



# On the 2022 Audit Committee agenda



## KPMG Singapore Audit Committee Institute

Emerging from two years of pandemic-driven crisis and disruption, we continue to see how important trust and transparency are – not only to the functioning of the capital markets, but also to customer relationships, brand reputation, and the health and well-being of employees. For shareholders – and, increasingly, from a broader stakeholder perspective – much of that trust and transparency is grounded in the quality of the company’s corporate reporting and disclosures, and the story they tell. To that end, the audit committee’s oversight role has perhaps never been more important or more challenging.

By tapping on insights gained from our work and conversations with directors and business leaders, we have highlighted key issues that boards can incorporate into their frameworks as they approach and execute their agendas for 2022:



### Stay focused on financial reporting and related internal control risks

It is clear from our conversations with AC members that overseeing major risks on the AC’s agenda beyond the committee’s core oversight responsibilities are becoming increasingly difficult. Aside from any additional agenda items (such as climate and ESG risks), the risks that many ACs have had on their plates for some time have become more complex, as have the AC’s core responsibilities. Aside from being more challenging, this has also increased core responsibilities. Given the financial reporting, accounting, and disclosure impacts as a result of COVID-19 that are bound to unfold in 2022, key areas of focus should include:

- **Forecasting and disclosures:** The uncertain trajectory of COVID-19 and the economy – coupled with the extensive use of forward-looking information in financial statements continue to make COVID-related disclosures a top area of focus. Similarly, the strains on supply chains will make financial forecasting even more challenging. With companies having to make more tough calls in the current environment, regulators are emphasising the importance of well-reasoned judgments and transparency. This includes contemporaneous documentation to demonstrate that the company has applied a rigorous decision-making process. Given the fluid nature of the long-term macroeconomic environment, changes in judgments, estimates, and controls may be required more frequently. This includes factors like inflation, interest rates and supply chain amongst others.
- **Internal control over financial reporting (ICFR):** The disruption to business operations brought about by COVID-19 has encouraged companies to reassess, enhance and establish new internal controls. For example, these include rethinking IT system access and authentication to enable a remote and virtual workforce. Other areas include cybersecurity, return to work plans, and data privacy.

Entity level controls like the communication and assignment of authority, segregation of duties and access review controls have also been put under the spotlight.

- **Audit adjustments:** Titled “Adjust Adjustments Matter” the Accounting and Corporate Regulatory Authority (ACRA)’s second study of the proposed audit adjustments on the financial statements of listed companies in Singapore in 2021 highlighted key issues. For example, 85% of all proposed audit adjustments made by auditors over a 3-year period were to correct factual errors in statements. This suggests a weakness in the preparation process. ACs should review audit adjustments to understand their nature, especially if they are leading to recurring errors. They may also need to query management about its plans to upskill the finance team and its strategy to improve the underlying financial reporting process. Alternatively, they may refer to the [Financial Reporting Practice Guidance No 1 of 2021](#), an ACRA issued guide which can help directors in the review and approval of the upcoming FY2021 financial statements.



### Monitor climate and other ESG disclosures and clarify the AC’s related oversight responsibilities

On 5 December 2021, the Singapore Exchange (SGX) mandated that issuers must provide climate reporting based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This means that from the financial year starting 2022, companies will have to submit their sustainability reports on a “comply or explain” basis. All directors will have to undergo a one-time training on sustainability to ensure that boards have common knowledge of their roles and responsibilities. Unless issuers have conducted external assurance, sustainability reports will also have to be issued alongside annual reports.

Beyond this change, ACs should encourage management to reassess the scope and quality of the company’s sustainability/ESG reports and disclosures. This includes benchmarking against peers, consideration of the methodologies and standards of various ESG raters. In particular, they will have to pay heed to measures used by the company’s investors, understand the expectations of investors and other stakeholders, and consider the appropriateness of ESG reporting framework(s) for the company.

The company's efforts should go beyond just meeting ESG ratings. It should also focus on how climate and other ESG risks and opportunities are managed. This includes analysing their impacts on the creation of long-term value. ACs can also help the company define the road towards assurance by setting priorities and overseeing compliance with the expected new requirements. In addition, ACs can assist in monitoring the reporting and data quality subject to the assurance process.



### Reinforce audit quality and set clear expectations for the external auditor

A fully engaged AC can enhance audit quality by setting the right tone and expectations for the external auditor. Having frequent, quality communications and a robust performance assessment can help companies rigorously monitor auditor performance. Setting clear expectations and frequent quality communications with the external auditor is a critical part of the process. In setting goals for 2022, consider the lessons learned from 2021 – the year which possibly saw the first audit undertaken in a remote working environment. Analyse the processes that worked well in 2021 and examine the opportunities that might improve efficiency in 2022. ACs should also probe the audit firm on its quality control systems intended to drive continuous improvement in audit quality. This includes the firm's implementation and use of new technologies.



### Understand how technology is impacting the finance function's talent, efficiency, and value-add

In 2022, the challenges of finding, developing, and retaining talent, amid shifting working trends and a labour constrained market have created a war for talent. This has been particularly so for finance functions and internal audit. As ACs monitor and help guide finance's progress in transformation, we suggest three areas of focus that can help them understand the organisation's plans. Firstly, they should leverage on robotics and cloud technologies for better efficiencies. Secondly, they should use data analytics and artificial intelligence for sharper insights. Thirdly, they need to attract, develop, and retain the right talent and skills to match evolving needs.



### Help ensure that internal audit is focused on the company's critical risks

A recent survey of AC members revealed that most felt that their internal auditor pivoted effectively to reviewing management's updated risk assessments as well as management's remediation plans and controls for those risks. Going forward, the AC should work with the Head of Internal Audit (HoIA) and CRO to help identify the critical risks. This will help ensure that the internal audit is focused on these key risks and related controls. A key question to ask would be: Is the audit plan risk-based, flexible, and can it adjust to changing business and risk conditions? Set clear expectations and help ensure that the internal audit team is equipped with the relevant resources, skills, and expertise to deploy the strategies. Do encourage the HoIA to think through the impact of digital technologies on internal audits.



### Stay up to date on global tax developments and risks – a key element to ensure ESG compliance

The OECD is leading 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 conduct their tax affairs in a sustainably. This is measured in terms of good tax governance and contributing a "fair share." Thus, ACs should engage with the management in at least three areas. Firstly, they should understand the risks and possible impacts posed by this evolving tax landscape. Secondly, they should help to articulate the company's tolerance for reputational risk associated with tax choices by evaluating the extent to which the corporate governance framework and associated controls are in place to minimise this risk and or improve sustainability scores. Thirdly, they should help determine the right approach to tax transparency, as there is no consensus as to what level of reporting constitutes good tax transparency.



### Make the most of the AC's time together

Efficiency breeds effectiveness. Keeping the AC's agenda focused on financial reporting and related internal control risk is essential to drive the committee's effectiveness. But addressing the workload challenge also requires efficiency. Streamline committee meetings by insisting on quality pre-meeting materials. Make use of consent agendas, and reach a level of comfort with management and auditors so that financial reporting and compliance activities can become systematic and routine.

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