



On the 2022 audit committee agenda

April 2022

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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.

The crises of 2020–21 and disruptions they’ve triggered from accelerating technology transformations to upending long-standing ‘norms’ of the workplace, business models, and the economy have added significant stress and strain to financial reporting processes and the risk and control environment. That pressure is likely to continue given the demands for more and better climate and Environmental, Social, and Governance (ESG) reporting, increased cybersecurity risks, geopolitical events, inflation and ransomware attacks, a war on talent, a

fast-changing regulatory landscape, and other factors impacting the global risk environment including the direction of COVID-19.

This evolving uncertainty creates a variety of issues and risks, including changes in consumer demand, disrupted supply chains, staff shortages, increased market volatility and changes to the way we work. The Ukraine-Russia conflict has further accentuated the vulnerability of supply chains. The disruption in supply chains can lead to bankruptcies, business breakdown and also makes risk management difficult. Additionally, recent events such as auditors’ resignation in China from a series of Chinese property companies due to ‘non availability of information’ and the inability of companies to provide information in a timely manner to auditors have raised alarm bells over the financial transparency in the industry. In these times of rapid change and increased uncertainty, the audit committee oversight role has become more critical.

It’s clear from our conversations with audit committee members that overseeing major risks on the audit committee’s agenda beyond the

committee’s core oversight responsibilities (financial reporting and related internal controls, and oversight of internal and external auditors) is increasingly difficult. Aside from any additional agenda items (such as climate and ESG risks), the risks that many audit committees have had on their plates for some time – cybersecurity and IT risks, supply chain and other operational risks, legal and regulatory compliance – have become more complex, as have the audit committee’s core responsibilities.

As we are cognisant about the fact that keeping the audit committee’s agenda focussed on financial reporting and related internal control risk is essential to the committee’s effectiveness but meeting the workload challenge requires efficiency as well. The committee should spread the workload by allocating oversight duties to each audit committee member, rather than relying on the audit committee chair to shoulder most of the work. The audit committee is expected to have the expertise to oversee all of the issues delegated to it and spend sufficient time with management and the auditors outside of the boardroom

to get a fuller picture of the issues. It is also important to have a hard, honest look at the committee’s composition, independence, and leadership for a fresh set of eyes, or deeper (or different) skill sets. Committee meetings should be streamlined by insisting on quality pre-meeting materials, making use of consent agendas and reaching a level of comfort with management and auditors so that financial reporting and compliance activities can be ‘process routine’.

Drawing on insights from our conversation with audit committees’ chairs and business leaders, we’ve highlighted eight issues to keep in mind as audit committees consider and carry out their 2022 agendas.



Themes for 2022 agenda

Keeping pace
with accounting,
auditing and regulatory
developments



**Related Party
Transactions (RPTs)**



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



**Audit committee
should focus on
use of technology**
by auditors



ESG including climate issues
and relating financial
reporting requirements and
internal control risks



**Remain focussed on
cybersecurity risks**
and the increased risk
of ransomware attacks



**Help ensure that internal
audit is focussed**
on the company's
critical risks



**Understand how
technology is impacting**
the finance organisation's talent,
efficiency, and value-add—along
with the implications of the war
on talent and changing
workforce trends

Keeping pace

with accounting, auditing and regulatory developments



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

Areas of Focus 2022

- **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. At the same time, the strains on supply chains will make financial forecasting even more difficult. Key areas requiring audit committee attention include: Disclosures regarding the current and potential effects of COVID-19 (e.g. Strategic Report, risks and uncertainties, liquidity, and operating results of operations); preparation of forward-looking cash-flow estimates; impairment of non-financial assets, including goodwill and other intangible assets; accounting for financial assets (fair value); going concern and longer-term viability; and use of non-GAAP metrics. With companies making

more tough calls in the current environment, regulators are emphasising the importance of well-reasoned judgements and transparency, including contemporaneous documentation to demonstrate that the company applied a rigorous process. Given the fluid nature of the long-term macro-economic environment (inflation, interest rates, supply chain, etc.), changes in judgements, estimates, and controls may be required more frequently.

- **Internal control over financial reporting and probing control deficiencies:** Internal controls will continue to be put to the test in the coming year. When control deficiencies are identified, it's important to probe beyond management's explanation and help provide a balanced evaluation of the deficiency's severity, cause and whether the failing or weakness indicates poor decision-taking, a need for more extensive monitoring or a reassessment of the effectiveness of management's on-going processes.
- **Enhanced reporting by auditors:** In addition, the Ministry of Corporate Affairs (MCA) issued a revised the Companies (Auditor's Report) Order, 2020 (CARO 2020) which is applicable to a wide range of companies.

- Applicable for audits of financial years commencing on or after 1 April 2021.
- It contains significant changes and several new reporting requirements vis-à-vis CARO 2016.
- Many of the requirements require exercise of judgement rather than application of a pure objective test.
- The Institute of Chartered Accountants of India (ICAI) has also issued a guidance note on CARO 2020 (guidance note) which provides guidance on application of the CARO 2020.
- Some of the key areas of reporting include:
 - Reporting of loans or advances in the nature of loans, or guarantee, or security of all parties, and that the terms of these instruments are not prejudicial to the company's interest
 - Instances of evergreening of loans, details of loans advanced to promoters and related parties
 - Reporting of whether quarterly returns filed with banks or financial institutions, from whom working capital facilities have been taken, agree with the books of accounts

- iv. Reporting on fraud on or by the company, consideration of whistle blower complaints, and reporting on company's capability of meeting its liabilities that fall due within 12 months.
- *Additional disclosure in the auditors' report:* An auditor is required to include his/her views and comments on the following additional matters in the auditor's report:
 - Applicable from 1 April 2021
 - The management has represented that to the best of its knowledge and belief, other than as disclosed in the notes to the accounts:
 - i. No funds have been advanced or loaned or invested (either from borrowed funds, share premium or any other sources/kind of funds) by the company to/in any other person(s) or entity(ies), including foreign entities (intermediaries), with the understanding (recorded in writing or otherwise) that the intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (ultimate beneficiaries) or provide any guarantee, security or the like on behalf of the ultimate beneficiaries.
 - ii. No funds have been received by the company from any person(s) or entity(ies), including foreign entities (funding parties), with the understanding (recorded in writing or otherwise) that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the funding party (ultimate beneficiaries) or provide any guarantee, security or the like on behalf of the ultimate beneficiaries.
 - Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to its notice that has caused an auditor to believe that the representations under points (i) and (ii) above contain any material misstatement.
 - The dividend declared or paid during the year by the company is in compliance with Section 123 of the 2013 Act.
- *Amendments in Schedule III of the 2013 Act:*
 - Applicable from 1 April 2021.
 - Amendments related to Schedule III (Division I, Division II and Division III) to the 2013 Act.
 - The amendments enhance the disclosures required for the preparation of the financial statements. The ICAI has also issued a guidance note on Schedule III which provides guidance on application of the Schedule III.
 - Key changes include presentation of ageing schedule for trade receivables/payables and capital work in progress/intangible assets under developments, disclosure of specified ratios, disclosure of details of benami property, details of borrowings against security of current assets, detailed disclosure of utilisation of borrowed funds and share premium, details of undisclosed income, dealing in crypto currency, etc.
- *SEBI mandates Ind AS for Mutual Funds (MF):*
 - Applicable from 1 April 2023.
 - Financial statements and accounts of MF schemes to be prepared in accordance with Indian Accounting Standards (Ind AS).
 - Date of transition to Ind AS would be 1 April 2022
 - Key considerations arising from adoption of Ind AS by MFs include
 - first time adoption of Ind AS, measurement of investments, level of disclosures to increase, alignment of MF Regulations with Ind AS and conflicts, formats of disclosures, classification of unit capital as equity or liability, perspective historical per unit statistics, etc.
- *Ind AS amendments relevant for FY 2021-22:* MCA issued amendments to Ind AS including interest rate benchmark reform (phase 2). Some of the key amendments relate to the following standards:
 - Ind AS 107, *Financial Instruments Disclosures:* Additional disclosures included relating to interest rate benchmark reform
 - Effective date: An entity should apply the amendments when it applies amendments to Ind AS 109, Ind AS 104 or Ind AS 116.
 - Ind AS 109, *Financial Instruments:* A new paragraph included on changes in the basis for determining the contractual cash flows as a result of Interest Rate Benchmark Reform (IBOR).
 - Effective date: An entity should apply the amendments for annual reporting periods beginning on or after 1 April 2021.

- Ind AS 116, *Leases*: Practical expedient relating to rent concessions occurring as a direct consequence of COVID-19 has been modified. Accordingly, a lessee is not required to account for rent concessions as lease modifications if the reduction in lease payments affects only payments originally due on or before 30 June 2022 (earlier 30 June 2021) and subject to compliance with other specified conditions.

Effective date: A lessee should apply the amendment for annual reporting periods beginning on or after 1 April 2021. In case a lessee has not yet approved the financial statements for issue before the issuance of the amendment, then the same may be applied for annual reporting periods beginning on or after the 1 April 2020.

- *Additional disclosures in board's report:*

- Applicable from 1 April 2021
- The Board of Directors (BoD) of every company are required to provide additional disclosures in their report with respect to following details:
 - i. Pending proceedings under the Insolvency and Bankruptcy Code, 2016 (IBC) as at the end of the financial year.

- ii. Details of differences between amount of the valuation done at the time of one-time settlement and the valuation done while taking loan from the banks or financial institutions along with the reasons thereof needs to be disclosed.

The audit committee in consultation with the management may consider establishing a process for implementing financial reporting changes issued by regulators from time to time. In the event of a company that has already defined processes/procedures, the audit committee should re-visit the existing flow of process periodically and discuss with the management about the existing/proposed process in terms of its operational viability. This would help in identification of new regulatory changes in terms of completeness, redundant requirements done away by the regulators, forthcoming requirements that would involve investment in terms of cost/time/trainings, etc.

Besides the above financial reporting developments, the audit committee should note that the National Financial Reporting Authority (NFRA) has started the process of reviewing annual reports of the companies. The audit committee should study the matters highlighted by the reports that

have been published and made available in the public domain by the NFRA.

Questions for the audit committee to consider

- Does the management have a clear and structured process for the identification and implementation of the latest financial reporting and compliance requirements? The focus areas are requirements under CARO 2020, additional disclosures in board's report, Schedule III and Ind AS requirements post amendments including company's exposure to contracts that are still based on IBORs.
- Is the audit committee – with management – regularly taking a fresh look at the company's control environment? Have controls kept pace with the company's operations, business model, and changing risk profile, including cybersecurity risks?
- What is the level of talent in the finance function and does the established process factor-in investment requirements as a result of upcoming financial reporting and compliance mandate? For instance, training to the process owners to incorporate the forthcoming changes, allocation

of budget towards cost involved, if any, assessing the outcome before final reporting, etc.

- Has the management of the company discussed the potential impact of recent financial reporting developments with the auditor?
- Have adequate disclosures been provided to the stakeholders in relation to recent financial reporting and regulatory developments?



Related Party Transactions (RPTs)

Considering the importance of this area, the 2013 Act and the SEBI Listing Regulations place the onus of approval of all RPTs on the audit committee. In order to further strengthen the regulatory norms in relation to RPTs undertaken by the listed entities in India, SEBI considered and approved amendments to the Listing Regulations on RPTs. The amendments issued by SEBI aim to widen the gamut of related parties and strengthen the related approval and disclosure processes. The new requirements amplified the responsibility of the audit committee relating to RPTs.

The amendments mainly pertain to key areas such as audit committee process of approval, definition of related parties and RPTs, materiality threshold and shareholders' approval for RPTs and enhanced disclosure.

Key amendments are:

- *New definition of a related party*
 - a. Any person or entity forming part of the 'promoter' or promoter group' of the listed entity (effective from 1 April 2022)
 - b. Any person or any entity, holding equity shares in the listed entity either directly or on a beneficial interest basis as prescribed under section 89 the 2013 Act at any time during the immediately preceding financial year:
 - 20 per cent or more (effective from 1 April 2022)

- 10 per cent or more (effective from 1 April 2023)
- *New definition of RPTs*
Transaction involving a transfer of resources, services or obligations between:
 - a. A listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand (effective from 1 April 2022)
 - b. A listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries (effective from 1 April 2023).
Regardless of whether a price has been charged
- *Requirement to obtain prior approval of the Audit Committee of a listed entity*
 - All RPTs and subsequent material modifications require prior approval of the audit committee. An audit committee needs to define material modifications and disclose it as part of the policy on materiality of RPTs and on dealing RPTs.
 - A RPT to which a subsidiary of a listed entity is a party but the listed entity is not a party if the value of such transaction whether entered into

individually or taken together with previous transactions during a financial year exceeds threshold of:

- a. 10 per cent of the annual consolidated turnover in accordance with the last audited financial statements of the listed entity (effective from 1 April 2022)
 - b. 10 per cent of the annual standalone turnover in accordance with the last audited financial statements of the subsidiary (effective from 1 April 2023)
- *Revised materiality threshold and approval mechanism for RPTs from shareholders*
 - a. A RPT would be considered material, if the transaction entered into individually or taken together with previous transactions during a financial year,
 - i. exceeds **INR1,000 crore or**
 - ii. **10 per cent of the consolidated annual turnover** of the listed entity as per last audited financial statements of the listed entity, whichever is lower (effective from 1 April 2022).
 - b. All material RPTs and **subsequent material modifications** of such transactions require **prior** approval of the shareholders of a listed entity (effective 1 April 2022).

These amendments would be applicable in a phased manner, with certain amendments coming into effect almost immediately i.e. from 1 April 2022 and others will come into effect from 1 April 2023.

• *Clarification issued by SEBI*

Based on the representations received from listed entities and industry bodies, SEBI has provided certain clarifications and guidance for smooth implementation of the amended Regulation 23 of the Listing Regulations. The clarifications are as follows:

1. In case of RPT that has been approved by an audit committee and shareholders prior to 1 April 2022, there would be no requirement to seek fresh approval from the shareholders.
2. The RPT that has been approved by the audit committee prior to 1 April 2022 which continue beyond such date and become material as per the revised materiality threshold should be placed before the shareholders in the first General Meeting held after 1 April 2022.
3. The RPT for which the audit committee has granted omnibus approval, would continue to be placed before the shareholders if it is material in terms of Regulation 23(1) of the Listing Regulations.

Areas of Focus 2022

- The audit committee should discuss with the management of the company the new definition of the related parties and RPTs. Due to the change in the definition, new parties are likely to fall within the scope of related parties and RPTs. An audit committee should seek greater transparency and better vigilance in this area.
- The audit committee should deliberate with the management of the company to define what constitutes a material modification in order to evaluate if adequate approval mechanism is in place.
- The definition of related parties and RPTs is not aligned in the three regulations i.e. the 2013 Act, Ind AS and Listing Regulations. The audit committee should discuss with the management of the company and ensure all the requirements of the three regulations are fulfilled.
- The scope of RPTs has been enlarged and also includes transactions that indirectly benefit related parties. The audit committee and the management of the company would need to strengthen the processes to detect those transactions undertaken with seemingly unrelated parties and would need to apply judgement to determine the transactions that ultimately benefit a related party of the entity or of any of its subsidiary along with proper documentation.
- In relation to the transactions placed for approval, the audit committee should call for information such as justification as to why the RPT is in the interest of the company, details of transactions e.g. material terms, tenure value, transaction value as a percentage of turnover, source of funds (for transaction relating to loans, advances or investments), etc.
- As independent directors need to approve all the RPTs, companies would need to satisfy independent directors that all related parties and RPTs have been identified, a due process to ensure their arm's length nature has been followed and sufficient and relevant documentation has been maintained to provide them with all material information and explanations.
- An audit committee and management of the company would need to ensure that they comply with the spirit of the law and endeavour to provide relevant and detailed information to enable and empower shareholders for taking an informed decision. The information so provided should include but not be limited to the

prescribed information so as to enable to the shareholders to take an informed decision.

Questions for the audit committee to consider

- Has the management of the company revised its processes to identify existing/potential related parties and RPTs due to change in the definition of related parties and RPTs under the Listing Regulations?
- Does management of the company monitor the arm's length pricing, have they been benchmarked and are in the ordinary course of business?
- Has the management of the company assessed the impact of the RPTs on the financial statements?
- How frequently does the management review the policy on materiality of RPTs?
- Do the disclosures provided to the audit committee and shareholders regarding justification of a RPT comply with the spirit of the law and provide relevant and detailed information to enable and empower them for taking an informed decision?

3

Reinforce audit quality and set clear expectations for the external auditor

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

The audit committee should always take the lead in helping to ensure audit quality. In setting expectations for 2022, consider the lessons learnt from 2021 - potentially the first audit in a remote working environment.



Areas of Focus 2022

- Set clear expectations for frequent, open, candid communications between the auditor and the audit committee – beyond what’s required. Give the external auditor clear performance objective and evaluate the auditor against those objectives. The list of required communications is extensive, and includes matters about the auditor’s independence, as well as matters related to the planning and results of the audit. Taking the conversation beyond what’s required can enhance the audit committee’s oversight, particularly regarding the company’s culture, tone at the top, and the quality of talent in the finance organisation.
- Consider how the audit committee can most effectively carry out its ‘direct responsibility’ for oversight of the external auditor given management’s extensive interactions with the engagement team, often on a daily basis.
- Audit committees should also probe the audit firm on its quality control systems intended to drive continuous improvement in audit quality – including the firm’s implementation and use of new technologies. In discussions with the external auditor regarding the firm’s internal quality control system, consider the results of the external and any internal inspections and efforts to address any deficiencies. It is important to remember that audit quality is a team effort, requiring the commitment and engagement of everyone involved in the process – the auditor, audit committee, and management.
- Audit committees should discuss with the auditor what aspects of the 2022 audit will be conducted remotely, and what aspects of the audit will be done differently in 2022.
- Investors, regulators, and other shareholders continue to focus on the quality of financial statements audit. There are recent changes e.g. changes to the auditor’s reporting, introduction of CARO 2020, amendments to Schedule III of 2013 Act, additional matters to be reported in the auditor’s report, etc. Audit committees should stay apprised of these developments and understand the implications for the company’s audit (including multinational audit activities) and the audit committee’s oversight role and interaction with auditors.
- Frequent engagement with the auditor and management is more important than ever. Audit committee should engage with the auditor and management to discuss potential challenges to enhance the control environment of the company.

Questions for the audit committee to consider

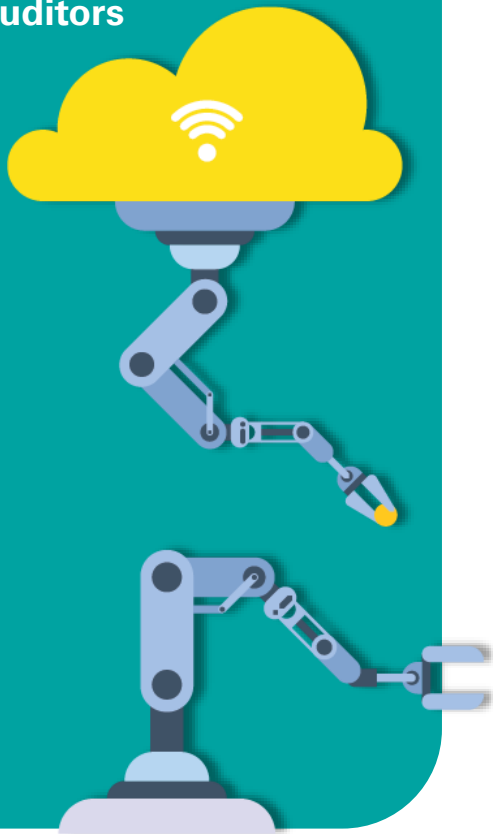
- What is auditor’s assessment of the quality of the company’s financial reporting, narrative reporting, and press releases by the company?
- How does the auditor conceive management’s attitude toward internal control systems and disclosure procedures? How have the company’s financial reporting and related internal control risks changed?
- What are both management’s and the auditor’s plans to keep the 2022 audit and the interim review on track?
- What was the nature of consultations, if any, that were held with other accountants or auditors?
- What additional audit procedures have been performed by the auditor to assess the reasonableness of estimates and assumptions used by the management, particularly with respect to forward looking information?
- Has an appropriate discussion taken place with the external auditor regarding major issues that arose during the course of the audit, the key accounting and auditing judgements and the level of errors identified during the audit?

- What worked well in 2021, and what are the opportunities for improved efficiency in 2022? What complexity does working remotely add to the audit?
- What is the most complex issue that was encountered during the audit that has not been discussed at the audit committee meeting?
- What is the nature of relationship between the auditor, management and internal auditor?



Audit committee should focus on use of technology

by auditors



New and disruptive technologies are emerging at a rapid pace. They include blockchain, cloud, Robotic Process Automation (RPA), digital labour, machine learning, deep learning, quantum computing, voice recognition, Internet of Things (IoT), virtual or augmented reality, computer visioning, Natural Language Processing (NLP). This emerging landscape requires an auditor to use technological driven auditing tools and methodologies in accordance with respective technology employed by the company.

Areas of Focus 2022

- New technology is fiercely amplifying the analytical capability of an audit. With the use of RPA, auditors can analyse absolute populations through various perspectives.
- Consider the automated audit tools deployed by the audit team enabling them to quickly identify deviations warranting further examination and the accuracy of financial statements in a detailed manner.
- Focus on usage of applications around the critical data such as unstructured data e.g. contracts, emails, PDFs and other documents. A key challenge is to develop digital assistants that can read this data and identify key information for the

auditor. Having a BOT, for example, to analyse the accuracy of the unstructured files.

Questions for the audit committee to consider

- Has the auditor deployed appropriate technologies such as smart analytics and artificial intelligence in response to various financial system/process including database employed by the company?
- Discuss with the auditor insights gained with the help of tools and data analytics into areas of heightened risk and control weaknesses and benchmarking of KPIs across processes, business units and industry peers?
- Does the auditor's technology solution provide sufficient trust and assurance?
- Does the audit team possess important skills and expertise for the next generation of audit professionals e.g. foundational skills in technology, critical thinking, reasoning, problem solving skills, investigative financial skills, data analytics, etc?



Environmental, Social and Governance (ESG) including climate issues

and relating financial reporting requirements and related internal control risks



How companies address climate change, and other ESG risks is now viewed – by investors, research and ratings firms, activists, employees, customers, and regulators – as fundamental to the business and critical to long-term sustainability and value creation. The regulators are expected to have intense focus on these issues, and it continues to be one of the critical areas in the year 2022. The demand for attention to climate change as a financial risk has become more urgent, driven by a number of factors, the most visible of which is the accelerating physical impact of climate change.

Recently, climate change and sustainable development concerns have become a priority at global and national level. There has been an increase in the interest of international bodies and financial regulators in examining ESG related issues. Assessment of potential impact of climate related risks on financial statements such as budgeting an outflow to buy new greener assets, triggering liability due to commitments to public including environmental liabilities, replacement cost of polluting assets, compliance cost towards carbon related regulations, accounting for allowance/grant of emission scheme, if any, cashflow forecasts, impact on production costs, relevant climate-related disclosures, etc.

In this regard, the International Financial Reporting Standards (IFRS) Foundation announced the formation of the new International Sustainability Standards Board (ISSB). On 31 March 2022, ISSB has issued exposure drafts of its first two proposed standards. The proposed standards set out general sustainability-related disclosure requirements and specify climate-related disclosure requirements. The proposals are build upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and incorporate industry-based disclosure requirements derived from Sustainability Accounting Standards Board (SASB) Standards. Audit committee should spend time on the exposure drafts published by ISSB in order to have first mover advantage.

Other regulators around the world are also working in this direction. The U.S. Securities and Exchange Commission (SEC) on 21 March 2022 proposed rules on climate disclosure requirements. The proposals would require a domestic or a foreign registrant to include certain climate related information in its registration statements and periodic report such as Form 10-K. These proposed disclosures are similar to those that many companies already provide based on broadly accepted disclosure frameworks, such as the Task Force on Climate-Related

Financial Disclosures and the Greenhouse Gas Protocol (GHG Protocol). Additionally, the European Securities and Markets Authority (ESMA) released its Sustainable Finance Road map 2022-24 on 11 February 2022. The road map sets out ESMA's key priority areas – which are tackling greenwashing and promoting transparency, building National Competent Authority (NCAs) and ESMA's capabilities and monitoring, assessing and analysing ESG markets and risks.

Additionally, on 14 March 2022, the International Organization of Securities Commissions (IOSCO) has issued its Sustainable Finance work plan 2022. In this plan, it has highlighted that it plans to conduct a timely and thorough review of the ISSB Exposure Drafts of proposed climate and general sustainability disclosure requirements, as well as the final standards when they are produced. If IOSCO determines that the IFRS Sustainability Standards are fit for purpose, its decision would provide all 140 IOSCO member jurisdictions with the basis to decide how they might adopt, apply or be informed by the ISSB standards.



Oversight of a company’s climate, ESG, and Diversity, Equity and Inclusion (DEI) activities is a formidable undertaking for any board and its committees. Audit committees typically have responsibility for oversight of the company’s related disclosures, including the selection of a disclosure framework(s), consideration of where the disclosures should be made, management’s disclosure controls and procedures, and any third-party assurance. The audit committee can also play an important catalyst role by helping to ensure that board and committee oversight responsibilities are clear, and that communication and co-ordination among the board and its committees are effective. It is quickly becoming clear that ESG issues touch multiple board committees, and oversight responsibilities should be allocated accordingly.

Areas of Focus 2022

- Audit committees should take the time to understand stakeholders' priorities and the company's material ESG issues, particularly, where those two topics overlap.
- Ensure that the company is addressing climate and other ESG risks and issues – from DEI efforts to the company’s ‘purpose’ and how it’s considering the interests of stakeholders, including employees, suppliers, and the communities in which it operates.
- Audit committees should take steps to assess the business and competitive environment regarding ESG strategy and reporting to understand industry and competitors practice with respect to ESG reporting.
- The data's importance to a company's ESG strategy, including financial materiality, should align with corresponding regulations and level of risks associated with the data.

- Audit committee should watch out this space for further developments in this area as this topic is evolving at a fast pace internationally and be prepared for regulatory developments in India too.

Questions for the audit committee to consider

- How might climate-related risks impact the financial statements?
- Has the management identified and assessed the ESG agenda which are in line with company's and stakeholders' greatest importance? Has the company embedded them into its core business activities (risk management, strategy, operations, incentives, and corporate culture) to drive long-term performance and value creation? Is there a clear commitment and strong leadership from the top as well as enterprise-wide buy-in?
- Do established processes and controls exist for reliable and complete data

- collection and reporting towards ESG?
- How the management identified its transition plan as part of its climate-related risk management strategy and how it will impact the business outlook?
- Has the scope of intended level of assurance over ESG metrics been considered with the top management from materiality perspective?
- Evaluation of the data parameters being assured, the expertise of the assurance provider, and what is the value of the assurance including exclusions?
- Do climate and other ESG issues require more attention at the full-board level – or perhaps the focus of a separate board committee? Also weigh the pros and cons of creating an additional committee.
- How do company’s ESG practice and disclosures compare with peer group and within the industry?



6

Remain focussed on cybersecurity risks

and the increased risk of ransomware attacks



The rapid shifts that companies have made during the pandemic to keep their businesses up and running – remote work arrangements, supply-chain adjustments, and increased reliance on online platforms – have been a boon to organised crime, hackers, and nation-states. Cyberattacks of all types proliferated during the pandemic, highlighting the far-reaching implications for supply chains and operations, as well as the ongoing cybersecurity challenge facing companies.

Boards and/or audit committees have made strides in monitoring management’s cybersecurity effectiveness –for example, with greater IT expertise on the board and relevant committees, company-specific dashboard reporting to show critical risks, and more robust conversations with management. Despite these efforts, the acceleration of digital strategies, remote work and hybrid work models, increased regulatory scrutiny of data privacy, and the growing sophistication of cyber attackers all point to the continued cybersecurity challenge ahead – whether overseen by the board or the audit committee. It is no longer a matter of whether a company will experience a cyber-security incident, but rather a matter of when and how to respond to it.

Areas of Focus 2022

- A multifold increase in cyber-attacks has drawn the attention of the audit committee and the focus is more likely to shift on privacy laws and cyber physical systems.
- Audit committee and management need to focus on the right mix of skills on the board to address the cyber related risks.
- With laws being framed in various parts of the world, companies need to prepare a road map, as to how prepared are they to take on the additional cost to elevate the security posture.
- Would companies want to consider having an in-house team to create a structure for cyber security?

Questions for the audit committee to consider

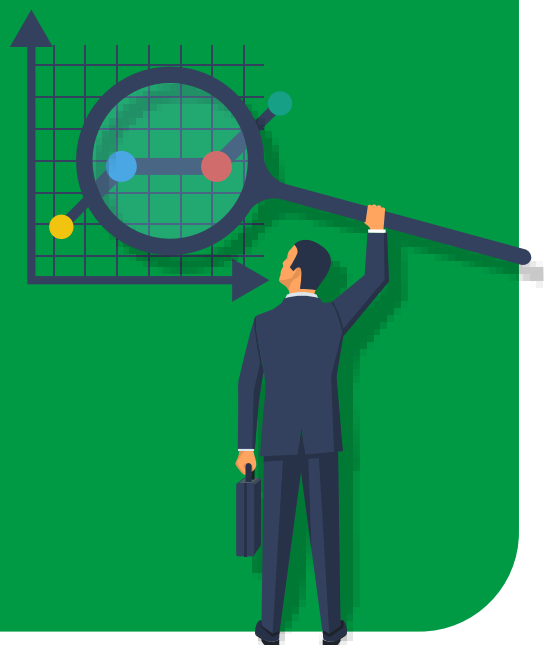
- Assessment of what are key cyber-security threats and risks and their effect on the company?
- How does management ensure that stakeholders aren’t harmed by rogue agents?
- Does the company meet all of its obligations for information assurance and fully comply with applicable regulations?

- Is cyber security part of the audit committee’s and management’s strategy discussions, also, when was the last threat examined and deliberated?
- How does the company move from reacting to anticipating cyber-attacks?
- Is a cyber insurance cover considered for the company to compensate in case of a cyber-security incident?



Help ensure that internal audit is focussed

on the company's critical risks



The audit committee must oversee the internal audit function. This basically involves reviewing the responsibilities, scope, staffing and budget of the internal audit function and holding executive session with the internal audit function.

In a geopolitically volatile, uncertain, complex and ambiguous world, the business environment that global companies operate in is defined by constant disruption and the audit committees need to be confident with making strategic choices in the midst of uncertainty.

Areas of Focus 2022

- The audit committee should work with the chief risk officer and head of internal audit to help identify the critical risks – such as tone at the top and culture, workforce trends, legal/regulatory compliance, incentive structures, cybersecurity and data privacy, ESG risks, and global supply chain and outsourcing risks - that pose the greatest threat to the company's reputation, strategy, and operations, and to help ensure that internal audit is focussed on these key risks and related controls.
- Oversight on work force and capabilities. For instance, geographic distribution of team, maturity towards data analytics

capabilities, internal audit delivery model. etc.

- Ensure regular assessment of the internal control function and determine whether internal audit is independent, effective and adequately resolved.
- Assessment of sensitivity towards early indicators regarding safety, product quality, and compliance related affairs.
- Set clear expectations and help ensure that internal audit has the resources, skills, and expertise to succeed and help the head of internal audit think through the impact of digital technologies on the internal audit function.
- Conduct a geopolitical stress test on the strategy and planned initiatives. A stress test could help evaluate the impact of likely disruption.
- Develop market-specific assessments or architecture that fuse corporate strategy and risk management. Such an architecture should make crystal clear what an organisation's priorities are in the high-risk market, the criteria to be used to assess and manage risks and how to deploy the criteria aligned with goals for operations and performance.

Questions for the audit committee to consider

- What role should internal audit play in auditing the culture of the company?
- Is the coverage of internal audit adequate including periodicity, geography, locations, sites, business units, etc?
- What is the impact of digital technologies on the internal audit function?
- How sensitive is the organisation to early warning signs regarding safety, product quality, and compliance?
- Has the company conducted stress test on financial forecasts and business plans for geopolitics disruptions?
- Is there identified and assigned responsibility in the business for analysing, monitoring and interpreting geopolitical events?
- Is level of geopolitical intelligence reliable in terms of quality as compared to the quality of financial or operational data?

Understand how technology is impacting

the finance function - organisation's talent, efficiency, and value-add along with the implications of the war on talent and changing workforce trends



The acceleration of digital strategies and transformations that many companies are undertaking are impacting finance organisations and presenting important opportunities for the finance function to reinvent itself and add greater value to the business. A successful transformation can help the finance function and audit committees to focus on plans to leverage robotics and cloud technologies to automate as many manual activities as possible and try to better understand how the finance function is using data analytics and artificial intelligence.

Areas of Focus 2022

- In this environment, it is essential that the audit committee devotes adequate time to understand finance function's transformation strategy.
- An effective assessment and understanding of technological impact can help the finance function capitalise technology to substitute routine tasks, automate manual activities, and make use of innovative techniques such as robotics and cloud technologies.
- Robotics can allow finance workforce to put their skills on more tactical and better-quality initiatives that eventually can provide for more planned insights.
- Understand how the finance function is using data analytics and artificial intelligence to develop sharper predictive insights and better deployment of capital.
- As finance function combines strong analytics and strategic capabilities with conventional financial reporting, compliance and accounting skills, the related talent and skill-sets must change accordingly.

Questions for the audit committee to consider

- What are the cultural changes needed to support digital workforce and people? Is

finance attracting, developing, and retaining the talent and skills necessary to match its evolving needs?

- Does the company have right skill-set to support the digital future of work?
- Is the management team prioritising investments in people, partnerships and resources to capitalise on opportunities driven by technological innovation?
- Understand how the finance function is using data analytics and artificial intelligence to develop sharper predictive insights and better deployment of capital.
- Is the finance function well-positioned to guide the company's data and analytics agenda and to consider the implications of new transaction-related technologies, from blockchain to cryptocurrencies?
- As historical analysis becomes fully automated, the company's analytics capabilities should evolve to include predictive analytics, an important opportunity to add real value.
- What are the risks posed by the company's digital transformation and by the company's extended organisation – sourcing, outsourcing, sales, and distribution channels?
- What are the company's plans in terms of enhanced use of technology to automate erstwhile manual activities and bring in efficiencies in the finance function?



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