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Internal audit: addressing risks facing the media industry

Top 10 internal audit considerations for media companies

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Forces shaping the industry

Media industry players have spent decades perfecting a highly profitable model. Today that model is being significantly disrupted, and the onslaught of disruption is happening at breakneck speed. New competition, major changes in advertising, an abundance of premium content, and changing consumer expectations around access and cost are combining to create entirely new challenges and risks.

As with other industries, new technologies are disrupting the TV and film business. Over-the-top (OTT) content providers are giving TV viewers more flexibility and programming choice than ever before. Pay-TV incumbents and numerous new content providers are making the media landscape increasingly complex.

Traditional TV delivery models and viewers' consumption habits are being upended, and media leaders face increasing urgency to evolve and transform. Companies looking to participate in the new TV ecosystem are facing uncharted territory and will need to grapple with some critical questions:

— How will the TV and film ecosystem evolve?

— What should they do now to prepare?

— How can companies position themselves to be relevant (and profitable) in the future?

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Consumer demand for better options to watch their favorite TV programs and movies when and where they want to do so is opening the door for dramatic changes. We believe this disruption paves the way for TV content platforms that will offer consumers even more choices and an easier path to the programs they want to watch. Unbundling provides the consumer with more choices, but also potentially creates overwhelming confusion…which in turn creates an opportunity for a variety of players to step in and become a premium content platform.

This paper outlines the critical role of internal audit in helping media companies manage today's most important risk areas—and unlock underlying value in the process.

As the industry continues to evolve and transform, we explore the top ten focus areas for media company internal audit functions as they strategize and make investments. Our choices are informed by:

— KPMG's discussions with chief audit executives at media companies

— Various KPMG-sponsored industry and technical accounting share forums

— Input from KPMG professionals whose work gives them specific perspectives on the media industry's priorities.

Note: Every media company is unique, so it's important that internal audit rely on a company-specific analysis of its risks in developing its internal audit focus areas. Since importance can vary by company, these 10 risks are not listed in order of priority.

Top 10 internal audit considerations for media companies[1]

1. **Mergers and acquisitions**
2. **Cybersecurity**
3. **Culture risk**
4. **Relevance to customers**
5. **Nontraditional competitors**
6. **Advertising revenue**
7. **Intelligent automation/Robotics**
8. **Use of data**
9. **Data protection and privacy**
10. **U.S. tax reform**

[1] There are, of course, many sub-categories of risk which impact many of these risks to a lesser or greater extent such as risks associated with outsourcing to third parties, increased regulatory scrutiny, conflicts of laws between jurisdictions, etc., but the interplay is beyond the scope of this project.

1. Mergers and acquisitions

Drivers:

- Addressing increased M&A and divestiture activity, particularly consolidation, across the industry
- Supporting and executing due diligence procedures on M&A targets
- Focusing on strategic risks of M&A and divestiture activity
- Improving integration and carve-out processes across key functions
- Evaluating M&A and divestiture strategies to ensure they are in the best interest of shareholders
- Ensuring that an acquired or spun-off entity is SOX 404–compliant.

The need to manage execution risk more effectively is leading many media companies to design additional rigor into their merger, acquisition, and divestiture programs. Their goal in these efforts is to help ensure a fact-based and well-controlled due diligence, valuation, planning, and execution process.

Transactions involve not only significant costs—often running into the hundreds of millions of dollars—but also significant involvement across the enterprise, starting with a strategy group that considers potential targets. Internal audit can play an especially valuable role in evaluating the control environment before and after closing to make sure controls and oversight put shareholder interests first. This upfront work is critical to the ultimate success of the deal.

Internal audit can contribute to a comprehensive due diligence approach that identifies risks related to people, process and technology. It can also ensure the transaction meets both regulatory requirements and the business metrics and objectives highlighted in the M&A plan.

Finally, the integration process must be expertly executed if shareholders are to ultimately realize the expected value from the deal. Internal audit can play a key role in assessing controls around integration, including, for example, whether strategic goals and related metrics are tied into the integration plan, whether a defined playbook and team are prepared to execute the integration, and if plans are in place to correct a failure or delay in the process.

Potential next steps for internal audit:

- Perform "post mortem" reviews on prior deals or divestitures
- Evaluate the organization's preparedness for an integration and perform a post-transaction integration review
- Assess adherence to accounting, internal control and legal/compliance due diligence checklists that include, for example, Anti-Corruption and Trade Sanctions risks
- Identify internal control gaps for the acquired and combined companies
- Assess communication controls among finance, internal audit, legal and deal teams during active integrations or divestitures
- Assess controls related to deal strategy, integration and execution
- Evaluate management's understanding of and execution against the value drivers associated with the integration.

2. Cybersecurity

Drivers:

— Evolution and expansion of external and internal cyber threats

— Increased importance of technology and connectivity to media operations

— Reputational, financial and legal impact of a cyber breach, including costs to remediate compromised systems, loss of customer confidence, brand damage, regulatory fines and legal liabilities

— New regulations focused on cybersecurity, privacy and technology.

As the internet becomes the primary channel for content delivery, and customer data becomes more digitized and distributed, cybersecurity is top of mind for media company leaders. Numerous regulations and standards are emerging and changing to adapt to transformative technology as well as the Internet of Things (IoT). For example, the European Union's General Data Protection Regulation (GDPR), which went into effect in May 2018, will have an impact reaching far beyond the EU: U.S. media companies and marketers that have access to EU citizens' data will also be affected.

A variety of factors serve to create more cyber risks for media companies than companies in other industries. With iconic brands and popular channels, high-visibility media companies are attractive targets for hackers. In addition, media companies often have highly diverse technology and systems due to complex business relationships and creative cultures. New technologies and systems continually enter the enterprise through employees, vendors, and partners in different business segments, and they often utilize a common IT infrastructure or even share information assets. More importantly, as the traditional four walls of media companies are permeated by mobile computing, outsourcing and third-party business partners, leaders face increasing difficulties in determining who should have access to specific systems and data.

The consequences of lapses in cybersecurity can be disastrous, impacting both the bottom line and a company's reputation. Internal audit can play a key role in identifying cybersecurity risks, evaluating business continuity and incident response, assessing the effectiveness of cybersecurity controls, and offering strategies to strengthen the cybersecurity program.

Potential next steps for internal audit:

— Assess the company's cybersecurity program, guided by media industry standards, cybersecurity standards, and regulations such as ISO 27001

— Perform cybersecurity maturity and penetration testing audits

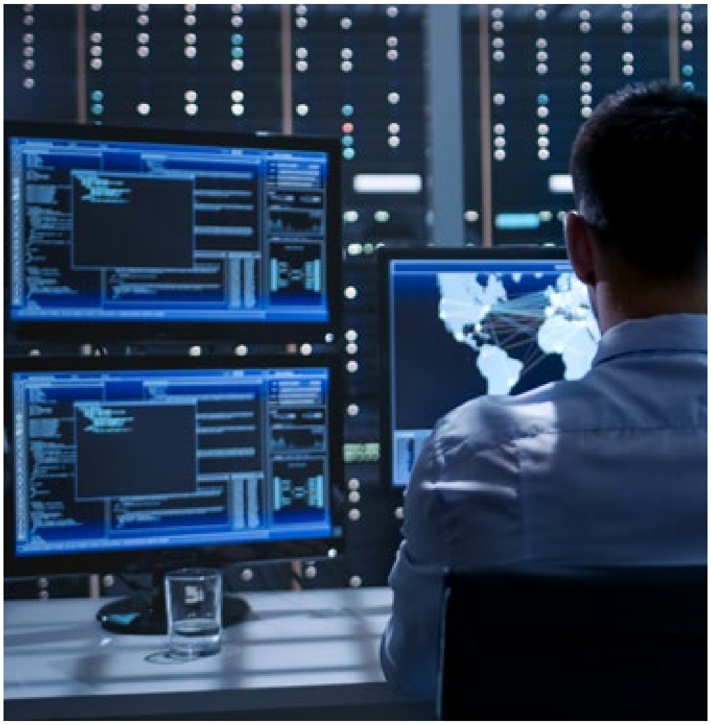
— Assess the effectiveness of identity and access controls

— Assess the business continuity plan and data governance framework to identify priority information assets

— Assess the cybersecurity incident response plan

— Review the company's vulnerability management and patching programs.

Note: see the data protection and privacy section for additional information on GDPR.



3. Culture risk

Drivers:

— Increased media industry awareness and activism focused on widespread cultural change

— Heightened focus on reputational/brand risk

— Heightened regulatory scrutiny and increased cultural expectations

— Stricter governance, oversight, and accountability expectations

— Increased investor attention.

Highly publicized incidents of misconduct in the media and entertainment industries have increased scrutiny of conduct issues and affected the public's trust. As a result, media company leaders are taking new steps to evaluate organizational culture and assess related risks. A well-defined strategy does not ensure success if the company culture does not support the strategy and its execution.

Culture can be observed, monitored, and changed over time to mitigate misconduct and encourage appropriate behaviors. A broad cultural program addresses the specifics of governance, compliance, and risk management. But it will also focus on understanding how the organization makes decisions to meet the demands of its various stakeholders, and how these decisions influence culture, both current and desired. Stakeholders, resources, and skills should be aligned and available before internal audit begins any reviews.

Potential next steps for internal audit:

— Conduct an assessment to determine if the day-to-day cultural drivers are aligned to the organization's core values and mission statement

— Review the alignment between performance measures and core values to ensure desired behaviors are incentivized and rewarded

— Benchmark the organization's cultural drivers against leading practices or those of peer organizations

— Provide assurance regarding the evolution and alignment of the organization's culture with compliance activities, financial objectives, and business and operating models

— Surface culture-related risks through data analytics and third-party audits

— Lead or participate in investigations into matters involving potential misconduct

— Drive continuous improvement through testing and evaluation of the organization's culture change program, include cultural aspects in reporting

— Perform systematic root-cause analysis on audit findings and other non-compliance incidents with specific consideration of soft controls.


INTRODUCTION
DROPDOWN
LEFT SIDEBAR
RIGHT SIDEBAR
NO SIDEBAR
Back
DIGITAL MEDIA
RESPONSIVE DESIGN
DROP IMAGE HERE
CREATIVE

4. Relevance to customers

Drivers:

— Consumers' increasingly high expectations for seamless, superior, omnichannel digital experiences

— The need to link customer preferences across channels of interaction, such as smartphone, over-the-top (OTT), in-store and online

— Innovations in relevant products and services to increase customer loyalty and profitability

— The need for reductions in customer service costs and increased process efficiencies

— Growing demand for products that extend the media experience into the physical experience.

Media content today is being produced, delivered and digested in a multitude of formats. More consumers view content on multiple mobile devices or "second screens." This changing customer behavior has made omnichannel digital content distribution essential to attracting and retaining customers, and it is shifting consumer strategy priorities in the industry.

In this continually evolving landscape, more media organizations are investing in new approaches for predicting customer behavior, targeting sales and marketing, and reaching an online audience more effectively and efficiently. Companies are also seeking to increase their digital footprint; change how they interact with their audience; and create, produce and distribute content where, when and how consumers prefer it. Increasingly, that means offering customized content and full-time, on-demand, device-agnostic options.

Additionally, media companies are increasingly investing in immersive experiences using virtual reality (VR) and augmented reality (AR). Earlier this year, NBC partnered with Intel to broadcast several events in VR during the 2018 Winter Olympics. According to eMarketer, by 2019, nearly 15 percent of the U.S. population and 17.5 percent of internet users will be VR users.[2] eMarketer also predicts that by 2019, nearly one-fifth of U.S. internet users will be AR users.[3]

Internal audit, with its overall organizational knowledge and influence, can help media companies transform customer-focused processes, policies and initiatives to create the superior digital experiences customers expect—and not just from a risk, controls and compliance perspective. Significantly, internal audit can enable transformation from a process improvement standpoint.

Even more important, internal audit's support can help media companies realize value from customer experience transformation, which tends to be a costly investment. Internal audit's involvement helps enable the business to stay on strategy, measure progress and ensure accountability for execution.

Potential next steps for internal audit:

— Evaluate customer service processes, policies and tools against leading industry practices

— Analyze the organization's use of data analytics and social media monitoring to predict and respond to customer behavior

— Evaluate the controls associated with the organization's social media accounts (i.e., guidelines for who can post on behalf of the organization and procedures for reviewing and approving posts and managing cybersecurity risks)

— Assess the organization's digital strategy for threats and opportunities

— Review various aspects of the information technology platforms supporting the digital build-outs, including pre- and post-implementation reviews

— Evaluate the success of the customer transformation process using the key performance indicators (KPIs) and critical success factors (CSFs) that were part of the business case for investment.

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[2] eMarketer July 2017. Virtual reality (VR) users: Individuals who experience VR content at least once per month via any device. This definition includes users who view 360-degree photos/videos and 3-D animations on any device, including desktops/laptops, mobile devices, game consoles or HMDs.

[3] Augmented reality (AR) users: Individuals who experience AR content at least once per month via any device.

5. Nontraditional competitors

Drivers:

— Content producers and content deliverers are converging, as evidenced by the number of media companies bypassing traditional distribution channels in favor of their own branded direct-to-consumer OTT offerings

— Disruptors such as Netflix, YouTube and Facebook have transformed the customer experience; nontraditional competitors including Amazon, AT&T and Twitter are adding complexity in the marketplace and are becoming "media" companies in their own right

— The economics of OTT offerings do not compare favorably to current TV economics.

Industry-wide technological advances and consolidation among content creators and platform providers are fueling growth in the market. In the rapid shift to OTT, multiple players have the opportunity to retake market share by becoming a major platform. But with ongoing market fluidity, strategy development and execution requires a company to continually assess its OTT business and operating models.

Today, digital and mobile disruptors are continuing to create high-quality content at low cost and distributing directly to consumers through social media, mobile apps, and other nontraditional channels. Consumers themselves are even becoming content creators, with a myriad of free publishing resources, such as YouTube, available at the touch of a button.

Current incumbents are challenged by this disruption because the economics of OTT offerings do not compare favorably to current TV economics. Consequently, to compete with disruptors, many in the media industry are seeking to reinvent their business models, innovation processes, and marketing and branding campaigns. Many are weighing the success of platform businesses in other sectors, such as Airbnb, and are considering options to develop their own platform ecosystems.

Whatever progress a media company has made in its OTT strategy development and execution, market fluidity requires continual assessment of the OTT business and operating models. Internal audit can support these initiatives with oversight and assurance that risks related to new strategies, tools and processes—designed to enhance innovation and reach customers more effectively—are managed and mitigated.

Potential next steps for internal audit:

— Evaluate the organization's competitor analysis used in the strategy process

— Evaluate innovation processes and culture against leading practices or peer organizations

— Evaluate the organization's OTT process/strategy across divisions/business units

— Evaluate the organization's ability to identify and respond to customer demand for OTT options

— Assess the company's technology plan/readiness to deliver OTT options to customers.

6. Advertising revenue

Drivers:

— Advertisers on media company channels and properties continue to seek digital distribution channels over more traditional outlets

— Mobile and video channel growth as well as addressable TV are among the high-growth drivers behind this trend

— New metrics for advertising measurement focus on a targeted, digital audience

— Evolving advertising revenue models are based on these new metrics

— Privacy and consumer data usage issues around targeted advertising are a priority.

As consumers shift away from traditional channels and consume more media on their personal devices, advertisers on media company channels and properties are taking steps to build a presence where consumers are most likely to see them. Research by eMarketer projects that in 2018, digital ad spending will surpass TV ad spending—equaling $77.37 billion, or 48.6 percent, of total media ad spending—and by 2022 is expected to reach $170.48 billion or 62.1 percent of total media ad spending. Smaller percentages of advertising will go toward print, radio, out-of-home and directories. Greater attention and emphasis is also being placed by marketers and advertisers on cross-channel advertising that incorporates both traditional TV and digital channels.

In this dynamic environment, video and mobile advertising are becoming increasingly critical pieces of media company revenue streams. Consequently, media companies need to continually advance and update new advertising products and formats as they look to optimize return on ad spend (ROAS) and audience engagement. Developing new capabilities to track and evaluate the performance of new digital offerings, however, can present greater challenges compared to traditional advertising, because the data is available in real time and at a highly granular level. At the same time, identifying generally accepted standards of measurement have proven to be elusive, and privacy issues and the use of consumer data remain a priority for media companies and others that collect user data. Recent testimony on data privacy by Facebook's CEO before the U.S. Senate was carefully scrutinized by the broader media industry.

By monitoring risks and controls around advertising processes and performance metrics, internal audit can assist media organizations in evolving more effective models to quantify and grow digital ad sales as well as make their advertising activities more impactful.

Potential next steps for internal audit:

— Evaluate advertising sales department performance, including how sales identifies and executes on new ad metrics and mediums—such as increasingly complicated new pricing models including cost-per-click (CPC), cost-per-view (CPM), cost-per-engagement (CPE), and programmatic ad sales and cross-channel marketing

— Review budgetary processes and controls, including billing of advertising campaigns and placements, against initial estimates and actual outcomes

— Evaluate the design and operation of sales incentives programs to ensure that they are aligned with newer, higher value (digital) advertising mediums and that they properly incentivize sales people

— Evaluate ad pricing strategies, including how sales allocates and prices ads to the right customers to maximize revenue

— Perform contract compliance audits on advertising and promotional agency agreements

— Assess innovation processes related to advertising programs.

7. Intelligent automation/ Robotics

Drivers:
- — The digitization of labor is rendering some traditional business operations obsolete
- — Media industry leaders are maintaining or ramping up investment in innovation, particularly digital labor
- — Artificial intelligence, cognitive computing and robotics are among the top technologies that will drive business transformation going forward.

Intelligent automation – such as robotic process automation (bots), machine learning, and cognitive solutions—is changing the world of business right before our eyes. New technology that both complements and augments human skills has the power to exponentially increase speed, scale, quality, precision, and operational efficiency across organizations.

Smart machines now perform activities, and even make decisions, that were previously the domain of humans—and they do it faster, more accurately and at far greater scale. The days when employees clock in to work just to repeat manual tasks over and over will soon be a distant memory.

Given intelligent automation's clear benefits and numerous use cases, it's no surprise that it has become a mission-critical initiative. But when embarking on such an important digital transformation project, companies must remain cognizant of the risks and governance responsibilities associated with intelligent automation and applications. A well designed risk and governance function helps ensure that intelligent automation programs are properly implemented and that associated risks are effectively identified, evaluated, mitigated, or, where appropriate, accepted.

The biggest risk associated with intelligent automation is business disruption. Additional risks include skill gaps, inconsistent developer training, lack of change management processes, insufficient cybersecurity, and missing or ineffective controls. Multiple factors can create an unstable bot environment and increased bot failure rates. And when your bots stop working, so does your business.

Organizations that deploy intelligent automation programs may need to provide formal assurance that they are abiding by relevant regulatory and compliance guidelines. Identifying impacted internal and external compliance requirements should be one of an organization's first considerations when implementing an IA program. Noncompliance can lead to program instability and operational failures.

Internal audit has a critical role in an increasingly digital workplace. Properly defined automation program guidelines can help an organization meet its governance, risk, controls and compliance requirements and prevent damage to relationships with partners, auditors, and regulators, as well as avoid significant fines.

Potential next steps for internal audit:

- — Integrate governance, risk management, and controls throughout the automation program life cycle
- — Identify opportunities to embed automation-enabled control activities within the impacted business processes
- — Capitalize on intelligent automation labor innovations to increase the efficiency and effectiveness of internal audit activities.

8. Use of data

Drivers:

— The need to address existing and emerging risks related to evolving business models, new technology and the changing ways in which customers consume media services

— Managing proprietary programming content

— Leveraging advanced big data tools and techniques to adapt quickly to rapidly evolving business demands

— Complying with global business and regulatory data requirements

— Leveraging big data technology and methodologies to improve audit quality and precision, reduce audit costs, and expand risk coverage and audit scope

— Enabling real-time identification of risks and remediation of control weaknesses.

Media companies own and use a tremendous amount of data—and not just the kind of internal data found in every business. In the media industry, big data platforms capture and store an extraordinary volume of customer interaction data that is valuable to advertisers and to the business itself. Companies also use data for the curation of content. And perhaps most importantly, they seek competitive advantage via proprietary programming content. Data is an incredibly valuable asset, which is why data governance is so important in the media industry.

Effective data governance enables a top-down, enterprise-wide view of big data. It addresses questions over data ownership and ensures adherence to policies that govern which data is important and how data is created, stored, aggregated, warehoused, analyzed and used. Data governance is critical to maintaining data privacy and helping the business turn data into insights.

Although internal audit must maintain an adequate degree of separation from management responsibilities, opportunities exist to work with management to expand the use of data analytics in the business and within the internal audit process. Those responsible for operations, compliance and financial reporting have generally increased their use of data analytics in executing their responsibilities. Internal audit departments can often leverage these platforms or assist in a consulting role to help improve related processes and controls.

Using data to perform analytics in the internal audit process can enable expanded risk coverage and audit scope as well as improve testing precision. Repeatable and sustainable data analytics can help internal audit departments simplify and improve the audit process, resulting in higher quality audits, increased value to the business, and more precise control evaluation. By enabling internal audit to evaluate a greater number of controls, resulting in greater coverage, data analytics can help internal audit respond to audit committees and stakeholders that are asking them to do more with less.

Potential next steps for internal audit:

— Use data analytics to identify current and emerging risks as part of the risk assessment process

— Perform automated auditing focused on root cause analysis and management's response to risks

— Assist in the formation or review of data governance policies and processes

— Review the data model and points of control, including data classification issues, to identify security gaps

— Assist in creating automated extract, transform, and load (ETL) processes, along with repeatable and sustainable analytics and dashboards, enabling auditing or monitoring against specified risk criteria.

9. Data protection and privacy

Drivers:

— Ensuring personally identifiable information (PII) is protected as business models evolve

— Enhancing risk mitigation through a structured information security and privacy management approach that extends across the business

— Improving compliance with regulatory and legal requirements, especially GDPR

— Addressing regulatory and public calls for limits on data collection in first instance

— Reducing reputational risk associated with denial of service attacks, privacy breaches, and other security-related weaknesses.

As media companies navigate continued globalization, technology innovation, and business model evolution, information security and privacy protection are clear priorities. Data breaches are in the headlines almost daily. With the increased use of cloud and social platforms, companies need to be able to assure their shareholders, board members, customers, and other stakeholders that they are capable of safeguarding the data entrusted to them. If privacy and security are not constantly re-addressed, organizations can be exposed to a host of risks ranging from the breach of personal information/identity theft, fraud, access management issues, system availability, and damage to the company's reputation.

From a regulatory perspective, the European Commission finalized the introduction of the General Data Protection Regulation (GDPR) in December 2015, and enforcement officially began in May 2018. The GDPR is the biggest and most impactful change on privacy and data protection in recent history. It introduces a range of new requirements for organizations (not just in Europe) in relation to data protection.

The GDPR is a fundamental game changer, especially for companies straddling both technology and media businesses, and its impact is comparable to the impact of Sarbanes-Oxley on internal controls over financial reporting. GDPR introduces a broadened geographic reach, meaning that provisions of certain European Union (EU) regulations will be applicable to organizations outside the EU. The potential impact of the GDPR on an organization's bottom line can include fines as high as four percent of global turnover and increased reputational risks. As a result of GDPR, organizations need to demonstrate continuous data protection compliance, including:

— Extended privacy rights to the data subjects

— Increased transparency and accountability requirements from organizations

— Obligations to report personal data breaches within 72 hours

— Implementation of data privacy by design, with privacy embedded in relevant processes and systems

— Appointment of data protection officers positioned independently within the organization.

Potential next steps for internal audit:

— Assess the potential impact of the GDPR on the organization's information governance strategy and budget

— Integrate GDPR requirements into the organization's annual audit program to assist in improving compliance

— Evaluate the compliance of business partners or third-party providers and understand the compliance initiatives they are undertaking

— Review security monitoring and detection programs, as well as controls, with a focus on Security Incident Event Monitoring (SIEM)

— Examine the data breach notification process for regulatory and legal compliance

— Help ensure that employees have only the necessary levels of access to systems and data
— Assist with creating and delivering security and privacy training (e.g., password protection, information risks, and appropriate handling of confidential customer/employee information)
— Perform security audits around cloud and social platforms.

Note: see the cybersecurity section for additional information on GDPR.

10. U.S. tax reform

Drivers:

- The most significant U.S. tax reform in more than 30 years is forcing all companies to make major changes in existing process, controls and policies
- Media and entertainment (M&E) companies are affected especially by changes in international taxation, depreciation/amortization, revenue recognition, and compensation and benefits
- Changes in how content is taxed will also affect the industry
- Complying with the changes and taking steps to appropriately benefit from them require equal attention.

M&E companies should pay particular attention to the following areas:

International taxation

Base Erosion Anti-abuse Tax (BEAT): Many M&E companies have developed and produced their IP outside of the U.S. and charge cross-border royalties. Now they must consider the range of BEAT requirements and identify all cross-border payments so they can determine whether they are subject to BEAT.

Foreign Derived Intangible Income (FDII): Many M&E groups have significant IP assets in the U.S. Now, income generated by the U.S. IP holder can qualify as FDII, which is taxed at a lower rate. The risk is that the group may over- or understate the tax owed, depending on whether it appropriately calculates FDII.

Global Intangible Low Tax Income (GILTI): A U.S. multinational M&E company with controlled foreign corporation (CFCs) will need to perform GILTI and foreign tax credit (FTC) calculations to determine how much of its overseas income is currently included in the U.S. tax return, as well as the resulting net tax liability.

Depreciation/Amortization and revenue recognition

Depreciation/Amortization: M&E taxpayers should review the attribute of assets placed in service on a quarterly or annual basis and track content production. The presentation of deferred taxes and current tax payable accounts could be misclassified if depreciation/amortization are inaccurate. This risk is especially significant considering the new rules that allow immediate expensing of assets, including those acquired in a business combination, and those related to content produced in the U.S.

Revenue Recognition: With both tax reform and the changes to the revenue recognition standard under ASC 606 and IFR15, companies can expect significant changes to historical practices, including potentially accelerated revenue recognition on content. M&E taxpayers need to make sure they have controls in place that ensure that all existing contracts are reviewed against revenue recognition requirements and consider such principles when executing contracts in future. Presentation of deferred taxes and current tax payable accounts could be misclassified if revenue is inaccurately recognized due to amended Section 451 and recent implementation of ASC606 and IFR15.

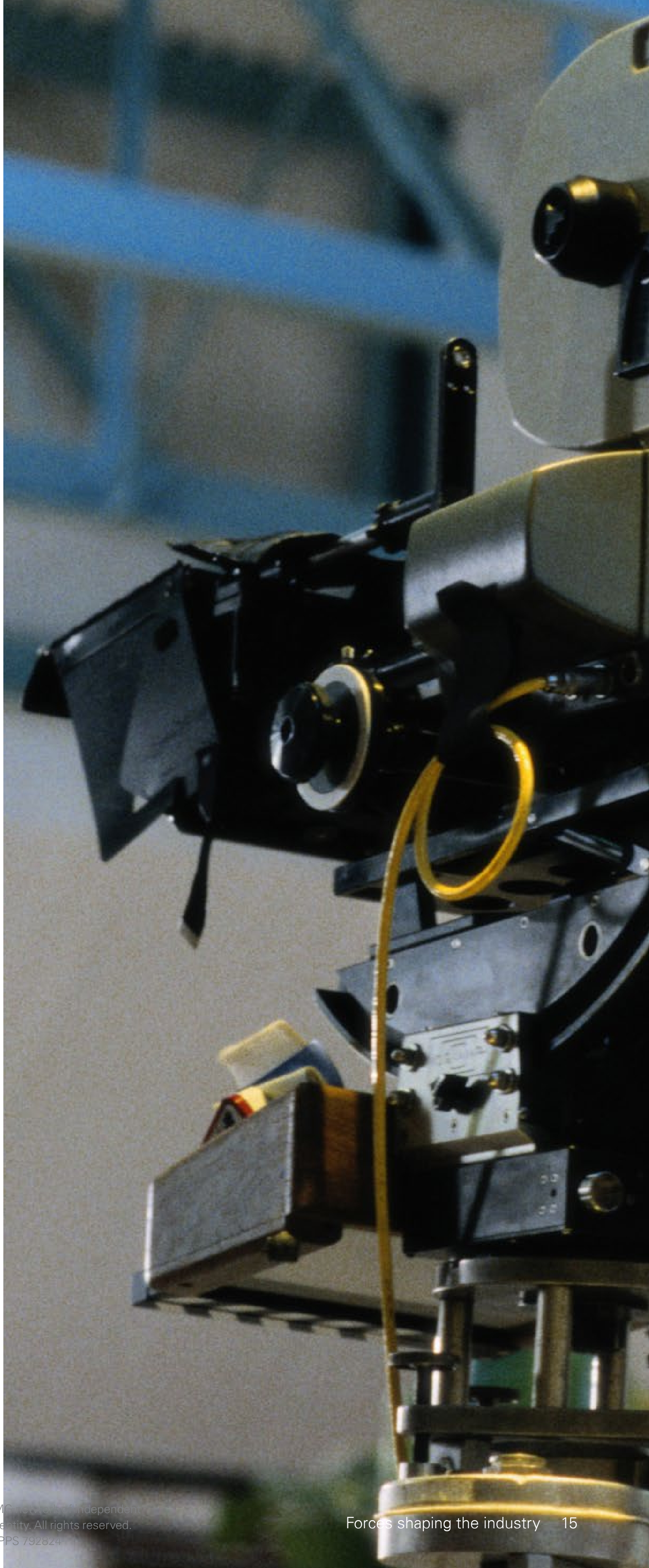
Executive compensation and fringe benefits

Executive Compensation: Significant changes were made to the deductibility of compensation to a public company's CEO, CFO and three highest paid executive officers. For example, the new rules generally eliminate the performance-based compensation exceptions to the $1 million limit on tax deductions for compensation paid to these executives. M&E company executives historically have been highly compensated compared to other industries. There is still some planning that can be done to keep some of these deductions but the new rules may change some current compensation practices. These changes could increase a company's income tax expense but there are transition rules for certain existing agreements that may preserve some long term performance compensation promises made before a stated date in 2017.

Fringe Benefits and Meals and Entertainment Expenses: The new rules made significant changes to the deductibility of meals and entertainment expenses, which can be significant for many M&E companies. All M&E companies need to understand the changes and determine whether changes in their general ledger accounts and T&E processes are necessary – many companies will need to make changes in order to capture some of the information needed under these changes.

Potential next steps for internal audit:

- Assess existing organizational structures, intercompany agreements, general ledger accounts and time and expense reporting and policies
- Assist the tax department in determining whether the company is subject to BEAT and FDII. Ensure that the general ledger system can separately identify "BEATable" payments and, if necessary, add new general ledger accounts so costs can be tracked more precisely.
- As part of the GILTI review, assist the tax department in making sure that information for foreign entities is available in existing systems, both for compliance and to enable planning
- Ensure that systems are in place to track and identify changes to executive compensation agreements and appropriately track meals and entertainment expenses
- Make sure T&E process are updated appropriately to comply with the new law.



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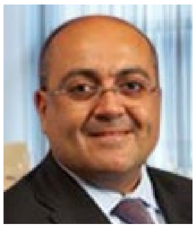

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How KPMG can help

KPMG's professionals combine industry knowledge with technical experience to provide insights that help media industry leaders take advantage of emerging business opportunities and proactively manage business challenges.

Our network of professionals has extensive experience working with global companies ranging from the Fortune 500 to pre-IPO (initial public offering) start-ups. In addition to providing audit, tax, and advisory services, KPMG member firms aim to go beyond today's challenges to anticipate the potential long- and short-term consequences of shifting business, technology and financial strategies. KPMG continues to build on our member firms' successes thanks to our clear vision, values and 200,000 people in 154 countries. We have the knowledge and experience to navigate the global landscape.

Internal audit, risk, and compliance services

KPMG's advisory internal audit, risk, and compliance services are designed to help enhance the efficiency and effectiveness of internal audit functions, enterprise risk management programs, reviews of third-party relationships, regulatory compliance, governance, and sustainability initiatives. Our professionals bring both deep technical and industry experience, allowing you to strengthen our key governance, risk management, and compliance efforts while at the same time enhancing your business performance. Our experienced professionals can help you navigate the complex demands of regulators, directors and audit committees, executive management, and other key stakeholders, and assist you in transforming disruptive marketplace and regulatory forces into strategic advantages.

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