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MIoD Mauritius Institute of Directors
Promoting Corporate Governance across the board

Audit Committee Forum

Position Paper 11

Effective Audit Committee conversations



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About the Audit Committee Forum

Recognising the importance of Audit Committees as part of good Corporate Governance, the Mauritius Institute of Directors (MIoD), and KPMG in Mauritius have set up the Audit Committee Forum (the Forum) in order to help Audit Committees in Mauritius, from both the public and the private sectors to improve their effectiveness.

The purpose of the Forum is to help Audit Committee members adapt to their changing role. Historically, Audit Committees have largely been left on their own to keep pace with rapidly changing information related to governance, risk management, audit issues, accounting, financial reporting, current issues, future changes, and international developments.

The Forum provides guidance for Audit Committees based on the latest legislative and regulatory requirements. It also highlights best practice guidance to enable Audit Committee members to carry out their responsibilities effectively. To this end, it provides a valuable source of information to Audit Committee members, and acts as a resource to which they can turn for information or to share knowledge.

The Forum's primary objective is thus to communicate with Audit Committee members and enhance their awareness and ability to implement effective Audit Committee processes.

Position Paper series

The Position Papers, produced periodically by the Forum, aim to provide Board directors and specifically Audit Committee members with basic best practice guidance notes to assist in the running of an effective Audit Committee.

Previous Position Papers

- Paper 1: Best Practice Guidance Notes for Audit Committees (July 2014)
- Paper 2: Interaction of Audit Committee with Internal and External Auditors (May 2015)
- Paper 3:The Audit Committee's Role in Control and Management of Risk (December 2015)
- Paper 4: Guidelines for the Audit Committee's assessment and response to the Risk of Fraud (October 2016)
- Paper 5: Guidelines for the Audit Committee's approach to Information Technology risk (July 2017)
- Paper 6: Audit Committee Guidelines for evaluating a whistleblowing system (September 2018)
- Paper 7: Audit Committee's Guidelines for the Evaluation of Retirement Obligations (August 2019)
- Paper 8: Guidelines for the Audit Committee on Data Protection (October 2020)
- Paper 9: Guidelines for the Audit Committee on Business Continuity (October 2021)
- Paper 10: Management of Cyber security risks in the new normal (October 2022)
- Special Edition on 10th Anniversary of ACF: 100 Best practices for Audit Committees (October 2023)

Position Papers are available at:
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Members of the Forum

Collectively, the Forum is made up of the following members drawn from diverse professional backgrounds with significant experience in both the private and the public sectors.

Ujoodha Sheila **– Chairperson**
Ah-Hen Clairette
Chung John
Cundasawmy Robin
Gooroochurn Bharatee
Kee Mew Mervyn
King Antoine
Kistnamah Nagesh
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Ong Su Lin
Ramdhonee Kalindee
Ramdin-Clark Madhavi
Mulung Nafeeza – MIoD Coordinator

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Introduction

Risks and opportunities having an impact on organisations are captivating the attention of stakeholders, namely investors, regulators, and others. As such, it is imperative that the Audit Committee is able to discuss a number of relevant and emerging topics with the auditors. This will enable the Audit Committee to obtain adequate assurance on the organisation's internal controls over these risks, thus enhancing the effectiveness of the Audit Committee and improving the risk culture of the organisation.

The Board via its delegated authority to the Audit Committee must convey information on key topics/metrics on the long-term value creation of the organisation, these can include:



Artificial intelligence



Cybersecurity



Digital transformation



Environment, Social and Governance (ESG)



Internal controls



Risk / Crisis management



Governance



Internal and external audits



Legal and regulatory compliance



Reliability of financial and non-financial information disclosed



Taxation



Human capital, diversity, talent management and retention

Getting the 'right conversation' around the Audit Committee table is an essential component of the committee's effectiveness. Our experience indicates that many Audit Committees could significantly improve their oversight capabilities and therefore their effectiveness through greater consideration of the style and content of the conversations they have.

The Audit Committee should meet as often as its roles and responsibilities require. This will enable the Audit Committee to make timely and influential decisions. Having sufficient time available at each meeting is critical.

There are some important considerations when preparing for Audit Committee meetings:

- Ensuring that appropriate time is allocated for all the subject matter covered, involves mapping out the agenda.
- Making time available for both "hard" and "soft" subjects, for decision and reflection, for introspection and evaluation.
- Framing every conversation. Whether challenge, debate or 'for information', every Audit Committee conversation needs clarity of purpose so that all Audit Committee members have the appropriate information available before the conversation takes place.
- Focus on those few things with the greatest impact.
- Make sure the committee is getting information not just data – from business and functional leaders as well as internal and external auditors.
- Insist on quality pre-meeting materials that highlight issues for consideration and expect them to be read.
- Understand that it cannot be all done at the formal committee meetings; work between meetings is essential.

Each committee meeting must bring clarity and concision to the Audit Committee.

Some ways to do this include:

1. **Focus on the "so what?":** Don't just report issues, explain their significance and potential impact on the organisation.
2. **Tailor your communication:** Consider the audience's financial literacy and avoid excessive jargon.
3. **Prioritise Information:** Highlight critical matters requiring committee attention and keep supporting details in supplemental materials.

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In the Audit Committee discussions, introduce active listening and open dialogue using some of these techniques:

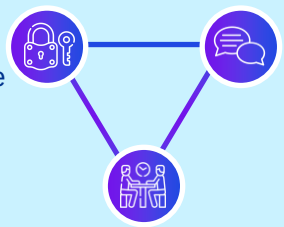
Ask insightful questions: Don't settle for surface-level explanations. Probe deeper to understand the root causes and proposed solutions.

Encourage open discussion: Committee members should feel comfortable raising concerns and offering diverse perspectives.

Actively listen to all viewpoints: Pay attention not just to the content but also to the underlying concerns behind what's being said.

It is important to build trust and relationships amongst Audit Committee members. This can be achieved as follows:

Maintain confidentiality: Respect the sensitive nature of committee discussions.



Timely communication: Ensure information is shared promptly to allow for informed decision-making.

Regular interaction: Schedule regular meetings and encourage informal communication between meetings to foster a collaborative environment.

Audit Committees should be outcome-focussed. This means that there should be:

Clear action items: Define clear and measurable action plans for addressing identified risks or control weaknesses.

Follow-up: Track progress on action items and hold management accountable for addressing them.

Outcome-oriented discussions: Shift the focus from simply identifying problems to finding solutions and achieving positive outcomes.



Effective communication is a two-way process. By following these guidelines, Audit Committee members can create a space for open dialogue, build trust, and ensure that they are receiving the information they need to effectively oversee the financial reporting and risk management processes.

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Effective Audit Committee conversations

In this paper, we discuss some topics for Audit Committee conversations, starting with topics around IT governance followed by other areas such as internal controls, risk management, legal & regulatory compliance.



Artificial intelligence – Risks, opportunities and benefits

Artificial Intelligence (AI) refers to machines that can simulate human intelligence processes like learning and problem-solving. It offers opportunities for efficiency, automation, and innovation but also carries risks like job displacement, ethical bias, and security vulnerabilities.

An Audit Committee needs to discuss AI because it presents a complex landscape of both opportunities and risks that can significantly impact the organisation. Here's why:

Opportunities: AI can improve efficiency, automate tasks, and generate valuable insights for the organisation. The committee needs to understand how AI can be leveraged to enhance financial reporting, risk management, and internal controls.

Risks: AI also introduces new risks such as:

- **Bias**: AI algorithms can perpetuate biases present in the data they are trained on. The committee needs to ensure there are safeguards to prevent biased decision-making.
- **Security**: AI systems can be vulnerable to hacking or manipulation. The committee needs to assess the security risks associated with AI implementation.
- **Explainability**: Some AI systems are complex and difficult to understand ("black boxes"). The committee needs to ensure there's transparency in how AI decisions are made.
- **Impact on internal controls**: AI can change how internal controls are designed and implemented. The committee needs to understand how AI affects control frameworks, and ensure proper oversight.
- **Financial reporting**: AI can automate financial processes, but it also introduces new risks of errors or manipulation. The committee needs to be aware of these risks and ensure the reliability of financial reporting.

By discussing AI's risks, opportunities, and benefits, the Audit Committee can proactively manage the technology and ensure it is implemented responsibly and ethically within the organisation.



Cybersecurity

This refers to the practices and technologies used to protect computer systems, networks, and data from unauthorised access, use, disclosure, disruption, modification, or destruction.

Cybersecurity is a critical topic for the Audit Committee because cyber threats pose significant financial and reputational risks to the organisation. Here's a breakdown of why they need to discuss it.

Financial impact: Cyberattacks can lead to substantial financial losses through:

- **Data breaches**: Sensitive information like customer data or financial records can be stolen and sold, resulting in fines and lawsuits.
- **Disruptions**: Cyberattacks can disrupt operations, leading to lost revenue.
- **Ransomware**: Hackers can encrypt data and demand a ransom to decrypt it, causing significant financial strain.

Reputational damage: A successful cyberattack can damage the organisation's reputation, leading to:

- **Loss of customer trust**: Customers may be hesitant to do business with a company that has been compromised.
- **Negative publicity**: News of a cyberattack can damage the organisation's brand.

Regulatory compliance: Many industries have regulations requiring companies to safeguard sensitive data. A cyberattack can lead to non-compliance fines and penalties.

Internal controls: Cybersecurity weaknesses can undermine the effectiveness of internal controls, increasing the risk of errors or fraud.

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The Audit Committee needs to ensure the organisation has robust cybersecurity measures in place to:



By proactively discussing cybersecurity, the committee can help the organisation manage these risks and protect its financial well-being and reputation.

Digital transformation

Digital transformation refers to the adoption of new digital technologies to improve business processes and operations. This can involve using RPA (Robotics Process Automation - software bots to automate repetitive tasks), web applications, digital platform applications to enhance collaboration and applications for data governance.

The Audit Committee needs to discuss digital transformation for several reasons, as it significantly impacts the organisation's risk profile and financial well-being. Here's a breakdown:

- **Evolving risks and controls:** Digital transformation introduces new technologies, processes, and data streams. The committee needs to understand the evolving risk landscape associated with these changes and ensure internal controls adapt to address them effectively.
- **Security vulnerabilities:** New technologies can introduce new security vulnerabilities. The committee needs to discuss the security implications of digital transformation initiatives and ensure adequate safeguards are in place to protect data and systems.
- **Impact on financial reporting:** Digital transformation can change how financial transactions are recorded and reported. The committee needs to understand how these changes affect financial reporting accuracy and ensure compliance with accounting standards.
- **Data governance and privacy:** Digital transformation often involves vast amounts of data collection and usage. The committee needs to oversee data governance practices and ensure compliance with data privacy regulations.
- **Third-party risk management:** Many digital transformation initiatives involve reliance on third-party vendors. The committee needs to discuss how to assess and manage risks associated with these third parties.
- **Business continuity planning:** Digital transformation can change how the organisation operates. The committee needs to ensure business continuity plans are updated to reflect these changes and ensure the organisation can recover from potential disruptions caused by technology failures.

By discussing digital transformation, the Audit Committee can proactively manage the associated risks and ensure the organisation leverages technology for its benefit while minimising potential negative impacts. Their oversight is crucial for a smooth and secure digital transformation journey.



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Environment, Social and Governance (ESG)

Companies are increasingly considering ESG factors in their decision-making as they relate to climate change and sustainability. These factors are becoming increasingly important for the following reasons:

- **Financial risks and opportunities:** ESG factors can have a significant impact on an organisation's financial performance.
- **Environmental impact**: Risks such as climate change can disrupt supply chains, damage property and lead to regulatory fines.
- **Social impact:** Social factors like labour practices and diversity can impact employee morale, brand reputation and ability to attract talent.
- **Poor governance**: Lack of an appropriate governance structure can lead to financial scandals, legal issues and damage investor confidence.
- **Investor interest and regulation:** Investors are increasingly paying close attention to a company's ESG performance. The committee needs to be aware of evolving regulations and investor expectations regarding ESG disclosures.
- **Long-term sustainability:** ESG factors are crucial for a company's long-term sustainability. The committee can discuss how the organisation can manage its environmental footprint, invest in social responsibility, and maintain good governance practices for future success.
- **Impact on financial reporting:** ESG factors can have financial implications that need to be reflected in financial statements. The committee needs to ensure ESG considerations are appropriately integrated into financial reporting processes.
- **Reputational risks:** ESG issues can significantly impact a company's reputation. The committee can discuss how to manage ESG risks to protect the organisation's brand image and stakeholder trust.

By discussing ESG, the Audit Committee can play a proactive role in ensuring the organisation considers these factors in its decision-making. Their oversight helps the organisation mitigate ESG risks, capitalise on opportunities, and operate in a sustainable and responsible manner.

Climate change and its impacts are a growing financial risk and all the company's directors have a duty to identify and manage material climate-related risks and opportunities in the best interests of the company and its stakeholders in the short, medium, and long term. The Audit Committee's responsibility for oversight of the company's financial statements includes ensuring that relevant climate risks and opportunities are integrated into the assumptions underlying accounting estimates and disclosed appropriately in the notes. It should also include a mandate to oversee and ensure the integrity of identifying and reporting the financial effect of material climate risks, but the board as a whole is responsible for oversight of climate strategy, risk management, and performance against goals and targets. Climate change is a specific environmental factor within ESG (Environmental, Social, and Governance) that the Audit Committee needs to discuss for several reasons:

- **Transition risks:** These are costs associated with shifting to a low-carbon economy, such as changes in regulations, carbon pricing, and consumer preferences.
- **Regulatory landscape:** Regulations related to climate change are evolving rapidly. The committee needs to be aware of these changing regulations and ensure the organisation complies with them to avoid fines or penalties.
- **Investor demands:** Investors are increasingly demanding transparency on climate-related risks and opportunities. The committee needs to understand these demands and ensure the organisation provides adequate disclosures in its financial reporting.
- **Long-term sustainability:** Climate change is a significant threat to long-term sustainability. The committee can discuss how the organisation can adapt its operations to reduce its carbon footprint and become more resilient to climate impacts.
- **Reputational impact**: Companies that are not seen as taking action on climate change face reputational damage from investors, customers, and other stakeholders. The committee can discuss strategies to manage climate risks and demonstrate the organisation's commitment to environmental responsibility.

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Internal controls

These are procedures and policies implemented within a company to safeguard assets, ensure accurate financial reporting, and promote compliance with regulations.

An Audit Committee needs to discuss internal controls for several key reasons:

- **Safeguard assets:** Internal controls are the backbone of protecting a company's assets, including cash, inventory, and intellectual property. The committee needs to ensure these controls are effective in preventing theft, fraud, or misuse.
- **Accurate financial reporting:** Strong internal controls are crucial for ensuring the accuracy and completeness of financial statements. The committee relies on these statements for decision-making, and weaknesses can lead to misstatements that mislead investors and regulators.
- **Compliance with regulations:** Many industries have regulations requiring companies to have internal controls in place. The committee needs to ensure the organisation complies with these regulations and avoids potential fines or penalties.
- **Risk management:** Internal controls help mitigate various risks a company faces, such as operational disruptions, fraud, and errors. The committee needs to understand the control environment and identify any weaknesses that could increase risk exposure.
- **Efficiency and effectiveness:** Effective internal controls can streamline business processes and improve operational efficiency. The committee can discuss how controls can optimise resource allocation and achieve strategic objectives.

By regularly discussing internal controls, the Audit Committee can provide crucial oversight and ensure the organisation has a strong foundation for financial integrity, risk management, and regulatory compliance.



Risk / Crisis management

Risk management involves identifying, assessing, and mitigating potential threats to an organisation. Crisis management focuses on responding to and recovering from unexpected events that disrupt normal operations. An Audit Committee needs to discuss risk management for several reasons:

- **Proactive approach:** Effective risk management allows companies to anticipate and address potential threats before they become major problems. The committee can ensure the organisation has a systematic process for identifying, assessing, prioritising, and mitigating risks.
- **Improved decision-making:** By understanding the organisation's risk profile, the committee can make more informed decisions about resource allocation, strategic planning, and investments.
- **Enhanced oversight:** The committee is responsible for overseeing the organisation's risk management framework. Discussions around risk management allow them to assess the effectiveness of existing controls and identify areas for improvement.
- **Regulatory compliance:** Many regulations require companies to have a sound risk management framework in place. The committee needs to ensure the organisation complies with these regulations.
- **Improved financial performance:** Proactive risk management can help prevent financial losses, improve operational efficiency, and protect the organisation's assets and reputation. The committee can track the effectiveness of risk management strategies in relation to financial performance.
- **Crisis preparedness:** A strong risk management framework can help the organisation prepare for and respond to unexpected events. The committee can discuss crisis management plans and ensure they are aligned with identified risks and discuss on identification of new opportunities.

By regularly discussing risk management, the Audit Committee can play a critical role in safeguarding the organisation's financial health, reputation, and overall success. Properly addressing risks in an organisation also helps in business continuity planning. Business continuity is about having a plan to deal with difficult situations, so that the organisation can continue to function with as little disruption as possible.

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The Audit Committee needs to discuss **crisis management** because it goes hand-in-hand with effective risk management. Here's how crisis management falls under the committee's purview:

- **Potential impact of crises**: Crises, by nature, are unexpected events that can significantly disrupt operations, damage reputation, and lead to financial losses. The committee needs to understand the potential financial impact of various crisis scenarios.
- **Crisis preparedness**: A key element of crisis management is being prepared. The committee should discuss and oversee the organisation's crisis management plan, ensuring it is:

  1. **Up-to-date**: Reflects current threats and vulnerabilities
  2. **Clearly defined**: Roles and responsibilities for communication, decision-making, and response are assigned
  3. **Regularly tested**: Ensures the plan is functional and can be implemented effectively

- **Risk mitigation strategy**: The crisis management plan is essentially a risk mitigation strategy for unexpected events. The committee can review the plan to ensure it addresses high-impact risks identified during the risk assessment process.
- **Financial implications of response**: The committee needs to consider the potential financial costs associated with crisis response, including:

Legal fees	Public relations efforts
Remediation activities	Business interruption

- **Lessons learned**: Following a crisis, the committee should be involved in reviewing the organisation's response and identifying areas for improvement. This helps ensure better preparedness for future events.

By discussing crisis management, the Audit Committee can contribute to the organisation's overall resilience and ability to weather unexpected storms. Their oversight helps ensure the company can effectively respond to crises, minimise financial losses, and protect its reputation.

Governance

Governance refers to the process of making and enforcing decisions within an organisation or society. It is essentially the system of rules, practices, and processes that guide how something is controlled and directed.

There are several reasons why Audit Committees should discuss the topic of governance:

- **Strong governance is key to effective risk management:** A well-defined governance framework establishes clear lines of responsibility, promotes ethical conduct, and ensures a culture of risk awareness. This strong foundation allows the committee to identify, assess, and mitigate risks more effectively.
- **Audit committees oversee areas heavily influenced by governance:** Audit Committees typically review internal controls, financial reporting, and the work of internal and external auditors. All these areas are significantly impacted by the overall governance practices of the organisation.
- **Identifying governance weaknesses can uncover risk gaps:** Weaknesses in governance, like unclear policies or lack of accountability, can create blind spots in risk management. By discussing governance, the committee can pinpoint areas where risk assessments might be incomplete or controls might be insufficient.
- **Effective governance reduces potential for fraud:** Sound governance practices like a strong whistleblowing policy and an independent audit function can deter fraudulent activities. Regular discussions on governance within the Audit Committee can help ensure these safeguards are in place.

Discussing governance is essential for Audit Committees to fulfil their core responsibilities. It strengthens their risk management oversight and helps ensure the organisation operates within a robust ethical framework.

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Internal and external audits

Discussing the planning of internal and external audits empowers the Audit Committee to fulfil its core responsibilities. It ensures audits are strategic, well-coordinated, and address the organisation's most pressing risk areas. The following needs to be taken into consideration:

- **Alignment with organisational risks:** The Audit Committee plays a crucial role in ensuring audits address the most critical risks facing the organisation. By discussing the plan, they can make sure the scope of audits aligns with the organisation's risk assessment and strategic objectives.
- **Effective resource allocation:** Internal and external audits require significant resources. Audit Committee's involvement in planning helps ensure these resources are used efficiently. They can prioritise areas for audit, based on risk level and potential impact.
- **Improved communication and coordination:** Discussing the plan fosters communication and collaboration between internal auditors, external auditors, and management. The committee can identify potential overlaps or gaps in the planned audits and ensure a comprehensive approach.
- **Early identification of issues:** By participating in the planning process, the Audit Committee can gain insights into potential problems beforehand. This allows them to proactively address any concern with the audit scope or methodology before the audit commences.
- **Enhanced oversight and independence:** The Audit Committee's involvement in planning demonstrates their commitment to strong governance and independent oversight of the audit process. This strengthens the credibility of the audit findings and fosters stakeholder confidence.

Internal and external auditors play a vital role in the overall governance and assurance process, and hence effective oversight of auditors is at the core of the Audit Committee's responsibilities.

The following practices, can help the Audit Committee to carry out its oversight responsibilities and build a strong relationship with the external auditor:

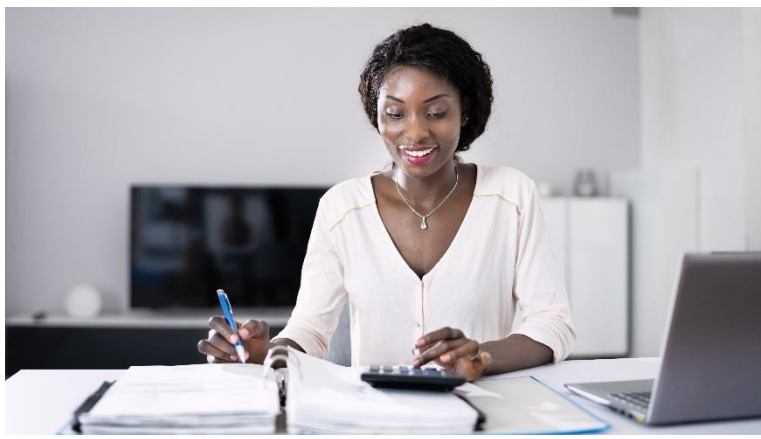
Build a strong working relationship between the Audit Committee chair and the lead audit engagement partner. Informal conversations between the Audit Committee chair and the lead audit engagement partner are critical to the effectiveness of the Audit Committee.

Develop a clear plan for audit partner rotations, as well as rotation for key members of the engagement team.

Give the external auditor clear performance objectives and evaluate the auditor against those objectives.

The Audit Committee can help internal audit add value to the organisation by:

- Making sure internal audit has the necessary skills. Given its evolving responsibilities, internal audit may require different staffing and/or skills, including operational knowledge (supply chain, shared services, outsourcing), IT experience, cross-cultural training for global organisations, knowledge of emerging challenges, risk management and evaluation, cybersecurity, blockchain, data analytics, fraud detection, and more.
- Reinforcing internal audit's stature within the organisation and its accountability to the Audit Committee.



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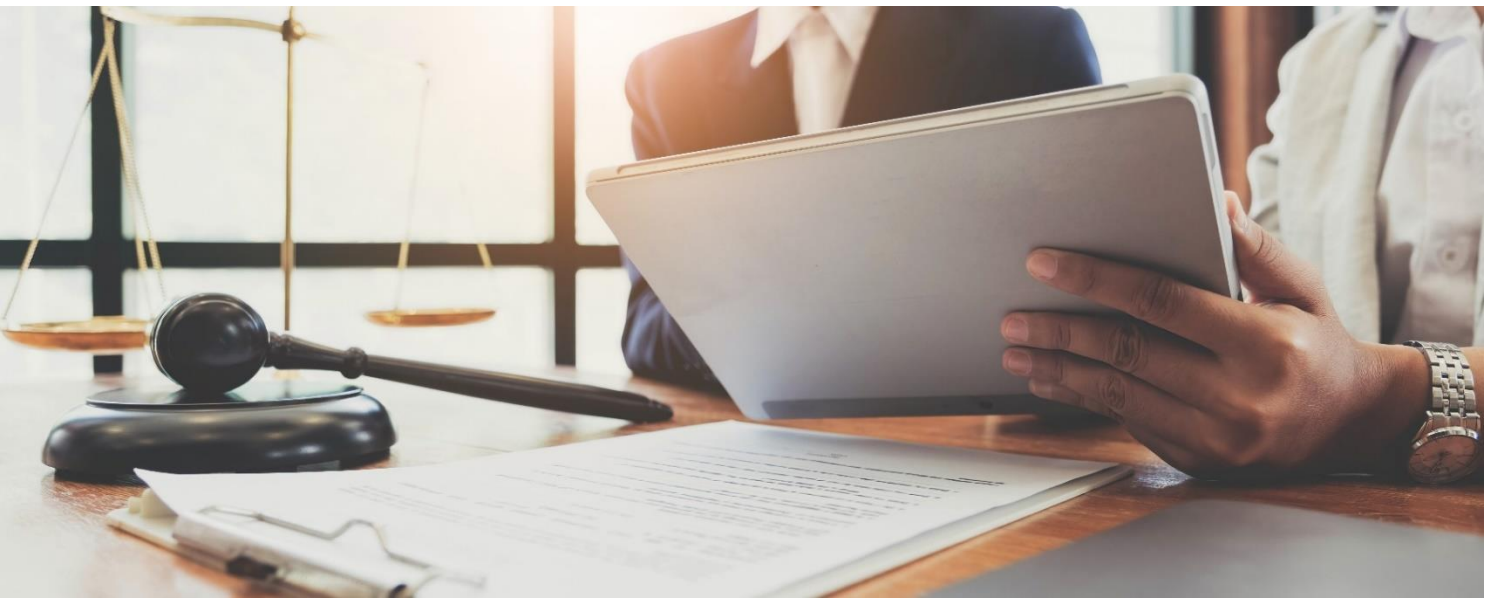
Legal and regulatory compliance

This ensures a company adheres to all relevant laws, regulations, and industry standards.

The Audit Committee has a critical responsibility to discuss legal and regulatory compliance for several reasons:

- **Fiduciary duty:** Committee members have a fiduciary duty to ensure the organisation operates within the law and adheres to relevant regulations. Discussions on compliance help them fulfil this duty.
- **Financial and legal risks:** Non-compliance can lead to significant financial penalties, legal repercussions, and reputational damage. The committee needs to understand the legal and regulatory landscape to identify and mitigate these risks.
- **Accuracy of financial reporting:** Many regulations directly impact financial reporting requirements. The committee's oversight ensures financial statements are prepared in accordance with regulations, avoiding misstatements that could mislead investors and regulators.
- **Operational disruptions:** Violations can lead to operational disruptions, such as production shutdowns or service limitations. The committee can discuss compliance measures to minimise these disruptions.
- **Maintaining public trust:** Operating with integrity and complying with regulations is essential for maintaining public trust in the organisation. The committee's focus on compliance helps build trust with stakeholders.
- **Data protection:** Data protection and privacy regulations such as the GDPR have forced businesses to change the way they collect, process, store and eventually erase their data. The right of individuals to have some degree of control over their personal data collected by businesses, including the right to be forgotten, goes to the heart of many of these regulations. Businesses that operate in a market governed by data protection and privacy regulations are subject to serious fines and reputational harm for non-compliance. On the flip side, compliance might well serve as a badge of honor that companies can display to consumers and investors.
- **Protecting assets:** Certain regulations help to safeguard the organisation's assets, such as environmental regulations protecting against pollution fines. The committee's discussions can ensure compliance with such regulations and protect valuable resources.

By regularly discussing legal and regulatory compliance, the Audit Committee plays a vital role in safeguarding the organisation's financial health, legal standing, and reputation. Their proactive approach helps the organisation operate within the boundaries of the law and avoid costly consequences.



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Reliability of financial and non-financial information disclosed

This involves assessing the accuracy and completeness of financial statements and other information disclosed to ensure investors and other stakeholders can make informed decisions. Quality financial reporting starts with the Chief Financial Officer. Management is responsible for the preparation of the company's financial statements and related disclosures. The Audit Committee has a critical responsibility to assess the reliability of financial and non-financial information disclosed for several reasons:

- **Protecting investors and stakeholders:** Reliable financial information is essential for investors, creditors, analysts, and other stakeholders to make informed decisions about the organisation. Inaccurate financial statements can mislead these stakeholders and lead to poor investment decisions.
- **Ensuring transparency and accountability:** Financial statements, including disclosures in the Management's discussion and analysis are the primary source of information about a company's financial performance and position. The Audit Committee's assessment helps ensure transparency and accountability to stakeholders by verifying that the information presented is accurate and complete.
- **Maintaining market confidence:** Reliable financial reporting is essential for maintaining confidence in the financial markets. The Audit Committee's oversight helps build trust that companies are presenting a fair and accurate picture of their financial health.
- **Mitigating risk of fraud and errors:** Financial misstatements can be intentional (fraud) or unintentional (errors). The Audit Committee's assessment helps identify potential red flags and mitigate the risk of these issues going undetected.
- **Compliance with regulations:** Companies are required to comply with accounting standards when preparing financial statements. The Audit Committee's assessment ensures the organisation adheres to these standards and avoids regulatory scrutiny or penalties.
- **Protecting the company's reputation:** Financial misstatements can have a devastating impact on a company's reputation. The Audit Committee's oversight helps safeguard the company's image and protect shareholder value.

Non-financial information is essential for building trust in society by responding to the expectations and needs of society and for communicating with external stakeholders, including investors, regarding medium- and long-term value creation. It is an important element to be incorporated into and used effectively in decision-making mechanisms.

By assessing the reliability of financial information disclosed, the Audit Committee plays a vital role in ensuring the integrity of financial reporting. Their work fosters trust and transparency, protects stakeholders, and minimises the risk of financial scandals or errors.

Taxation

An important role for the Audit Committee is to understand the company's domestic and international tax position and risks – both tax compliance risks and related financial reporting risks. Of particular concern for Audit Committees of companies with global operations are: (i) the coordinated global policy initiatives to address profit shifting and establish minimum levels of taxation; (ii) increase transparency and reporting in tax matters; (iii) facilitate tax information exchange among governments. In general, the Audit Committee should understand how the company's tax director and executives deal with significant tax risks and how they coordinate their activities with risk management generally.

The Audit Committee needs to discuss taxation for several reasons that impact the organisation's financial well-being and compliance:

- **Financial impact:** Taxes are a significant expense for most organisations. The Audit Committee needs to understand the company's tax liabilities and ensure accurate tax calculations to optimise financial performance.
- **Tax planning opportunities:** Tax laws often offer opportunities for legal tax minimisation strategies. The Audit Committee can discuss these strategies with management to ensure they are being leveraged responsibly and compliantly.
- **Tax risk management:** There is always a risk of errors, misinterpretations, or missed filing deadlines when dealing with complex tax regulations. The Audit Committee can discuss strategies to manage these risks and ensure tax compliance.

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- **Internal controls for tax reporting:** Effective internal controls are crucial for ensuring the accuracy and completeness of tax information reported to authorities. The Audit Committee needs to oversee these controls and identify any weaknesses that could lead to tax errors.
- **Potential for tax controversies:** Disagreements with tax authorities can arise. The Audit Committee can discuss strategies for managing potential tax controversies and minimising penalties.
- **Impact on financial reporting**: Tax provisions and disclosures can have a significant impact on financial statements. The Audit Committee needs to ensure these are reflected accurately in the financial statements.
- **Reputational risks:** Aggressive tax avoidance strategies can damage a company's reputation. The Audit Committee can discuss tax planning approaches that balance financial optimisation with maintaining a positive public image.

By discussing taxation, the Audit Committee can contribute to:

- **Reduced tax costs**: Identifying legal ways to minimise tax liabilities.
- **Improved financial performance**: Optimising tax strategies for better financial health.
- **Mitigated tax risks**: Minimising the risk of penalties or legal issues from tax non-compliance.
- **Enhanced transparency**: Ensuring accurate tax reporting and fostering trust with stakeholders.

In short, tax is no longer simply an expense to be managed. Fundamental changes in public attitudes about responsible tax behaviours, increasing expectations and demands for greater transparency, growing disclosures obligations, and the intersection of tax and ESG objectives have heightened the need to prioritise the consideration of tax risks on the agenda of Audit Committees.

Overall, the Audit Committee's discussions on taxation help the organisation navigate the complexities of tax laws, minimise financial burdens, and maintain good standing with tax authorities.

Human capital, diversity, talent management and retention

Considered as one of the most challenging issues worldwide, exacerbated post pandemic, is talent management. The increasing demand for flexibility in the workplace, and growing stakeholders' expectations for diversity, equity and inclusion [IDE] initiatives bring even more challenges to the organisations with the new generation of employees.

This massive shift has reminded many organisations of the importance of workforce issues. A growing number of companies are beginning to acknowledge that traditional work, workforce, and workplace models may need to give way to more fluid, human, and digital approaches that facilitate speed, agility, and innovation. Answers to many of the important questions that are arising are not clear cut, giving the board an opportunity to have a meaningful role in helping organisations shape their human capital strategies.

The Audit Committee must take interest in the ability of the organisation to identify the associated risks and initiate programs for addressing deficiencies. The committee can engage with the internal auditor on topics like the need for culture audits and the effectiveness of proposed efforts of the human resource department to address these challenges.

The Audit Committee needs to discuss human capital for several reasons:

- IDE demographics are increasingly important
- Relevance of talent for the organisation
- Succession planning
- Reskilling and upskilling efforts required for existing pool of staff

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Conclusion

Effective Audit Committees are a critical part of delivering trust and confidence in reporting and risk management. However, globally Audit Committee responsibilities are widening beyond their core financial reporting oversight responsibilities, putting them under increasing pressure both in terms of time and expertise to oversee the major risks on their agendas in addition to fulfilling their core mandates.

The Audit Committee's effectiveness hinges on a number of critical factors – including the knowledge, experience, commitment and independence of its members; the committee's dynamics and chemistry; the quality of the committee's interactions with management and auditors (internal and external); and perhaps more importantly the committee's leadership. The signs of a healthy committee culture are easy enough to spot: The committee encourages open discussion and debate; committee members question and probe management; dissenting and contrarian views are encouraged and actively sought out; and committee members speak their minds, listen fully and work towards consensus.

The ongoing economic uncertainty, growing geopolitical turmoil, cybersecurity, artificial intelligence and other disruptive technologies, labour shortages, cost-of-living crisis and extreme weather events continue to be areas of focus for organisations. These risks are also challenging organisations' ability to navigate simultaneous or intersecting crises or the occurrence of multiple risk events. With the changing risk landscape, the Audit Committee's role continues to grow more demanding and complex, amid the uncertain and dynamic business environment.

"An active and informed Audit Committee provides the ultimate independent and objective oversight of the corporate control environment, including focus on emerging trends and risks." - **Ford Motor Company**

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