DIRECTORS QUARTERLY

Insights from the KPMG Board & Governance Institute

January
First Edition 2021

Foreword

2021 stands to be a pivotal year for many companies. Corporate plans, reputations, and resilience will be tested in an uneven economic recovery. Changing stakeholder expectations also mean that companies need to carefully balance their near-term focus with long-term thinking. Companies will need to fine tune their strategies continuously, and enhance their (and the board's) readiness for the risks and opportunities ahead. What are some lessons that the company—and the board—can take from 2020 to position itself for the future?

In this edition of Directors Quarterly, we share a list of considerations that should be high on board and audit committee agendas for the year ahead. We also share key geopolitical trends for 2021, and critical risk areas that Internal Audit needs to consider. Finally, we share main findings from our latest Global Female Leaders Survey.

2020 was an unprecedented year but as vaccine rollouts in several countries continue, there is hope that we are finally seeing light at the end of the tunnel. Our best wishes for the new year ahead.

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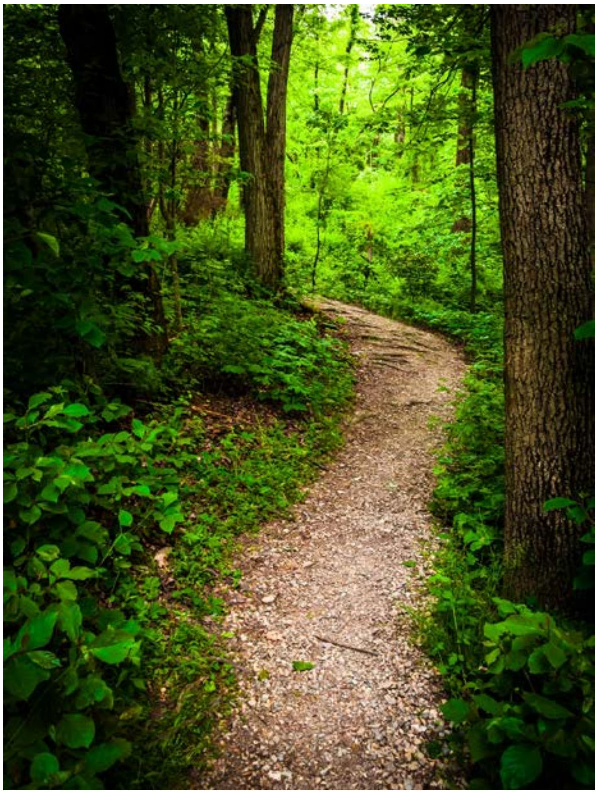
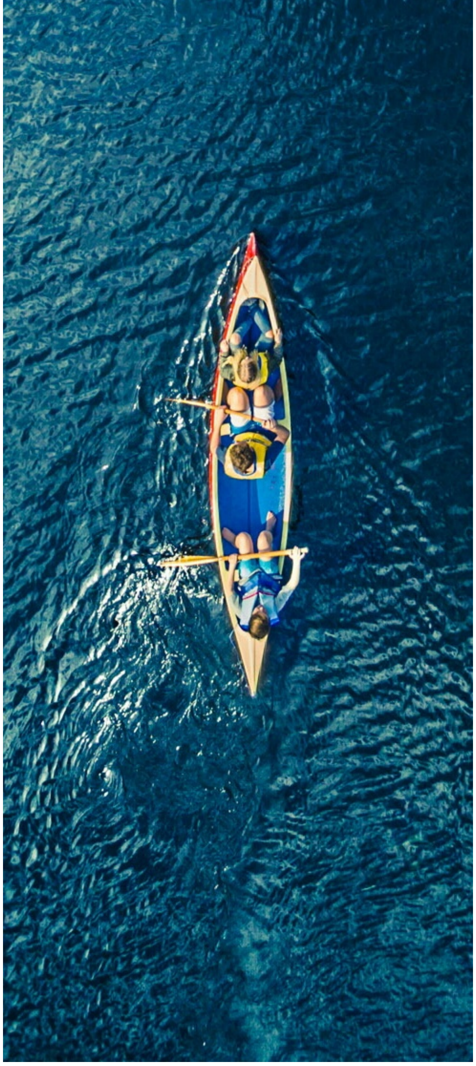


WHAT'S INSIDE

On the 2021 Board Agenda

Insights from our work and conversations with directors and business leaders on some key issues that boards should note as they approach and execute their 2021 agendas.



Maintain focus on management's response to COVID-19, while keeping sight of the bigger picture. Navigating the uncertainty will require a sharp focus on people, liquidity, operational risks, and contingencies while keeping sight of the bigger picture: strategy, risk, and resilience.

Re-evaluate the company's focus on ESG and corporate purpose. Is there a clear commitment and strong leadership from the top as well as enterprise-wide buy-in?

Be proactive in engaging with stakeholders. In light of COVID-19, transparency, authenticity, and trust (or lack thereof) are increasingly important themes for engagement with stakeholders.

Make human capital management and CEO succession a priority. Deepen the board's understanding of the company's HCM strategies and help ensure that the company is well prepared for CEO and key management personnel changes**.**

Help set the tone and monitor the culture throughout the organisation. Take a more proactive approach to understanding, shaping, and assessing corporate culture.

Build the talent in the boardroom around the company's strategy and future needs. Board composition and diversity should remain a board focus area in 2021.

Reassess whether crisis readiness and resilience plans are effectively linked to the company's key risks. Are the company's risk governance processes keeping pace with its changing risk profile?

Approach cybersecurity and data privacy holistically as data governance. Boards need to ensure that their organisations' data and information assets are managed consistently and used properly.

Factor emerging and disruptive technologies into the boards thinking around strategy and risk. Where disruptive technology is identified as a risk management opportunity, does the business have the right skills to deliver on it?

Strengthen tax governance and unlock process enhancement opportunities. Boards can look at helping their organisation better manage key tax governance risks.

Click [here](#) to read the full agenda.

On the 2021 Audit Committee Agenda

Drawing on insights from our work and conversations with directors and business leaders, we have highlighted some key issues for audit committees as they approach and execute their 2020 agendas.

Maintain focus on the corporate reporting and control implications of COVID-19. Forecasting and disclosures as well as internal control over financial reporting will be key focus areas for ACs.

Understanding the impact of COVID-19 on the external audit process. ACs should discuss with the auditor the challenges and risks of conducting the audit remotely, and also understand the changes to the audit process as a result of COVID-19.

Oversee the scope and quality of the company’s ESG reports and disclosures. ACs should also ask what controls are in place to ensure the quality of the ESG information being disclosed.

Understand how technology is impacting the finance function’s talent, efficiency and value-add. 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 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 programs. The company’s regulatory compliance and monitoring programs are may need updating. These should cover all vendors in the global supply chain, and clearly communicate the company’s expectations for high ethical standards.

Click here to read the full agenda.

Geopolitical Risk Outlook 2021

What should you watch out for in 2021?

Just as 2020 was about healthcare responses to COVID-19, 2021 will overwhelmingly be about economic responses to the COVID-19 crisis, even as vaccines roll out and the healthcare emergency fades. As economic issues come to the fore, there is no global leadership on political models, trade standards, and international architecture to follow. The following 10 geopolitical risks are most likely to play out over the course of the year:

1. **46***: Joe Biden won the 2020 presidential election but his presidency will face both structural and legitimacy challenges. The major risks of 46* are domestic, but the consequences of no-holds-barred party warfare extend beyond America's borders.
2. **Long COVID**: Countries will struggle to meet vaccination timelines, and the pandemic will leave a legacy of high public debt, displaced workers, and lost trust. Governments will grapple with the impact of COVID-19's economic blow, debt increases, and thinner social safety nets.
3. **Climate: net zero meets G-Zero**: In 2021, beyond the headlines, the energy transition will be dominated by competition and a lack of coordination globally.
4. **US-China tensions broaden:** Following Trump's exit, the US-China relationship will not be as overtly confrontational. However, efforts by the US to enlist allies, vaccine diplomacy, and climate tech competition will further complicate US-China relations.
5. **Global data reckoning:** Growing data protectionism and sovereignty will slow down or halt the flow of sensitive data across borders. This will disrupt business models that rely on free flows. App bans and other issues will hamper global cooperation on public health and climate challenges.
6. **Cyber tipping point:** A combination of low-probability, high-impact risks and inexorable technology trends make 2021 the year that cyber conflict will create unprecedented technological and geopolitical risk.
7. **(Out in the) cold Turkey:** As geopolitical pressures drive Turkey's financial risk premium higher, the odds of a balance-of-payments crisis will rise.
8. **Middle East: low oil takes a toll:** Energy prices will remain low, keeping the pressure on governments. Many will cut spending, damaging nascent private sectors and fuelling unemployment.
9. **Europe after Merkel:** Angela Merkel has been Europe's most important leader. Her departure later in 2021 after 15 years as chancellor drives the continent's top risk.
10. **Latin America disappoints:** As they emerge from the pandemic, countries in Latin America will face sharper versions of the political, social, and economic problems they were confronting before the crisis.

Source: [Eurasia Group's Top Risks For 2021]

Internal Audit: Key risk areas 2021

Without a question, the COVID-19 pandemic and a series of unprecedented natural disasters and civil unrests, have defined a new business normal for years to come. These developments are accompanied by emerging risks that Internal Audit (IA) should take into consideration in its annual plan without neglecting key established risks.

Here are some key risks that IA should be looking into:

1 **Business resilience –** Is there evidence of the governance around crisis decision-making?

2 **Staff well-being and talent management –** Is there evidence that the business understands and is forecasting the future skills, competences and attitudes required?

3 **Fraud and the exploitation of operational disruption –** Have potential fraud risks been identified? Are established controls still in place and operating effectively?

5 **Climate change: the next crisis –** Has IA assess how prepared their companies are for the climate crisis and what actions they are taking?

4 **Third-party management: supply chain disruption and vendor solvency –** Is there a holistic view towards third-party risk management, beyond contract management?

6 **Culture and behavior & Soft Controls –** Has culture and soft control audits been conducted?

7 **Cyber security and data privacy in the expanded work environment –** Has the increased risk of data leakage or security breaches been properly assessed?

8 **Regulatory driven risk –** Has IA assessed the organisation’s compliance with relevant regulatory laws and regulation?

9 **Digitalisation and Intelligent automation –** Have the appropriate governance and control frameworks been developed for technologies?

10 **Data management and data & analytics –** Has IA identify the possibilities and risks of integrating technological capabilities into their business operations and strategies?

Click here to read the full report.

KPMG 2020 Global Female Leaders outlook

Contrary to the opinion of analysts, female leaders surveyed in our latest study are less pessimistic about COVID-19's impact on women. Instead, they are of the view that the crisis may create new opportunities for women as a result of improved digital communication, advances in technology and changes in stakeholder expectations. Some key findings:

Female leaders are:

Embracing change, yet realistic about the new reality

80% state that the their company's digital transformation projects **have been accelerated** in response to the crisis.

87% agree that companies operating and thriving in the digital economy will be the **true winners** against the backdrop of the crisis.

58% remain **confident** about their companies' growth prospects over the next 3 years.

Making a positive impact

42% say that sustainability issues/activities to reduce climate change will be **even more important** for strategic decisions post-COVID-19.

58% want to **lock in** sustainability and climate change gains made as a result of the crisis.

Assessing COVID-19 as a potential equaliser for gender equality

59% believe their personal communication with employees **has improved** during the crisis.

41% say that the **crisis will not have** an impact on their career.

41% say that progress and diversity and inclusion **won't slow down** after the pandemic.

Global Female Leaders said that **being a visionary, innovative and strategic thinker,** tops the list of personal strengths necessary to overcome the COVID-19 crisis.

But to 92% of Global Female Leaders, we are still **a long way** from **gender diverse** boards and management teams.

Click here to read the full report.

Recent regulatory developments

Enhanced rules for auditors, valuers and valuation reports

On 12 January 2021, Singapore Exchange Regulation (SGX RegCo) announced enhancements to listing rules governing the dealings of auditors and valuers with listed companies. Primary-listed issuers will be required to appoint an auditor registered with the Accounting and Corporate Regulatory Authority (ACRA) to conduct statutory audits. SGX RegCo also announced changes to rules on qualifications of property valuers and standards for property valuation reporting. These listing rule changes take effect from 12 February 2021.

Resources

SINGAPORE Illustrative Financial Statements 2020 illustrates best practices for financial statement disclosures that comply with the Singapore Companies Act, Singapore Financial Reporting Standards (International) [SFRS(I) and the Singapore Exchange Limited Listing Manual for companies with a financial year ending 31 December 2020.

About KPMG Board & Governance Institute (BGI)

The KPMG Board & Governance Institute (BGI) champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programmes and perspectives — including KPMG's Audit Committee Institute (ACI) and more — KPMG BGI 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, KPMG BGI delivers practical thought leadership — on risk and strategy, talent and technology, globalisation and compliance, financial reporting and audit quality, and more — all through a Board lens.

Learn more at http://kpmg.com.sg/bgi.

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