controls and resource requirements.

- *FRS 115 Revenue from Contracts with Customers* (effective 1 January 2018) provides a single revenue recognition model across industries, companies, and geographical boundaries. The new standard will require new judgments and estimates.
- *FRS 116 Leases* (effective 1 January 2019) requires lessees to recognise most leases on the balance sheet, which is a wholesale change to lease accounting, and could raise significant implementation challenges.

Questions to ask:

- What is the process that management has used to reach the judgments and estimates required?
- What is the level of resources devoted to the effort and the plan to communicate with stakeholders?
- Where are the trouble spots for the company?
- What periodic updates on the status of implementation activities across the company will the AC be given?

Monitor the impact of the business and regulatory environment, tone at the top and corporate culture on the company's compliance programs

Fundamental to any effective compliance program is the right tone at the top and culture throughout the organisation, including a commitment to the company's stated values, ethics, along with legal and regulatory compliance. In addition, the speed of innovation and changes in the market and industry could lead to heightened compliance risks.

Questions to ask:

- Are the company's regulatory compliance and monitoring programs up-to-date? Do they cover all vendors in the global supply chain?
- Are the company's expectations for high ethical standards clearly communicated? What are the processes in place to monitor the tone at the top and culture throughout the organisation, and to identify early warning signs?
- How effective is the company's whistleblowing program? Does the AC see all whistleblowing complaints? If not, what is the process to filter complaints that are ultimately reported to the AC?

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

As recent headlines demonstrated, failure to manage key risks can potentially damage corporate reputations and impact financial performance. The AC should work with the chief risk officer and head of IA to help identify the risks that pose the greatest threat to the company's reputation, strategy and operations, and to help ensure that IA is focused on these key risks and related controls.

Questions to ask:

- Is the audit plan risk-based and flexible? Does it adjust to changing business and risk conditions?
- What has changed in the operating environment? What are the risks posed by the company's digital transformation and by the company's extended organisation— sourcing, outsourcing, sales and distribution channels?
- Is the company sensitive to early warning signs regarding safety, product quality and compliance?
- What role should IA play in auditing the culture of the company?

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

The Singapore results in our global survey showed that 50 percent of respondents were not satisfied that their agenda is properly focused on CFO succession planning, and the other 50 percent were only somewhat satisfied. Given the increased demands placed on the finance department and its leadership, it is essential that the AC devote adequate time to the finance talent pipeline, training and resources.

Questions to ask:

- What are the succession plans for the CFO and other key executives in the finance team?
- How is the finance team incentivised to focus on the company's long-term performance?
- What concerns do the internal and external auditors have about the talent and skills in the finance department, including the organisation's leadership?

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. Under the new standard, *Communicating Key Audit Matters in the Independent Auditor's Report* (SSA 701), auditors are now required to describe in the audit reports of listed entities the key areas they focused on in the audit, and what audit work they performed in those areas.

Questions to ask:

- How is the AC engaging in early and open communication with the auditor regarding these changes?
- Are there any areas where the auditor might be disclosing more information about an item than the company?

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 AC's role. Regular audit tendering and rotation is already 'business as usual'. The new EU regulatory regime includes some requirements that are difficult to navigate and, in some cases, will significantly impact the way ACs of Public Interest Entities (PIEs) operate in practice. While this regime does not apply directly to Singaporean companies, it will be used as a reference point for companies which operate globally. Read the ACI's Audit Tendering Guide to help ensure the tender process is carried out in an efficient and effective manner, delivering lasting benefits to your company.

Questions to ask:

- How is the AC reinforcing the direct reporting relationship between the AC and the external auditor in their everyday interactions, activities, communications and expectations?
- How is the AC ensuring the auditor's independence from management?

Make the most of the AC's time together - effectiveness requires efficiency

Keeping the AC's agenda focused on financial reporting and related internal control risk is essential to the committee's effectiveness. However, coping with the challenges of the increased workload would require efficiency. ACs need to streamline committee meetings by:

- insisting on quality pre-meeting materials
- making use of consent agendas
- reaching a level of comfort with management and auditors so that routine financial reporting and compliance activities can be "process routine" (freeing up time for more substantive issues).

Questions to ask:

- Does the AC leverage the array of resources and perspectives necessary to support its work?
- Does the AC spread the workload by allocating oversight duties to each member, rather than relying on the committee chair to shoulder most of the work?
- Does the AC spend time with management and the auditors outside of the boardroom to get a fuller picture of the issues?
- Does the AC regularly assess its composition, independence and leadership? Is there a need for a fresh pair of eyes?

Give non–GAAP financial measures a prominent place on the Audit Committee agenda

Globally there has been increased concern about the undue prominence given to alternative performance measures (APMs) over equivalent IFRS measures.

While APMs can provide valuable insight, the way they are presented and how they relate to the information presented in the financial statements should have a prominent place on the AC agenda.

Questions to ask:

- What process and controls do management have in place to develop and select the APMs it provides? What is their correlation to the actual state of the business and results?
- Are APMs being used to improve transparency and not distort the balance of the annual report?
- What broader drivers of value that contribute to the long-term success of the company should be disclosed?
- What sources of value have not been recognised in the financial statements and how are these sources of value managed, sustained and developed?

About KPMG's Audit Committee Institute

Sponsored by more than 35 member firms around the world, KPMG's Audit Committee Institute provides audit committee and board members with practical insights, resources, and peer exchange opportunities focused on strengthening oversight of financial reporting and audit quality, and the array of challenges facing boards and businesses today—from risk management and emerging technologies to strategy and global compliance.

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