On the 2020 Audit Committee agenda

KPMG Singapore Audit Committee Institute

Prioritising a heavy audit committee agenda is never easy, and 2020 will be particularly challenging as the audit committee operates against a backdrop of global volatility and economic uncertainty, in a world where investors and stakeholders are becoming increasingly powerful and informed. Other top challenges and pressures to be mindful of include long-term technology advances and business model disruption, cyber risks, and geo-political instability.

Drawing on insights from our interactions with audit committees and business leaders we highlight the key issues that audit committees should keep in mind as they approach and execute their 2020 agendas.

1. Maintain (or regain) control of the committee's agenda

This number one priority from last year holds true for 2020. Nearly half of the 1,300 audit committee members responding to our 2019 Global Audit Committee Survey found it "increasingly difficult" to oversee the major risks on the audit committee's agenda in addition to its core oversight responsibilities over financial reporting and controls, and internal and external auditors. Aside from the raft of new agenda items, the risks that many audit committees have had on their plates continue to become more complex.

Reassess whether the committee has the expertise and time to oversee the risks it has been assigned. Do cyber risk and data governance require greater attention from the full board or perhaps a dedicated committee that might tap into relevant skills from outside the board? Keeping the audit committee's agenda focused will require discipline and vigilance in 2020.

2. Assessing the scope and quality of ESG disclosures

Listed companies are required to 'comply or explain' their sustainability practices relating to environmental, social and governance (ESG) practices. If the sustainability report is included in the annual report, the audit committee will need to be mindful of any material inconsistency with that report.

Given increasing stakeholder demands for more transparent, higher quality ESG reporting, the audit committee can serve as a catalyst, recommending that the board encourage management to reassess the scope and quality of the company's ESG reports and disclosures. One area to look into is adopting the Task Force on Climate-related Financial Disclosures (TCFD) framework.

3. Sharpen the company's focus on ethics and compliance.

The reputational costs of an ethics and compliance failure are higher than ever. Fundamental to an effective compliance programme is the right tone at the top and culture throughout the organisation, which supports the company's strategy, including its commitment to its stated values, ethics, and legal/regulatory compliance. This is particularly true in a complex business environment, as companies move quickly to innovate and capitalise on opportunities in new markets, leverage new technologies and data, and engage with more vendors and third parties across longer and increasingly complex supply chains.

To what extent does the audit committee closely monitor the tone at the top as well as the culture throughout the organisation? Are the company's regulatory compliance and monitoring programmes up to date, and do they cover all vendors in the global supply chain, and clearly communicate the company's expectations for high ethical standards?

4. Understand how technology is impacting finance talent, efficiency and value add

Major technology changes present important opportunities for finance functions to reinvent themselves and add greater value to the business. As audit committees oversee and help guide finance's progress in this area, they should query the organisation's plans to leverage robotics and cloud technologies. Some manual activities can be automated to reduce costs and improve efficiencies for the function. Eventually, with fully-automated historical analysis, the organisation's analytics capabilities should evolve to include predictive analytics.

How will finance use data and analytics as well as artificial intelligence to develop sharper predictive insights and better deployment of capital? As the finance function combines strong analytics and strategic capabilities with traditional financial reporting, accounting, and auditing skills, its talent and skill-set requirements must change accordingly.

5. Monitor corporate reporting as well as progress on implementing new standards.

Accounting and Corporate Regulatory Authority (ACRA) regularly publishes its areas of review focus, highlighting to directors possible reporting mis-statements and questions for management, such as:

- Accounting standards that took effect recently:
  - SFRS(I) 16 / FRS 116 Leases;
  - SFRS(I) INT 23 Uncertainty over Income Tax Treatments;
  - SFRS(I) 15 / FRS 115 Revenue from Contracts with Customers; and
  - SFRS(I) 9 / FRS 109 Financial Instruments
- Impairment assessment and valuation
- Business acquisitions

In line with ACRA's guidance, the AC should pay close attention to the implementation challenges when applying these recently effective accounting standards, and the common mistakes in conducting impairment assessment and accounting for business acquisitions highlighted in ACRA's areas of review focus for FY2019 financial statements.

6. Reinforce audit quality by setting clear expectations for the auditor.

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

Probe the audit firm on its quality control systems that are intended to drive sustainable, improved audit quality – including the firm's implementation and use of new technologies. Clarify the way in which the audit firm seeks to attract and retain talent in the audit teams.

To enhance discussions between ACs and audit firms on audit quality matters, ACRA has published the Audit Quality Indicators (AQI) Disclosure Framework. The Guidance to Audit Committees on ACRA's Audit Quality Indicators Disclosure Framework is available for voluntary adoption by ACs of listed entities.

7. Ensure internal audit is independent, adequate, effective and focused on the key risks.

Audit committees should work with chief audit executives (and chief risk officers) to help identify the risks that pose the greatest threat to the company and help ensure that internal audit is focused on those risks and related controls. Is the audit plan risk-based and flexible – and does it adjust to changing business and risk conditions? What role should internal audit play in auditing the culture of the company?

Audit committees should regularly assess internal audit as they are required under SGX Listing Rule 1207(10C) to comment on whether internal audit is independent, effective and adequately resourced.

8. Review quarterly reporting and continuously disclosures

With effect from 7 February 2020, quarterly reporting (QR) is no longer required for listed companies unless they are associated with higher risks.

ACs on exempted companies should still evaluate the pros-and-cons of QRs for their companies and be aware of the amendments to continuous disclosures requirements in areas such as interested person transactions (IPTs), significant financial assistance, significant transactions and secondary fund-raising.

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