

# What is keeping audit committees around the globe awake at night?

## KPMG's 2019 Audit Committee Pulse Survey knows the answers



For this year's survey, KPMG asked more than 1,300 audit committee members worldwide for their input. The final results of the survey "Keeping pace with disruptive risk and digital transformation" show that despite some regional differences, ultimately, the main tasks are the same: financial reporting integrity and audit quality. However, the influence of technological developments also means that risk management and internal control systems are becoming more significant.

### 1 KEY TAKEAWAYS FROM A EUROPEAN PERSPECTIVE

- **Maintaining high-quality financial reporting:** Two-thirds of the audit committees are concerned about the capabilities the finance department should have. On the one hand, the topics of concern are data analytics and artificial intelligence, on the other hand how robotics and the cloud are influencing the future of finance departments.
- **Regulatory compliance, focused internal audit and cybersecurity as top challenges:** Beyond the common risks of financial reporting, audit committees are also grappling with the topics compliance, internal audit and cybersecurity. In comparison to the survey conducted two years ago, cybersecurity has become a more pressing issue.
- **Capture of "disruptive risks" by the current enterprise risk management processes:** Slightly more than half of audit committees are of the opinion that their company's risk management system is robust. However, only about a fifth thinks that their company adequately addresses disruptive risks, such as technological risks. Nonetheless, the survey also found that risk management is inspiring more confidence than two years ago, which indicates that relevant investments have been made in that area.
- **Maximizing the role of internal audit's value:** Apart from a planning that specifically targets the company's risks, the flexibility to adjust the audit planning at short notice to new risks is of the utmost importance. Of interest is that nearly a third of audit committee members feel that it would be a good idea to include environmental, social and governance (ESG) issues in the audit or make them the subject of a separate audit.



## 2 A DEEP DIVE INTO SELECTED TOPICS

In answer to the question which were the greatest challenges related to the oversight role, the audit committee members answered as follows:

### GREATEST CHALLENGES CORE OVERSIGHT ROLE



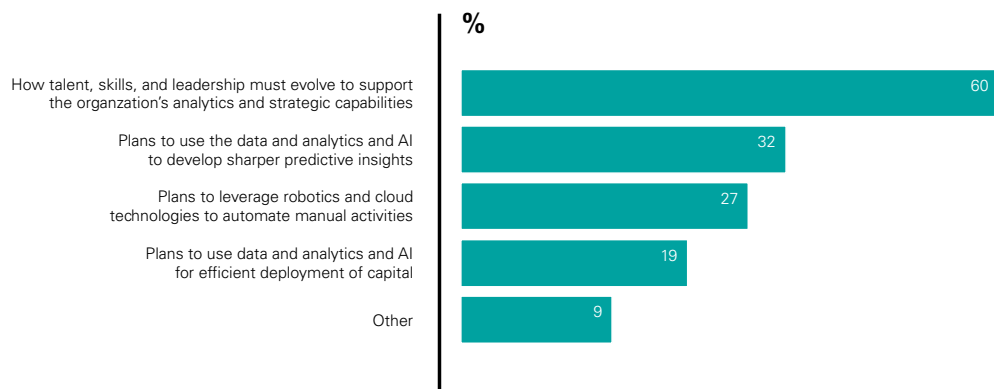
It is not further surprising that the annual financial statements themselves and the related controls are mentioned first. Looking ahead, it seems to be more and more difficult to find sufficient and well-qualified finance department staff. Moreover, audit committees are also struggling with the risk of fraud and the quality of the audits delivered. Unexpectedly, not much attention has been given to the new reporting formats and the key audit matters contained therein.

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

#### BOARD CHAIRPERSON

Apart from the question of human resources, audit committees are also dealing with the impact of technological transformation on the company's finance department.

### ASSESSING THE IMPACT OF TECHNOLOGY TRANSFORMATION ON FINANCE DEPARTMENT



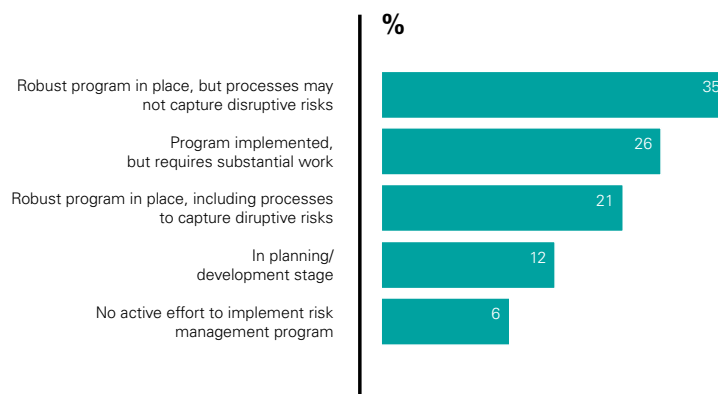


Audit committees are closely monitoring and analyzing the new possibilities offered by data analytics, artificial intelligence and robotics. Having said that, it is less their specific deployment but rather how the finance organization’s skills and leadership must evolve to be able to support the deployment of these technologies.

According to one chairperson of an audit committee, it’s all about having access to the “right information.” The above mentioned technologies could play an important role in this.

In general, the significance of risk management for corporate management cannot be stressed enough, this is especially true for the financial reporting. Concerning the maturity of risk management programs, there seem to be great differences. A little more than half of the respondents agreed that their company’s risk management program was robust; but only about a fifth thinks their program covers risks stemming from disruptive technological advances.

**STATUS OF RISK MANAGEMENT PROGRAM**



In comparison to 2017, the situation has improved as risk management programs qualifying as robust have increased. At the same time respondents indicated that their enterprise risk management programs requiring substantial work has decreased. Both points are good indicators that important investments were made in risk management systems in the recent past.

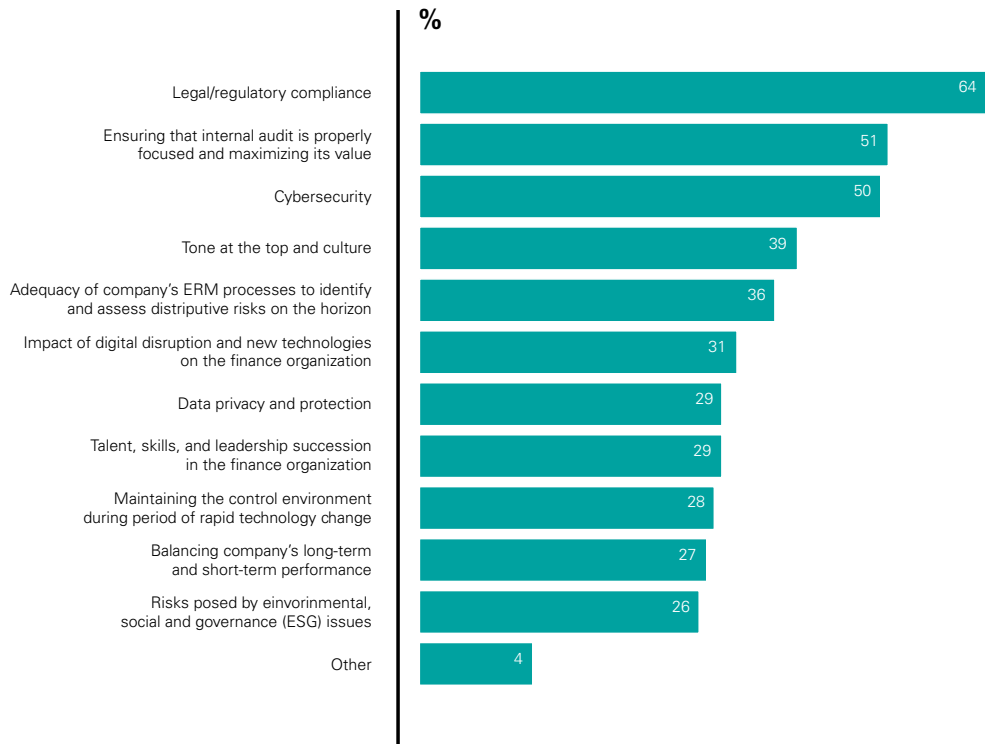
*„Good risk management and governance can be compared to the brakes of a car. The better the brakes, the faster the car can drive.“*

**AUDIT COMMITTEE CHAIRPERSON AND FORMER CHIEF RISK OFFICER**

Apart from the risks in connection with the financial reporting and the already mentioned risk management, audit committees also have to deal with compliance, environmental, social and governance (ESG) issues and cybersecurity.



### OTHER TOP PRIORITIES, ASIDE THE CORE OVERSIGHT ROLES



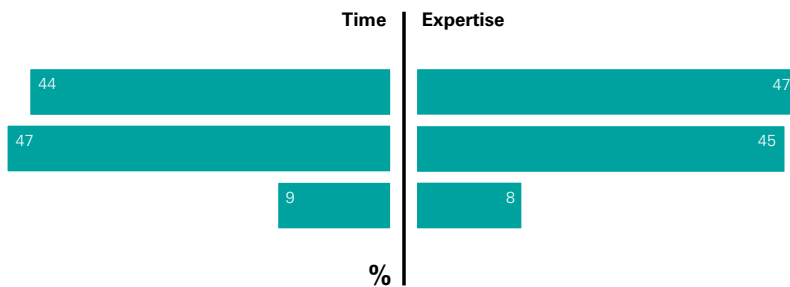
In Europe, the USA and Canada, cybersecurity is even the most-mentioned topic (64%, 59% and 50%, respectively). Even if the awareness for cybersecurity has improved greatly, audit committee members still see gaps in the awareness within their organizations for such risks and they criticize the fact that cyber risks are perceived to be IT problems rather than business risks.

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

**CHIEF INFORMATION OFFICER**

In view of the ever increasing number of risks and their increasing complexity, it is low hanging fruit to delve a bit deeper into how this has impacted the activities of audit committees. Questions on the availability of time and expertise are generally answered positively. Nonetheless, just about half of all respondents indicate that both are becoming an ever increasing challenge.

### TIME AND EXPERTISE

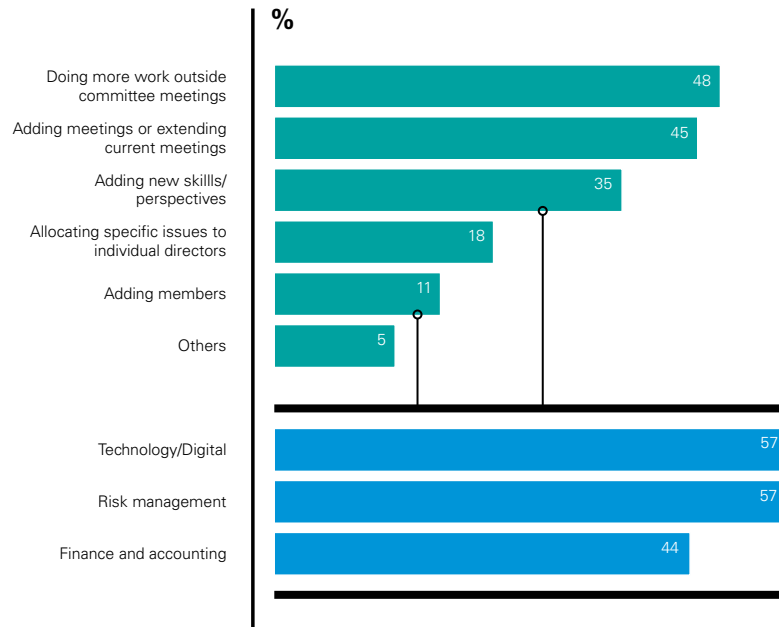


Are you satisfied that your audit committee has the time and expertise to oversee the major risks on its agenda in addition to carrying out its core oversight responsibilities?



Audit committees solve this by performing certain tasks outside the actual meeting, planning extra meetings and by extending already planned meetings.

### WORKLOAD



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

Very often, they strive to address the new duties of digitalization and risk management by adding new audit committee members.

*„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.“*

**AUDIT COMMITTEE CHAIRPERSON**





Upon asking what could be done to improve one's own activities, the topic "understanding the business" won hands down.

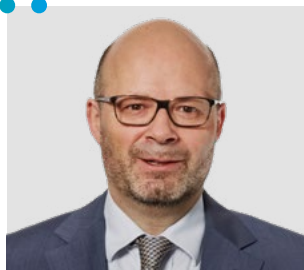
#### IMPROVING OVERALL EFFECTIVENESS



This is certainly normal since only a profound understanding of the business activity will enable the identification of relevant risks. This includes on-site visits and contact with employees and customers, as some answered.

It is only upon expanding topically into the forays of technology, but also M&A and by allowing diversity in the wider sense that Management's decisions can be questioned critically.

Last but not least, time is also a factor that is very much needed to familiarize oneself with new developments. This time is sometimes hard to find in busy audit committees' calendars. The wish to hold in-depth conversations more frequently in order to share knowledge and experience between the members of audit committees should be granted. It is the duty of the chairperson of the respective board of directors but also of the entire board to foresee the necessary room for such discussions in the meeting agenda.



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#### SOURCE

All graphs and citations come from the study, "Keeping pace with disruptive risk and digital transformation – 2019 Audit Committee Pulse Survey", published by the KPMG-Board Leadership Center in August 2019.

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