



Keeping pace with disruptive risk and digital transformation

2019 Audit Committee Pulse Survey

**KPMG Singapore Audit
Committee Institute**



A premium on agenda management

Audit committees continue to express confidence in their oversight of core responsibilities—financial reporting integrity and audit quality. Yet, it's clear from our survey of more than 1,300 audit committee members that technological innovation, digital disruption, and the complexity of business are exerting greater pressure and sharpening the focus on risk management and the internal control environment.

Indeed, mounting regulatory compliance risk and transformative technologies—data analytics, artificial intelligence (AI), automation, and blockchain—are increasing the demands on the finance organization, internal audit teams, and enterprise risk management (ERM) systems.

As companies and their boards grapple with a fast-changing world—globally connected, data-driven, and often opaque—audit committees continue to play a pivotal role in assessing risk management processes and internal controls. Is the tone at the top clear? Does leadership walk the talk? What is the mood in the middle and the buzz at the bottom? Does the company's culture make it safe for employees to do the right thing?

Not surprisingly, our survey finds many audit committees still shouldering heavy risk agendas—financial risk, legal/regulatory compliance, cybersecurity, information technology, and third-party risks. Does the audit committee have the time and expertise to oversee these major risks?

Audit committee members continue to tell us that a deeper understanding of the business and its risks and more “whitespace time” for open dialogue would most improve the committee's effectiveness. Clearly, that puts a premium on effective agenda management.

We hope you find these survey results helpful in sparking robust discussions with your audit committee, board, and management as you work to keep pace in a fast-changing environment—and on course for long-term performance.

This is a global survey report. Significant differences between regions and/or are compared to prior surveys are clearly indicated throughout the text. Absent any commentary on regional or over-time differences, these differences were found to be inconsequential.

Key takeaways | The global snapshot



Helping ensure that the finance organization has the talent and skills to maintain quality financial reporting is one of the audit committee's greatest challenges. Nearly two-thirds of respondents reported that their committees are discussing how the finance organization's talent, skills, and leadership must evolve to support the organization's analytics and strategic capabilities. Some 32 percent said that they are discussing finance's plans to use data and analytics and artificial intelligence to develop sharper predictive insights, and 27 percent are discussing plans to leverage robotics and cloud technologies to automate manual activities in the finance organization.



Regulatory compliance and focused internal audit and cybersecurity are the top concerns with gaps in cyber risk management nearly doubling for the top challenges versus 2017. Aside from "core" financial reporting issues, cybersecurity ranked highest in terms of other top priorities on audit committee agendas. Across Europe and the US/Canada, however, cybersecurity clearly ranked number one as top priority. In these regions, culture, cyber being a siloed "IT" risk, and talent and expertise, were also cited as critical challenges. In Latin America, the Middle-East and ASPAC, regulatory/compliance in these regions helped boost this priority to the global number one position. Gaps in managing cyber risk virtually doubled versus our 2017 Global Audit Committee Survey as it relates to organizational awareness and culture.



Few are confident that their company's current enterprise risk management processes capture "disruptive risks." Just over one-fifth of audit committee members are confident that their company's ERM processes are robust and capture disruptive risks such as digital and technology risks. Another 35 percent said that their company's ERM processes are generally robust but may not capture disruptive risks such as digital and technology risks. More than one-third reported that their company's ERM processes require substantial work or are in the developmental stages. Versus our 2017 Global Audit Committee Survey, we do see a sharp upward trend in robustness of ERM systems, seemingly indicating that many companies have been investing heavily in ERM over the last two years. Based on our survey data, Europe and US/Canada clearly outperform ERM robustness versus the other regions of the world.



Year over year, maximizing the role of internal audit's value continues to be seen as a top priority by maintaining flexibility to adjust the audit plan in response to changing business and risk conditions. Of those companies that reported having an internal audit function, focusing the audit plan on key areas of risk beyond financial reporting risk such as cybersecurity, information technology, and other operational risks, and maintaining flexibility to adjust the audit plan in response to changing business and risk conditions ranked as the most important ways to maximize internal audit's value. Almost one-third of respondents also suggested that internal audit add culture considerations to existing audits or undertake a stand-alone culture audit.



Almost half audit committee members say that companies should not continue to provide semi-annually or quarterly earnings guidance. In fact, 16 percent said the practice of providing earnings guidance should be phased out, and 15 percent said guidance should be provided only annually. Interestingly, however, only 31 percent of audit committee members view environmental, governance, and social (ESG) issues as important to long-term performance and value creation; and 42 percent view ESG as part of normal risk and regulatory compliance activities.

Greatest challenges core oversight role



Q. Which of the following core oversight areas pose the greatest challenges for your audit committee? (Select up to 3)

By and large, global audit committee members said maintaining internal control over financial reporting and disclosure controls and procedures, and helping ensure the finance organization has the talent and resources to maintain quality financial reporting as the greatest core oversight challenges.

What do the regions tell us?

Helping to ensure that the finance organizations have the talent, skills, resources, and leadership to maintain quality financial reporting was a bigger concern in US/Canada (61 percent) and Europe (54 percent) than in Asia-Pacific (ASPAC) and Latin America (both 41).

Maintaining audit quality and auditor independence was, however, less of a concern for US/Canada (16 percent) and Europe (25 percent) compared to the Middle East (52 percent) and Latin America (43 percent), or even the global.

What else?

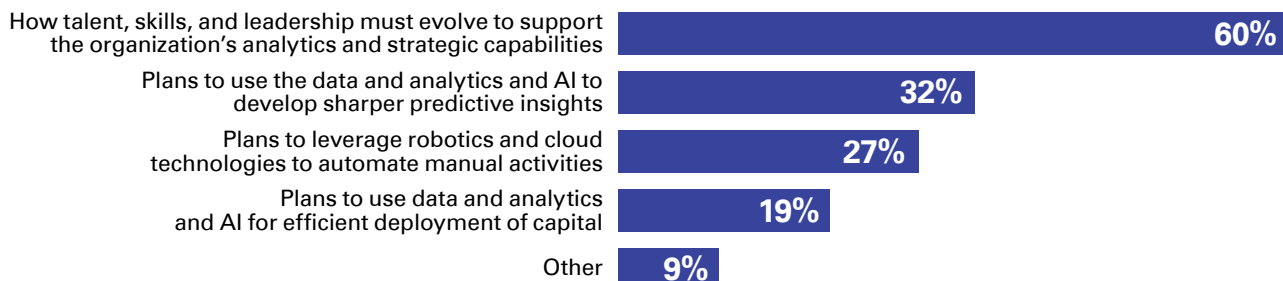
Interestingly, only 15 percent of the global respondents see the preparation of the reporting of key/critical audit matters as a great challenge in their core oversight.

“The board and audit committee need absolute clarity as to their respective roles and responsibilities.”

Board Chairperson

Assessing the impact of technology transformation on finance group

Audit committee is discussing:



Q. How is your audit committee assessing the impact of technology transformation on the future of the finance organization? (Select all that apply)

Audit committees around the world are primarily discussing how the finance group's talent, skills and leadership must evolve to support the organization's analytics and strategic capabilities. This is clearly their number one priority with respect to technology in the finance function with nearly double of respondents

indicating this as their number one discussion item. The second most prevalent means global audit committees are assessing the impact of technology transformation on the finance group is by discussing plans to use the data and analytics and AI to develop sharper predictive insights.

“No matter how independent, knowledgeable and diligent audit committee members are, the audit committee will not be effective unless it has access to the ‘right’ information.”

Audit Committee Chairperson

Other top priorities, aside the core oversight roles



Q. Aside from core audit committee responsibilities (oversight of financial reporting, internal controls over financial reporting, and the external auditor) which of the following are top priorities on your committee's agenda? (Select up to 5)

Globally, the number one priority for audit committees apart from their core oversight roles relates to legal/regulatory compliance, followed by ensuring that internal audit maximizes its value and cybersecurity.

What do the regions tell?

Remarkably we see contrasting priorities between the US/Canada and European results compared to the rest of the world (and thus the global average).

Respondents in Europe and the US/Canada clearly rank cybersecurity as the top priority (64 percent and 59 percent, respectively, versus 50 percent globally).

Legal/regulatory compliance was cited as the top audit committee priority by respondents in ASPAC (80 percent) and Latin America (70 percent). For US/Canada and Europe, legal/regulatory compliance ranked as the second highest priority (48 percent and 58 percent, respectively).

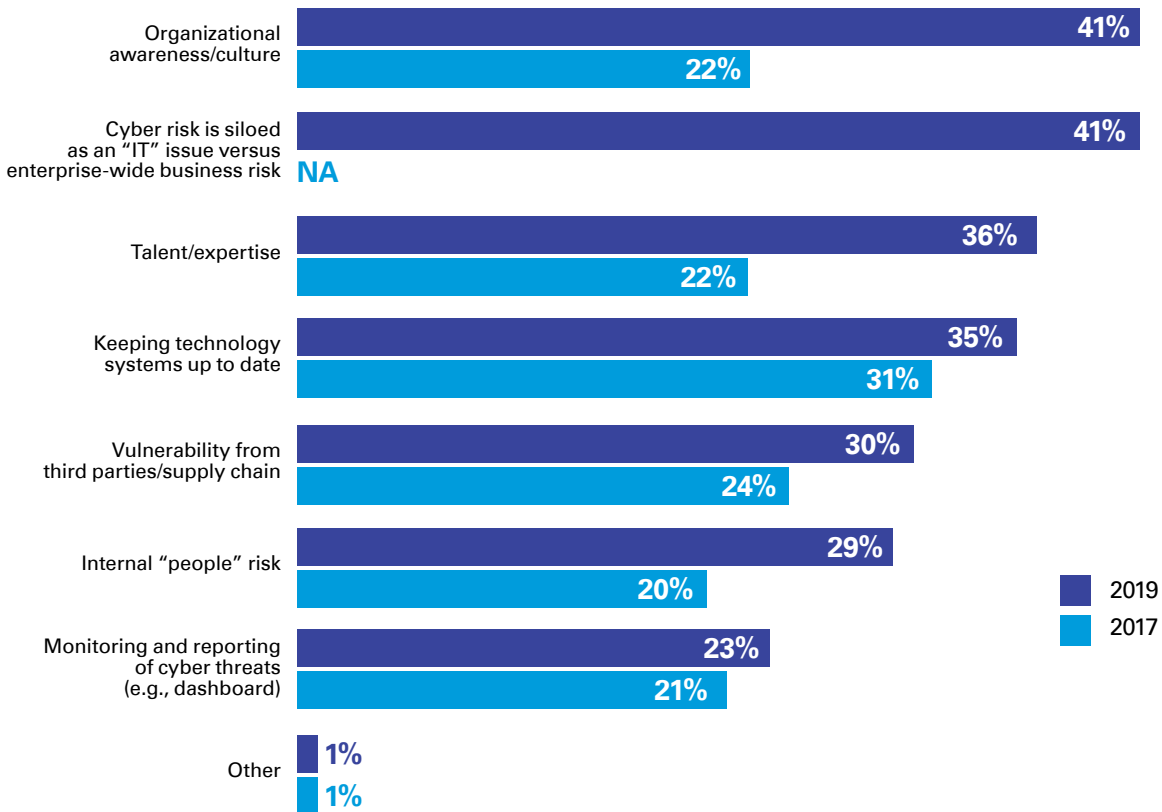
What does time tell?

Since our 2014 Global Audit Committee Survey, ensuring that internal audit is properly focused and maximizing its value has been consistently regarded as one of the top priorities for audit committees globally. In 2019, it was ranked second highest, behind legal/regulatory compliance.

“Focus on those controls judged by management to bring the most significant gross risks down to an acceptable level. The audit plan should be designed primarily to provide the board with assurance that such controls are fully effective.”

Audit Committee Member

Gaps in managing cyber risk



Q. In your view, what are the most significant gaps in your company's ability to manage cyber risk? (Select up to 3)

The main gap, globally, in managing cyber risk is that it is still only considered an "IT" issue. Organizational awareness/culture around cyber risk, the most significant gap identified in our 2017 Global Audit Committee Survey, continues to remain significant. More than a third of global respondents also identified talent/expertise and keeping technology systems up to date as significant gaps.

What do the regions tell?

For the audit committees in US/Canada and Europe, the most significant gap in managing cyber risk keeping systems up to date. For the audit committees in the ASPAC region,

it was talent/expertise and for those in Latin America that cyber risk was siloed as an "IT" issue versus enterprise-wide business risk.

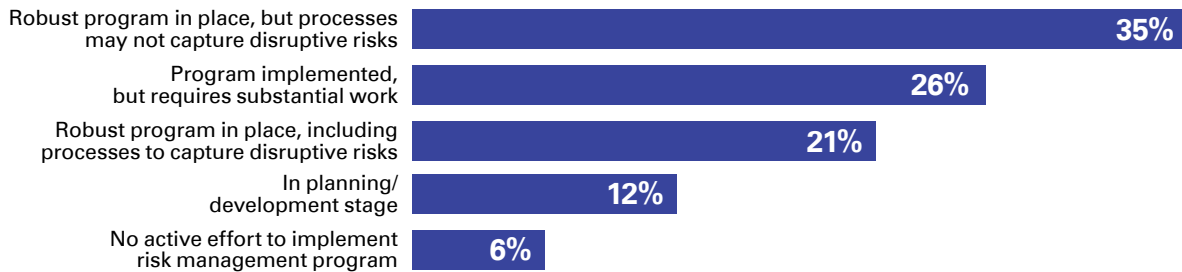
What does time tell?

In general, we clearly see the gaps perceived in the ability to manage cyber risk increasing considerably compared to our 2017 Global Audit Committee Survey. With cybersecurity in the top three of audit committee top priorities (see page 4) this is an urgent item to discuss with management and agree on mitigating matters as soon as possible.

"Good cyber security is not just about a really strong wall on the outside, but also about some kind of immune system within."

Chief Information Officer

Status of risk management program



Q. What is the status of your company's risk management program/processes?

More than half of global respondents said their enterprise risk management (ERM) system were robust; however, only one-fifth said it also included processes to capture disruptive risks. Just over a quarter of global respondents indicated their ERM system requires substantial work.

What does time tell?

Between our 2017 and 2019 Global Audit Committee surveys, we saw an increase in respondents qualifying their ERM system as robust. In 2017, 38 percent indicated they had a robust program in place while in 2019 a total of 56 percent did. Additionally, over the same time period, the respondents that indicated their ERM programs requiring substantial work decreased from 38 percent to 26 percent.

This is a very positive trend indicating that companies and their management, board and audit committee have invested a substantial effort for their ERM system to keep track in the current dynamic risk environment of the last years.

What do the regions tell?

Europe and US / Canada stand out of the global group with substantially fewer respondents indicating that their ERM system requires substantial work (18 percent and 19 percent, respectively, versus 26 percent globally). Comparatively, 34 percent of respondents in the ASPAC region and 32 percent of those from Latin America said their ERM systems needed substantial work.

The advantages of a robust ERM system which also captures disruptive risk become apparent when comparing the survey results of those respondents with those of

respondents whose audit committees have less robust ERM systems in place.

Respondents who identified their audit committee's ERM system as not being robust said the three most significant gaps to their company's ability to manage cyber risk were organizational awareness / culture, cyber risk being siloed as an "IT" issue versus enterprise-wide business risk, and talent / expertise. Those gaps were ranked lower by respondents who identified their audit committee's ERM system as robust, including being able to capture disruptive risks. Those respondents identified keeping technologies up to date, vulnerabilities from third parties / supply chain, and internal "people" risk as the most significant gaps.

The survey results also showed significant differences in the audit committee's top priorities beyond the core responsibilities based on the robustness of the ERM system. Respondents who identified their audit committee's ERM system as robust, including being able to capture disruptive risks, prioritized cybersecurity, impact of digital disruption and new technologies on the finance organization and the risk and control environment, and data privacy and protection to a greater extent than the respondents whose audit committee's ERM system is less robust. For those respondents, legal / regulatory compliance, tone at the top and culture, and talent, skill, and leadership succession in the finance organization were comparatively higher priorities.

The survey results show a positive correlation between the robustness of an audit committee's ERM system and the satisfaction level of audit committees having the

time and expertise to oversee the major risks on their agenda. Two-thirds of respondents who identified their audit committee's ERM system as robust, including being able to capture disruptive risks, were satisfied of their level of expertise and time while less than half of those whose robust ERM system did not include processes that capture disruptive risks said the same. Satisfaction

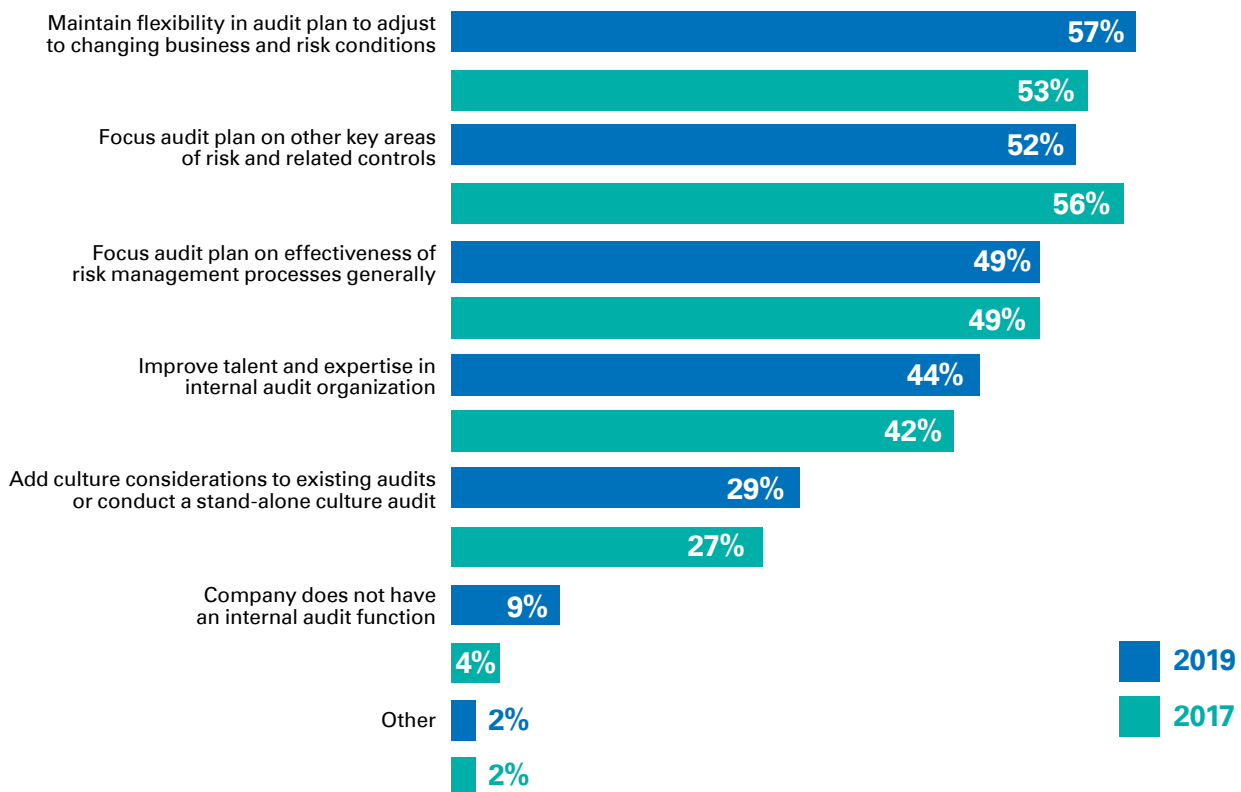
levels were lowest among the respondents whose audit committee had not made an active effort to implement a risk management program.

These findings point to investing in a robust risk management system which also includes processes that capture disruptive risks being a worthwhile investment to increase the effectiveness of the audit committee.

“Good risk management and governance can be compared to the brakes of a car. The better the brakes, the faster the car can drive.”

Audit Committee Chairperson and former Chief Risk Officer

Leveraging internal audit

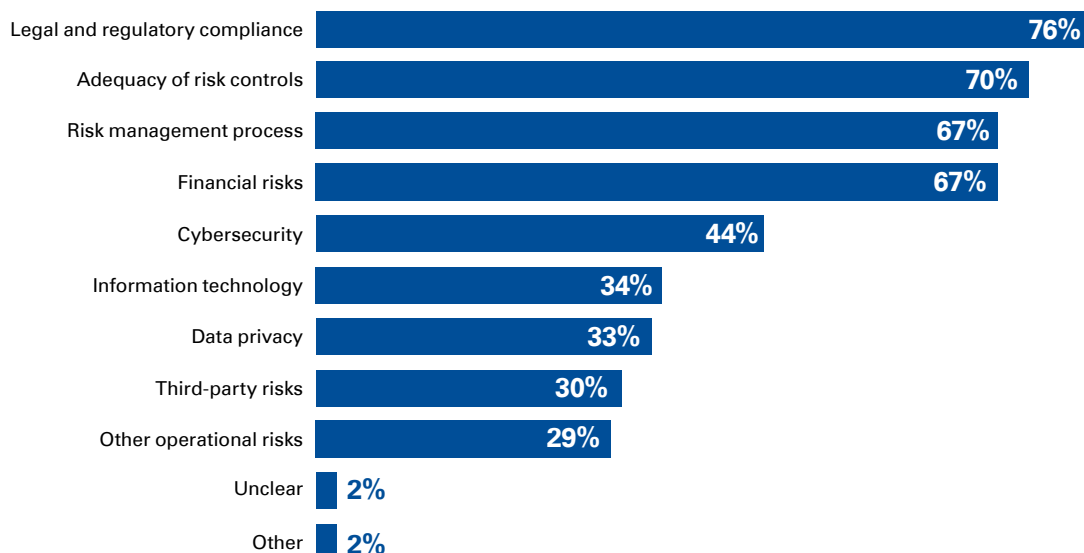


Q. In your opinion, what steps can internal audit take to maximize its value to the organization? (Select all that apply)

Agility and focus are the main buzzwords to leverage internal audit. And not surprisingly, with flexibility to adjust the audit plan that on its own has the focus it needs standing top off

the charts when asking audit committees what steps internal audit can do to maximize its value to the company.

Other risk oversight responsibilities

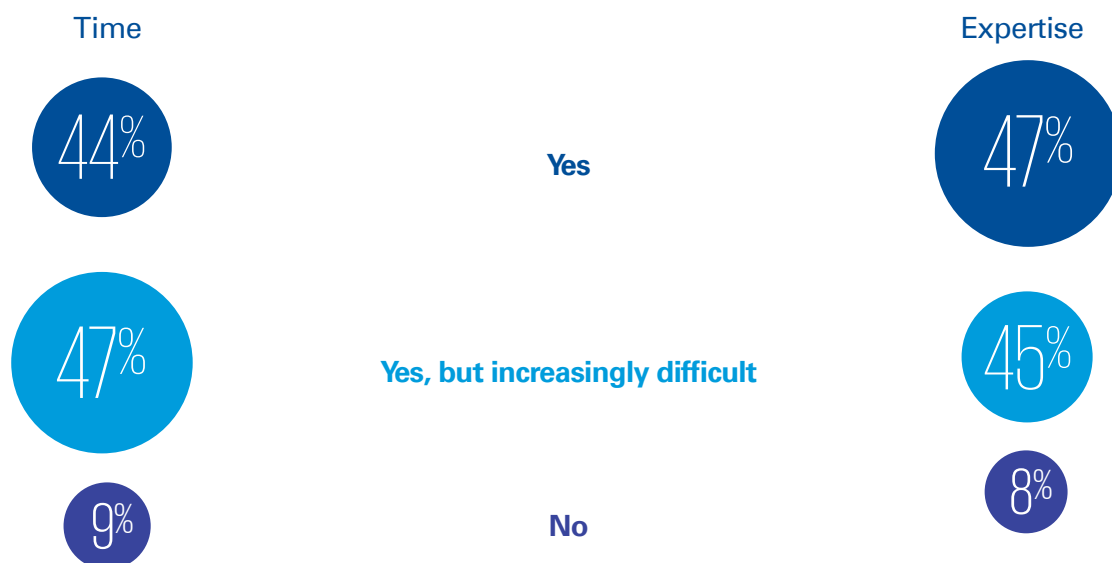


Q. In addition to financial reporting and related control risks, for what risks does your audit committee have significant oversight responsibilities? (Select all that apply)

“The board should review the audit committee’s mandate on an annual basis – paying particular attention to any change of circumstances, new regulations or leading practices that may affect the committee’s remit.”

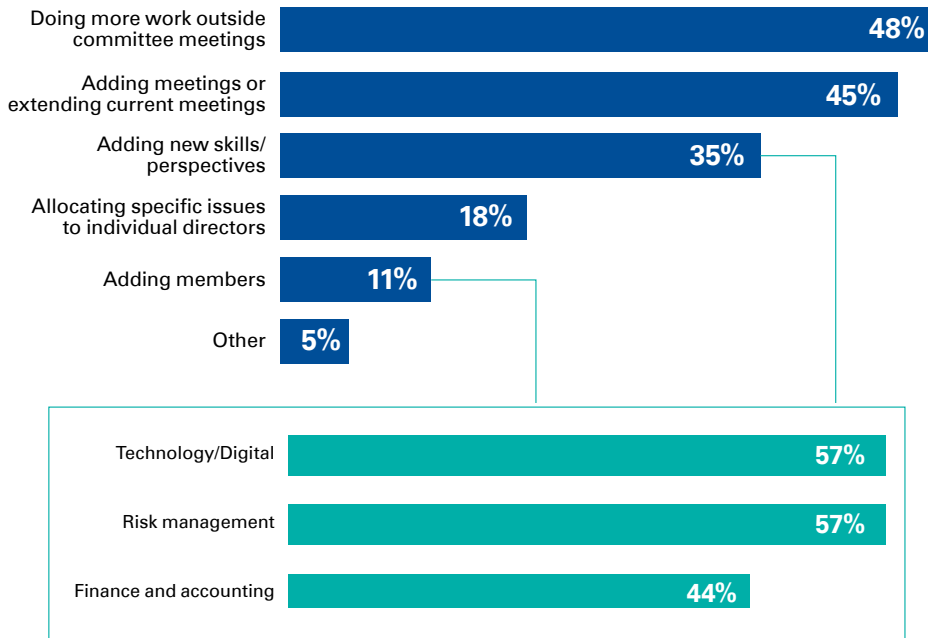
Board Chairperson

Time and expertise



Q. Are you satisfied that your audit committee has the time and expertise to oversee the major risks on its agenda in addition to carrying out its core oversight responsibilities?

Workload

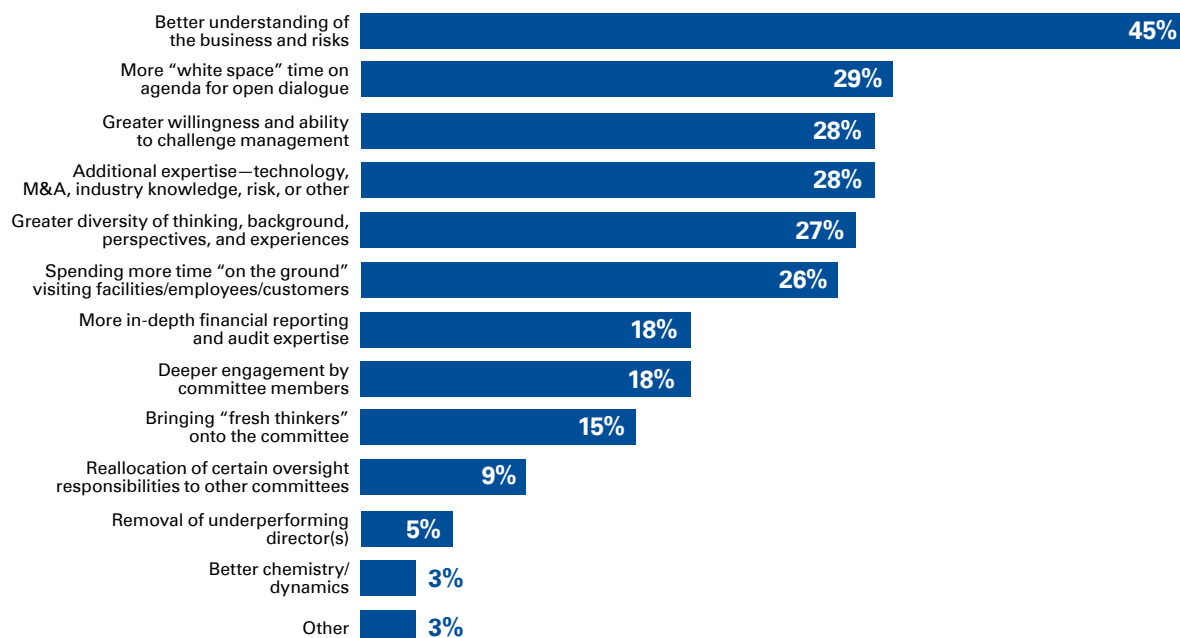


Q: What are you doing to handle the expanding workload? (Select all that apply)

“Be mindful of increasing the committee’s workload and don’t accept responsibilities that rightfully reside with the board as a whole or that cannot be reasonably achieved. Learn to say ‘no’. You can’t do everything – and if you try, you’ll probably end up not doing anything particularly well.”

Audit Committee Chairperson

Improving overall effectiveness



Q. What would most improve your committee's overall effectiveness? (Select top 3)

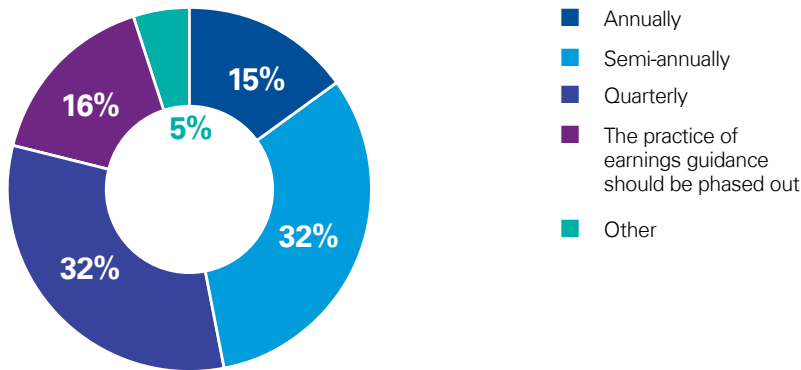
Polling audit committee members' top three actions to improve their committee's effectiveness, one clearly stands out: Better understanding of the business and risks. This is followed by more "white space" time and time for dialogue and greater willingness of the committee to challenge management.

These findings are directly in line with three of the key effectiveness elements for an audit committee that we have been promoting over the years: receive sufficient and appropriate information, open and candid conversations and sound skepticism.

"Committee members should understand the different pressure points within an organization. You need people who are independently minded and are prepared to pro-actively ask the right questions and don't just accept the recommended approach."

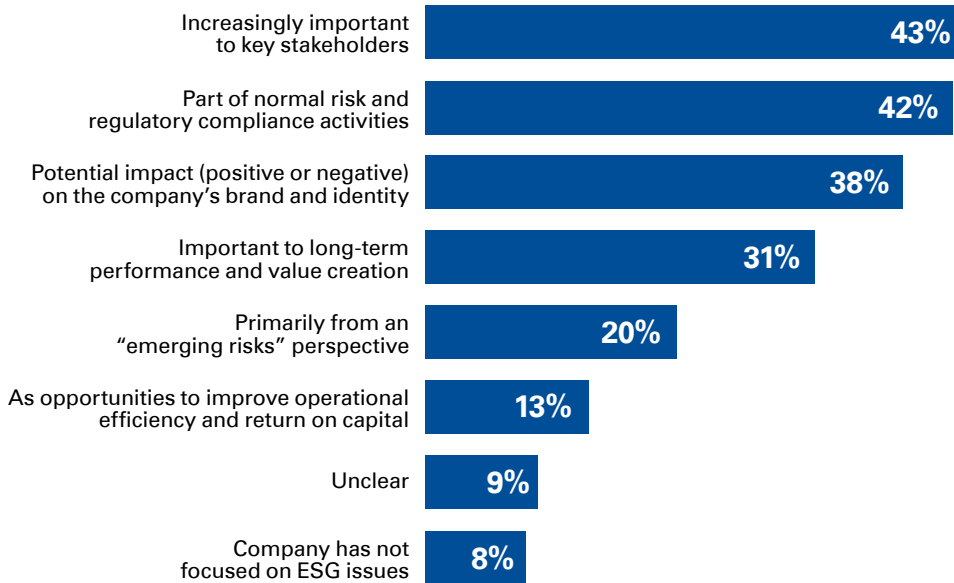
*Irving Low,
Head of Advisory,
Head of Board and Governance Institute,
KPMG in Singapore*

Earnings guidance



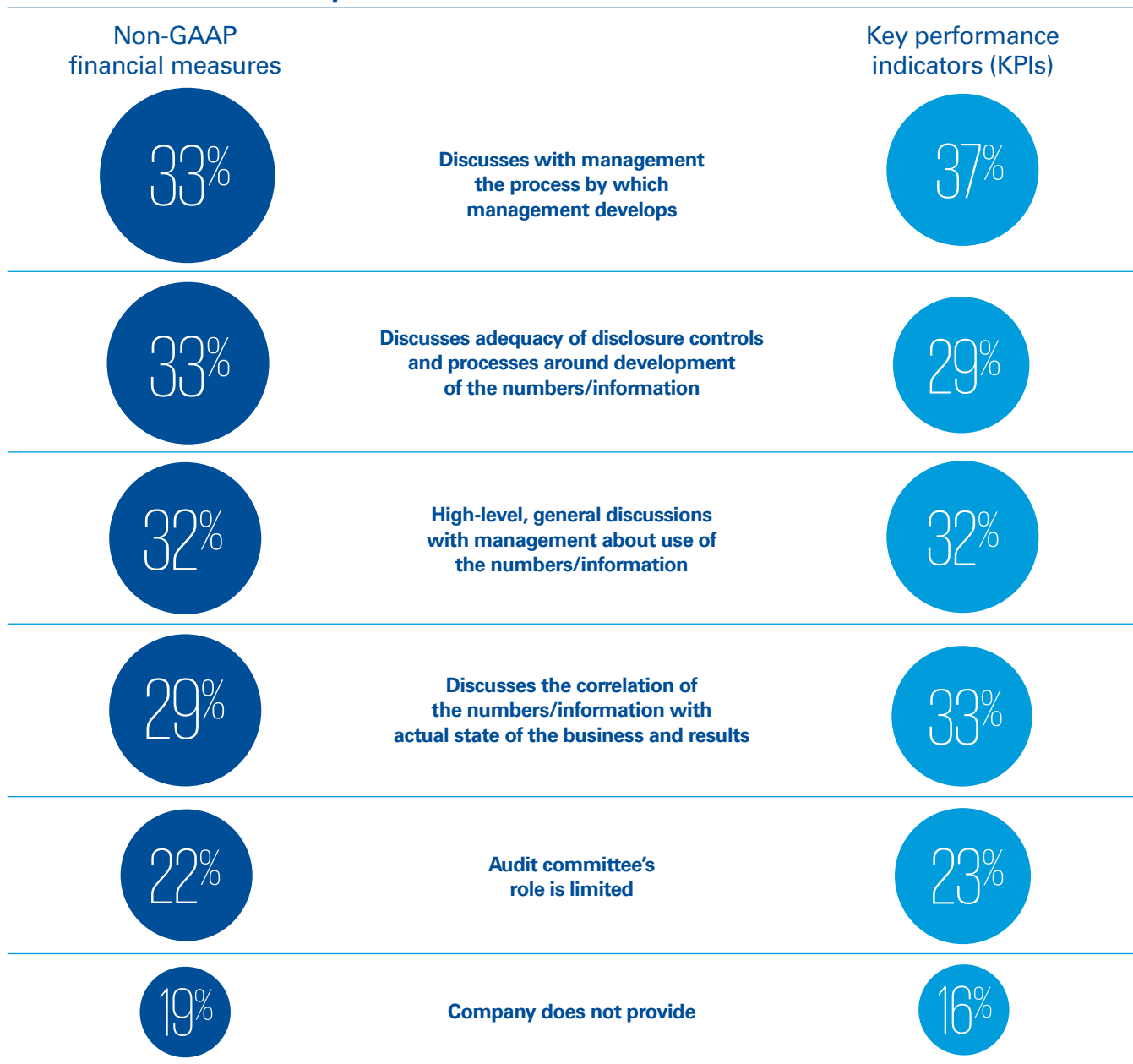
Q. In your opinion, how frequently should companies provide earnings guidance?

Environmental, social, and governance (ESG) issues



Q. How does your audit committee view environmental, social and governance (ESG) issues, (Select all that apply)

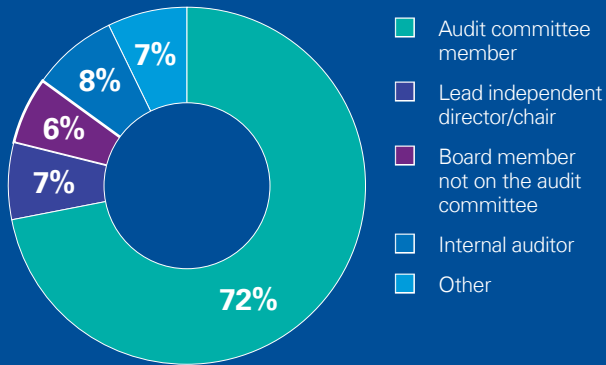
Audit committee's role in presentation of non-GAAP and KPIs



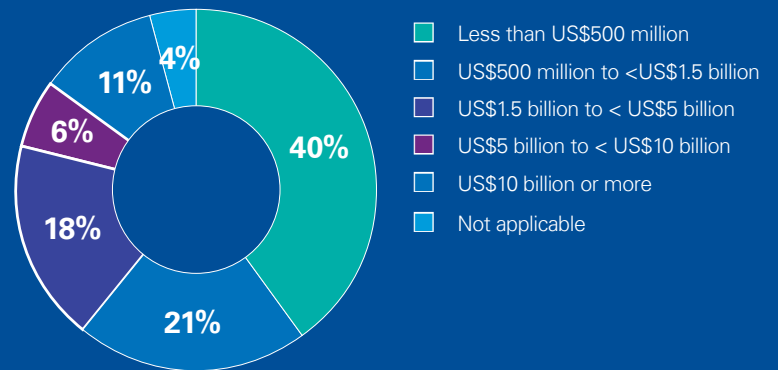
Q. What is your audit committee's role in deciding whether the company should present non-GAAP financial measures and/or key performance indicators (KPIs) and which ones to provide? (Select all that apply)

Survey respondents

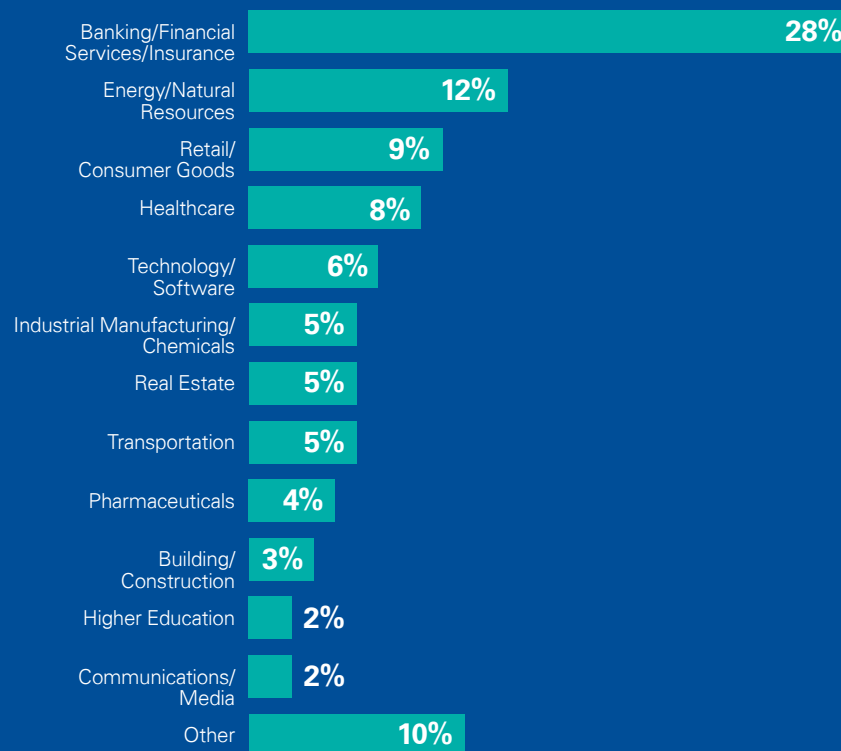
Role



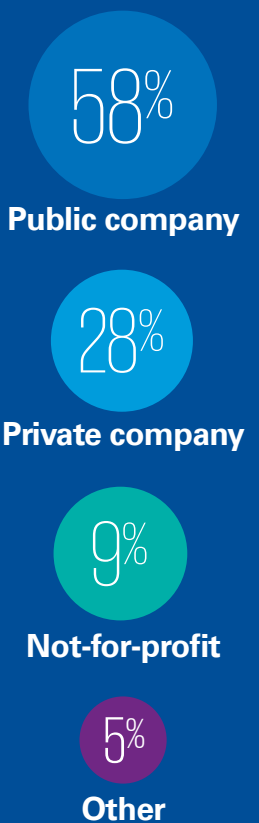
Annual revenue (USD)



Industry/sector



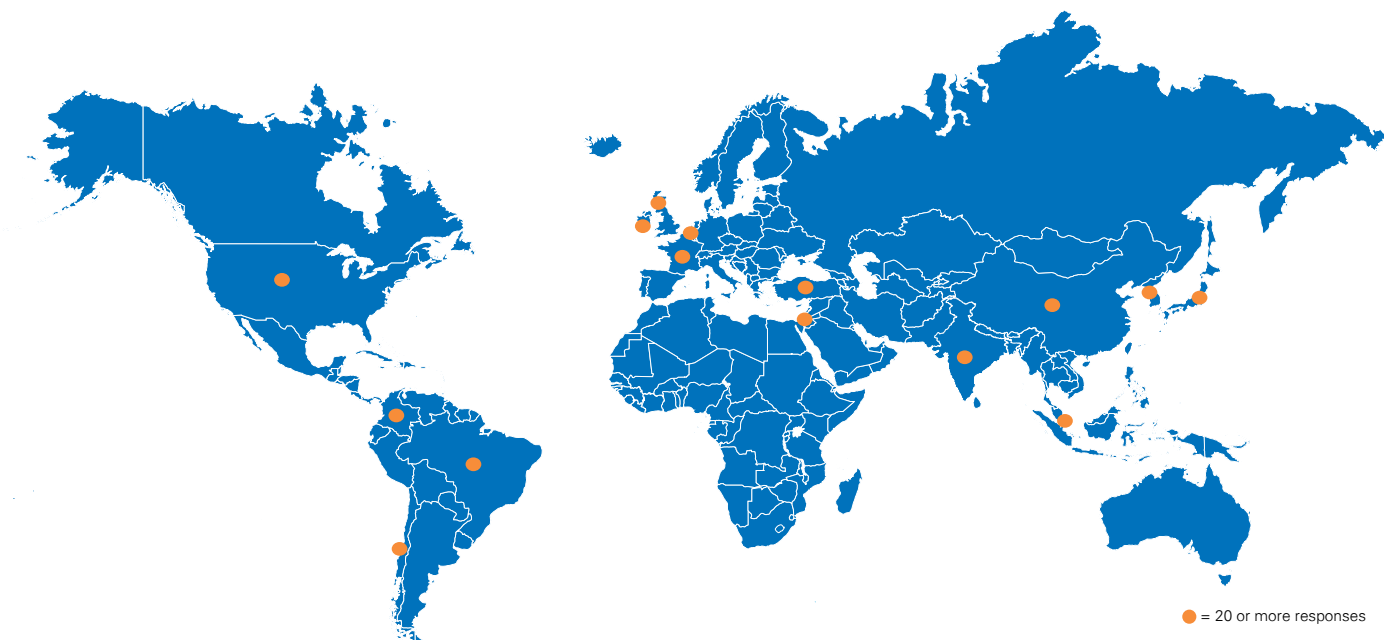
Company type



Results shown are based on 1,310 responses to a survey conducted from Nov 15, 2018 to May 15, 2019.

Comparisons to 2017 data refer to results of the respondents to our 2017 survey, "Is everything under control?"

Global reach



Participating countries and territories

Angola	Canada	India	Luxembourg	Poland	Switzerland
Argentina	Chile	Indonesia	Malaysia	Portugal	Taiwan
Australia	China	Ireland	Malta	Qatar	Thailand
Bahrain	Colombia	Israel	Mexico	Singapore	Turkey
Belgium	France	Japan	Netherlands	Slovenia	United Arab Emirates
Bermuda	Germany	Kenya	Panama	South Africa	United Kingdom
Brazil	Ghana	Korea	Philippines	Spain	United States

About the KPMG Singapore Audit Committee Institute

As part of the KPMG Singapore Board and Governance Institute, the KPMG Singapore Audit Committee Institute focuses on oversight of financial reporting and audit quality and other issues of interest to audit committee members, including risk oversight, internal controls, and compliance.

About the KPMG Singapore Board and Governance Institute

The KPMG Singapore Board and Governance Institute champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives, the Institute engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance experts worldwide, the Institute offers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens.

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