KPMG

On the 2021 Audit Committee agenda

KPMG Singapore Audit Committee Institute

As the impact of the disruption from COVID-19 continues to permeate all aspects of business, audit committees will have to keep a sharp focus on material matters, changes to key performance indicators of financial condition and operating performance. But beyond financial reporting and related control risks, many audit committees have substantial oversight responsibility for a range of other risks. Given that the current environment has accelerated existing risk trends, prioritising an effective audit committee agenda will be challenging.

Along with the business and the full board, audit committee (ACs) will continue to operate against a backdrop of tremendous uncertainty and an uneven economic recovery. Drawing on insights from our surveys and discussions with ACs and business leaders, here are some issues that ACs should keep in mind as they consider and carry out their 2021 agendas:

Maintain focus on the corporate reporting and control implications of COVID-19

The financial reporting, accounting, and disclosure impacts of COVID-19 are far-reaching and will continue to unfold in 2021.

This year, directors are expected to deal with more uncertainties, particularly when making estimates or assessing cash flows/financial position. Directors are also encouraged to disclose beyond the requirements in the accounting standards, and keep users of financial statements informed of areas significantly impacted by the COVID-19 pandemic.

Among the key areas of AC focus are:

- **Forecasting and disclosures:** The uncertain trajectory of COVID-19 and the economy – coupled with the extensive use of forward-looking information in financial statements – have made disclosures regarding the current and potential effects of COVID-19 a top area of focus. Other areas of attention include: preparation of forward-looking cash-flow estimates; impairment of non-financial assets, including goodwill and other intangible assets; accounting for financial assets, including fair value; going concern; and use of metrics and alternative performance measures.
- **Internal control over financial reporting (ICFR):** Companies are reassessing, enhancing, or establishing new internal controls due to COVID-19 related disruption to business operations. For example, among the common disruptions prompting a closer look at internal controls include IT system access and authentication to enable a remote/virtual workforce; cybersecurity; entity level controls (communication and assignment of authority, segregation of duties, access review controls), return to work plans, and data privacy.

The Accounting and Corporate Regulatory Authority (ACRA) has also issued Financial Reporting Practice Guidance No. 2 of 2020 to guide directors in the review and approval of the upcoming FY2020 financial statements.

Understand the impact of COVID-19 on the external audit process

ACs should understand what changes to the audit process that auditors are contemplating in light of COVID-19 and why.

As a starting point, the external auditor needs to conduct incremental risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement (whether due to error or fraud), and design further audit procedures. What changes in audit scope and revisions to the audit approach are necessary? New or heightened risks the auditor may need to consider include liquidity, access to capital, debt covenant compliance, the firm's ability to continue as a going concern and so on.

The internal control environment is a critical area of focus. With the shift to remote working and financial reporting processes moving from in-person to virtual, there is an increased risk of internal control breakdowns. In evaluating the design and implementation of controls relevant to the audit, an important area of auditor focus will be on how controls may have changed to accommodate remote workforces and process flows.

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What changes to controls have been required as a result of the work from home environment, changes in reporting lines or new people responsible for controls, increased fraud risk due to employee financial hardship as well as pressure to meet financial targets?

Also, consider discussing with the auditor the challenges and risks of conducting the audit remotely. For example, what alternative methods are available for conducting physical counts? Will additional time be needed to get the audit work done remotely? What complexity does working remotely add to the audit? Frequent communication with the auditor is more important than ever.

Oversee the scope and quality of the company's ESG reports and disclosures

COVID-19 and its impact on communities have forced companies to focus on the "S" in ESG. In the last few years, investors, research and ratings firms, activists, employees, customers, and others have been asking for more transparent and higher-quality information about ESG issues and risks. How does the company define its corporate purpose, and how are interests of stakeholders – employees, customers, suppliers, and communities – in addition to shareholders considered?

With stakeholders demanding for more detailed ESG reporting, including requests for comparable and consistent information and how it links to strategy and performance, ACs should also ask what controls are in place to ensure the quality of the ESG information being disclosed. Is this reviewed with the same rigour as financial information? Does the AC understand and receive reports on the basis for and processes used to generate the disclosures?

Understand how technology is impacting the finance function's talent, efficiency, and value-add

With COVID-19, we have seen an acceleration of companies' digital transformation efforts. Technology changes also present important opportunities for finance to reinvent itself and add greater value to the business. As audit committees monitor and help guide finance's progress in this area, we suggest three areas of focus:

- What are the organisation's plans to leverage robotics and cloud technologies to automate as many manual activities as possible, reduce costs, and improve efficiencies?
- Is the finance function using analytics and artificial intelligence to develop sharper predictive insights and better deployment of capital?
- Is finance attracting, developing, and retaining the talent and skills necessary to match its evolving needs?

In this environment, it is essential that the audit committee devote adequate time to understand finance's transformation strategy.

Help ensure that internal audit remains focused on the most critical risks, including any COVID-19 risks

ACs should work with the head of internal audit and chief risk officer to help identify the COVID-19-related risks and other risks that pose the greatest threat to the company's reputation, strategy, and operations. 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 COVID-19 business and risk conditions? ACs 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.

Sharpen the focus on the company's ethics, compliance, and whistle-blower programmes

The reputational costs of an ethics or compliance failure are higher than ever, and COVID-19 has increased the risk of such a failure, particularly given the changed control environment. Help ensure that the company's regulatory compliance and monitoring programs are up to date, cover all vendors in the global supply chain, and clearly communicate the company's expectations for high ethical standards. Focus on the effectiveness of the company's whistle-blower reporting channels and investigation processes. Does the audit committee review all whistle-blower complaints and receive reports on how they are handled? If not, what is the process to filter complaints that are ultimately reported to the audit committee?

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