



Asia-Pacific Board Leadership Centre Webinar

Board and Audit Committee Priorities 2021

7 May 2021





Board priorities 2021





Results from our Poll

Poll Questions:

1. Please select the top three risks you may expect to face within the next 12 months?

*Based on responses over 400 webinar attendees at KPMG Asia-Pacific Board Leadership Centre Webinar



Did COVID-19 change the world and how it operates?

CNBC
IMF slashes its forecasts for the global economy and warns of soaring debt levels
PUBLISHED WED, JUN 24 2020-9:00 AM EDT | UPDATED WED, JUN 24 2020-10:54 AM EDT

Bangkok Post
Ministry advises locals in risk areas to work from home
PUBLISHED : 15 APR 2021 AT 09:28

Republic of the Philippines
PNA
PHILIPPINE NEWS AGENCY
Vaccination of 'general populace' might start in August
By Lade Jean Kabagani April 29, 2021, 6:58 pm

CNBC
IMF increases global growth forecast, says crisis end is 'increasingly visible'
PUBLISHED TUE, APR 6 2021-8:31 AM EDT | UPDATED TUE, APR 6 2021-10:55 AM EDT

THE EDGE MARKETS
MAKE BETTER DECISIONS
Highlight
Malaysia expected to cross high-income threshold by 2025 — World Bank

THE WALL STREET JOURNAL.
Travel Boom Coming, Expedia CEO Says: 'Hotels Will Come Screaming Back'
By [Chip Cutter](#)
April 17, 2021 9:00 am ET

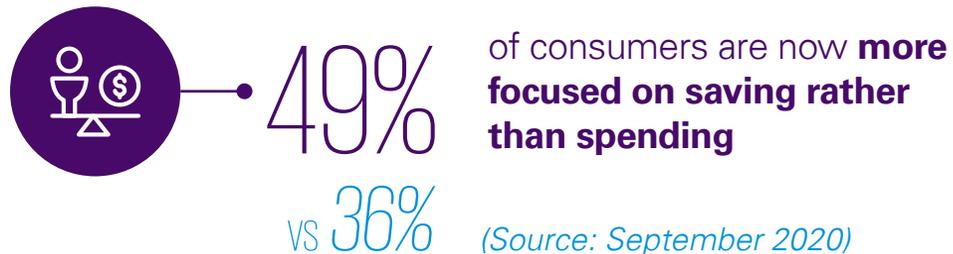
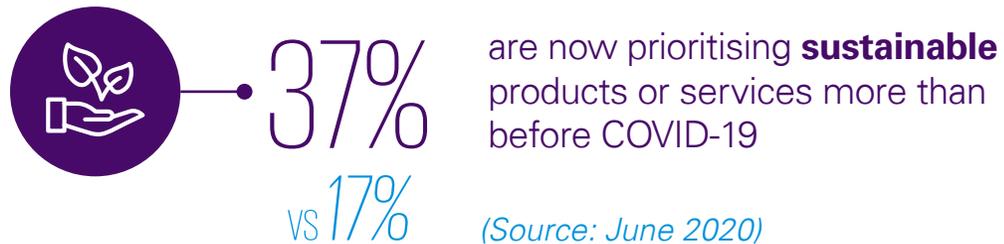
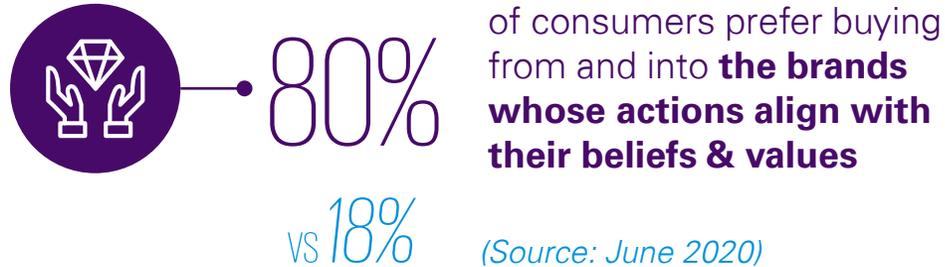
THE STRAITS TIMES
Grab's Nasdaq debut to test its US\$40 billion valuation, set roadmap for Spac hopefuls
PUBLISHED APR 29, 2021, 8:18 AM SGT

INSIDER
54 million people fell out of the global middle class last year as the K-shaped recovery went international
Ben Winck Apr 10, 2021, 1:31 AM



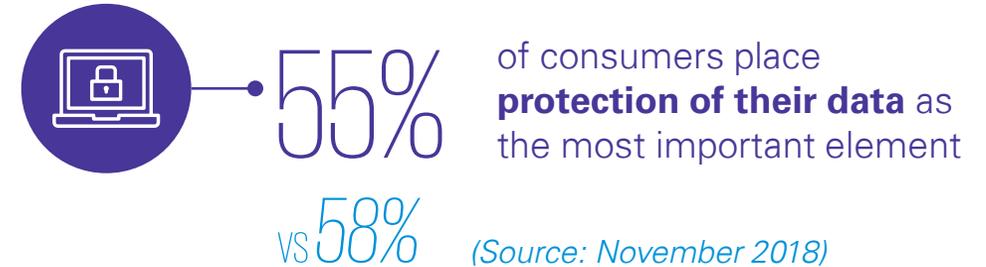
Trend highlights

Changing priorities



Source: *Me, my life, my wallet*, 2021, KPMG International; various Consumer pulse surveys, KPMG International

Consumer data protection



World's first
interchangeable boot

World's first
interchangeable boot

Same day delivery
in London

LEADING THE CHANGE TO BUSINESS MODELS

"The most important store we have in the world is .com, period."

"By 2020, we aim to generate more than 60% of our revenues through controlled space."

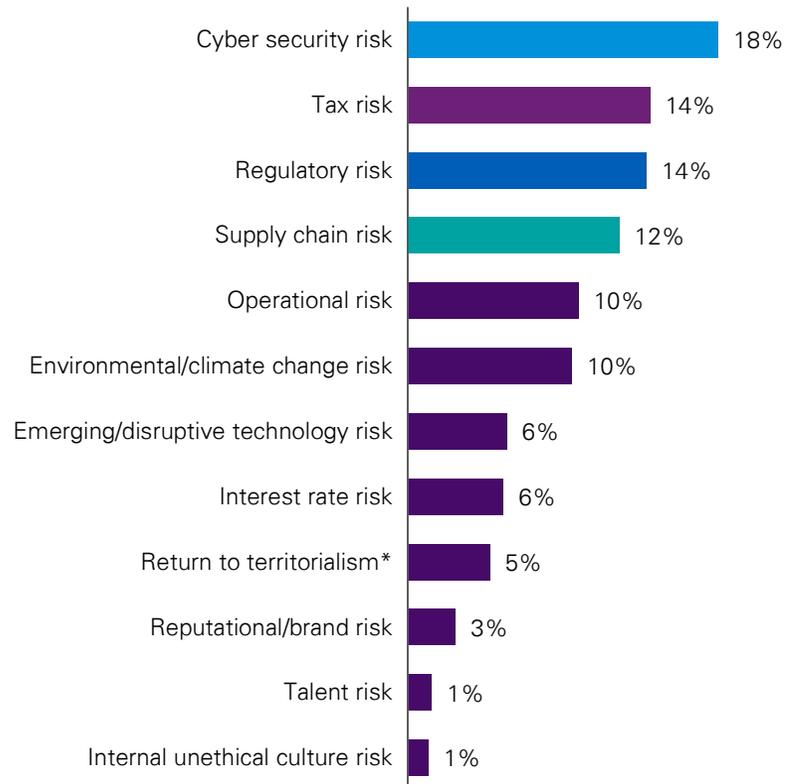
Kasper Rørsted, CEO Adidas

CEO Pulse Survey

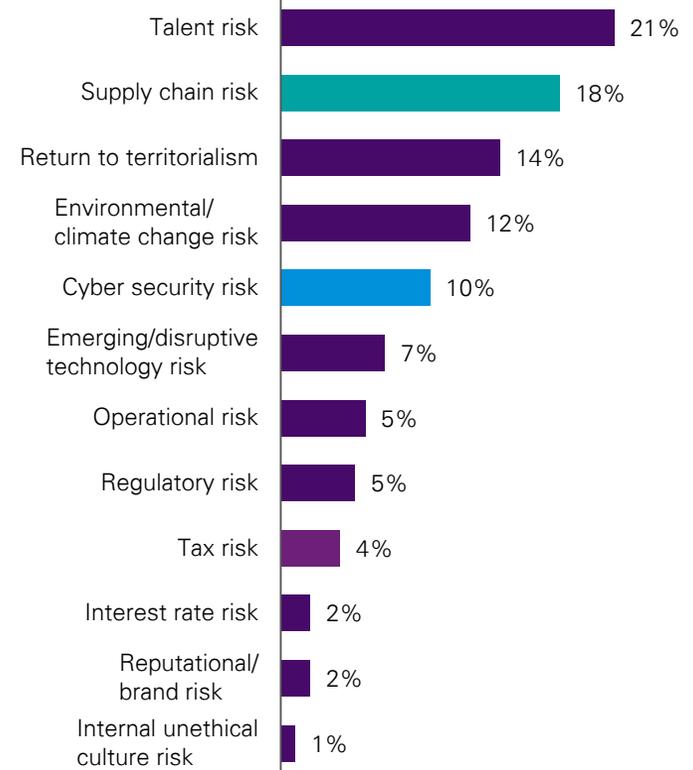
Among the key trends, cyber security risk emerged as the #1 risk, rising dramatically from #5 place in August 2020.

Also rising significantly among CEO priorities: regulatory risk and tax risk tied for second place, while supply chain risk remains key to CEOs, at third place in 2021.

Greatest risk to growth today (Feb/Mar 2021)

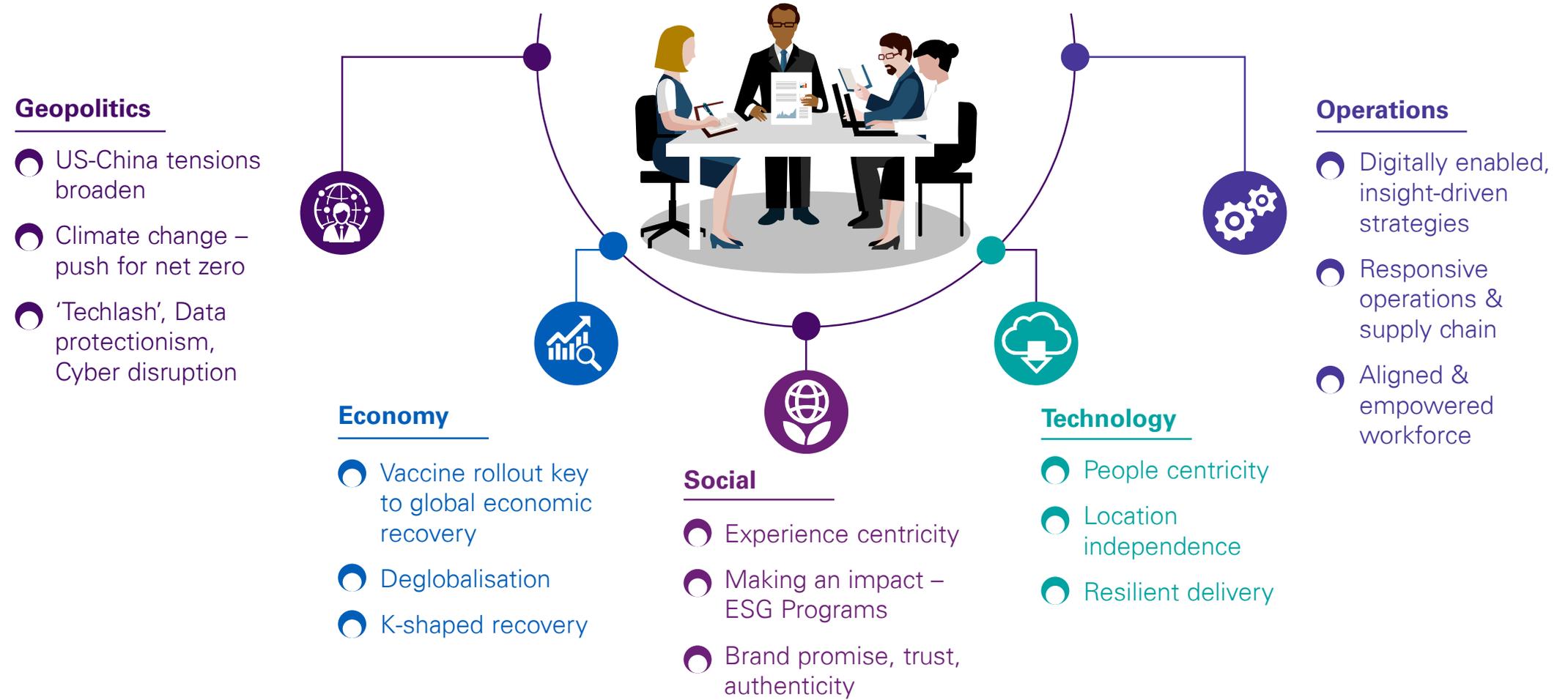


Greatest risk to growth (July/Aug 2020)

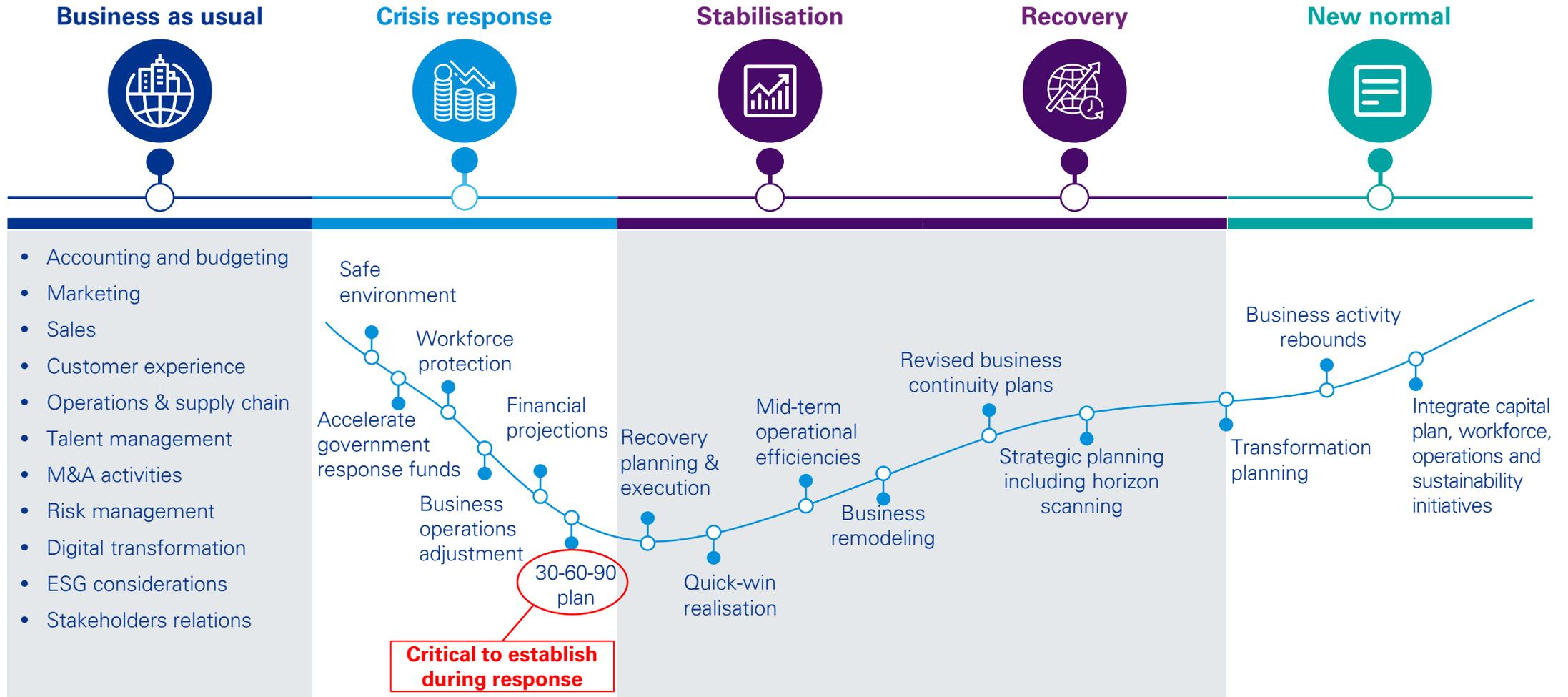


Sources: KPMG 2021 CEO Outlook Pulse Survey and KPMG 2020 CEO Outlook COVID-19 Special Edition

Forces that will shape business models in 2021



Recovering from a crisis - never waste a good crisis



What's on the 2021 Board Agenda



KPMG
On the 2021 Board agenda
KPMG Singapore Board & Governance Institute

COVID-19, recession, global volatility – driven by trade and geopolitical tensions, resurging debt, technology and business model disruption, elevated cyber risk and regulatory scrutiny – all paint a picture of a daunting and opaque business and risk environment for the year ahead. The pressure on employees, management, boards, and governance will be significant.

Drawing on insights from our work and conversations with directors and business leaders, we have highlighted 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

COVID-19 will continue to redefine business as usual for nearly all companies – and their boards – regardless of industry, size, or geography. All leaders will face significant disruption and uncertainty – grappling with how to reopen, the implications of managing remote workforces, accelerating digital transformation, building more resilient supply chains, and strengthening connections with customers in the months to come.

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.

There are increasing stakeholder demands for clearer disclosure of how the company is addressing ESG risks and opportunities – particularly climate change and diversity. Which ESG issues are of strategic significance (i.e. key to the company's long-term performance and value creation)? How is the company embedding ESG into its core business activities (strategy, operations, risk management, incentives, and corporate culture)? 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. Boards and management must think about engaging not only with shareholders but with their own employees, customers, suppliers, and community stakeholders. Boards should request periodic updates from management about engagement practices: Do we know who our largest shareholders and key stakeholders are, and do we understand their priorities?

Make human capital management and CEO succession a priority

To gain better oversight of human capital management (HCM), some boards are changing the nominating committee (or another board committee) with oversight of talent development and related HCM issues. Boards will want to discuss with management the company's human capital resources initiatives. These discussions can deepen the board's understanding of the company's HCM strategies and better integrate HCM into the board's agenda and priorities.

The board should help ensure that the company is well prepared for CEO and key management personnel changes. If the business and strategy have changed as a result of the impact of COVID-19, the board should ensure that the desired profile of a new CEO has been updated accordingly. There may be changes in the succession pipeline, with some skills becoming more important. Also, how does the board get to know senior executives in the leadership pipeline – particularly given the limitations of a remote work environment?

Help set the tone and monitor the culture throughout the organisation.

COVID-19 has increased the risk of ethics and compliance failures, particularly given heightened fraud risks. Boards are taking a more proactive approach to understanding, shaping, and assessing corporate culture. Culture and strategy are

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Never waste a crisis



Maintain focus on management's response to COVID-19, while keeping sight of the **bigger picture**.
(Back-testing)



Help set the **tone** and closely monitor the **culture** throughout the organization.
(Resilience)



Strengthen **tax governance** and unlock **process enhancement** opportunities.
(Supply chain)

Build business continuity & resilience



Approach cybersecurity and data privacy holistically as **data governance**.
(Building trust)



Factor **emerging and disruptive technologies** into the boards thinking around strategy and risk.
(Risk Management)



Reassess whether **crisis readiness and resilience plans** are effectively linked to the company's key risks.
(DRA – connectivity and interdependency of risks)

Engage smartly & grow responsibly



Be **proactive in engaging** with stakeholders.
(Changing preferences n experiences)



Re-evaluate the company's focus on **ESG and corporate purpose**.
(Rediscovery of purpose)



Build the **talent in the boardroom** around the company's strategy and future needs.
(Effective oversight)



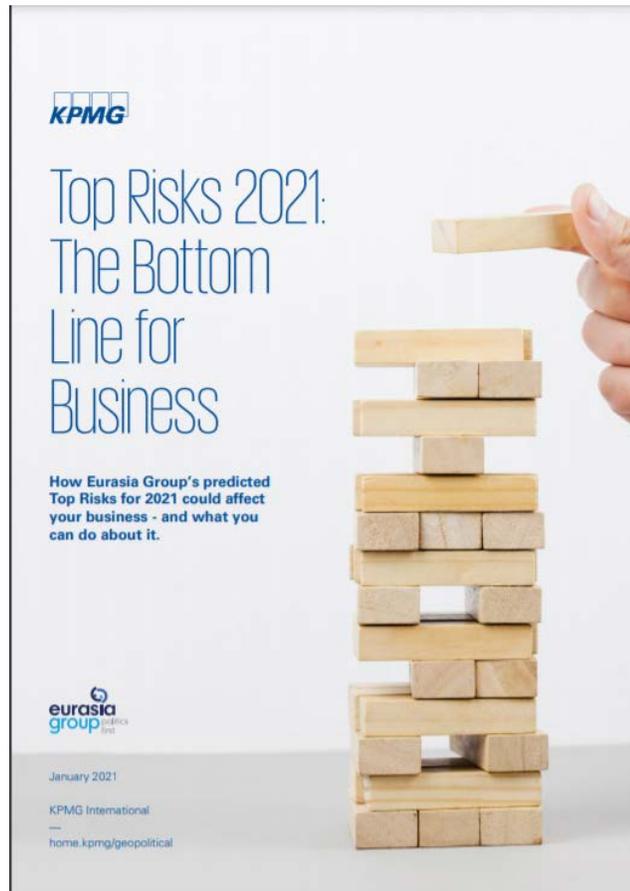
Make **human capital management and CEO succession** a priority.
(Future-proofing)



Top Geopolitical Risks 2021



Top Geopolitical Risks 2021



G-E-T: Geopolitics, ESG & Technology



US Leadership

Long COVID

Climate competition

US-China tensions

Global data fragmentation



Cyber tipping point

Economic Crisis in Turkey

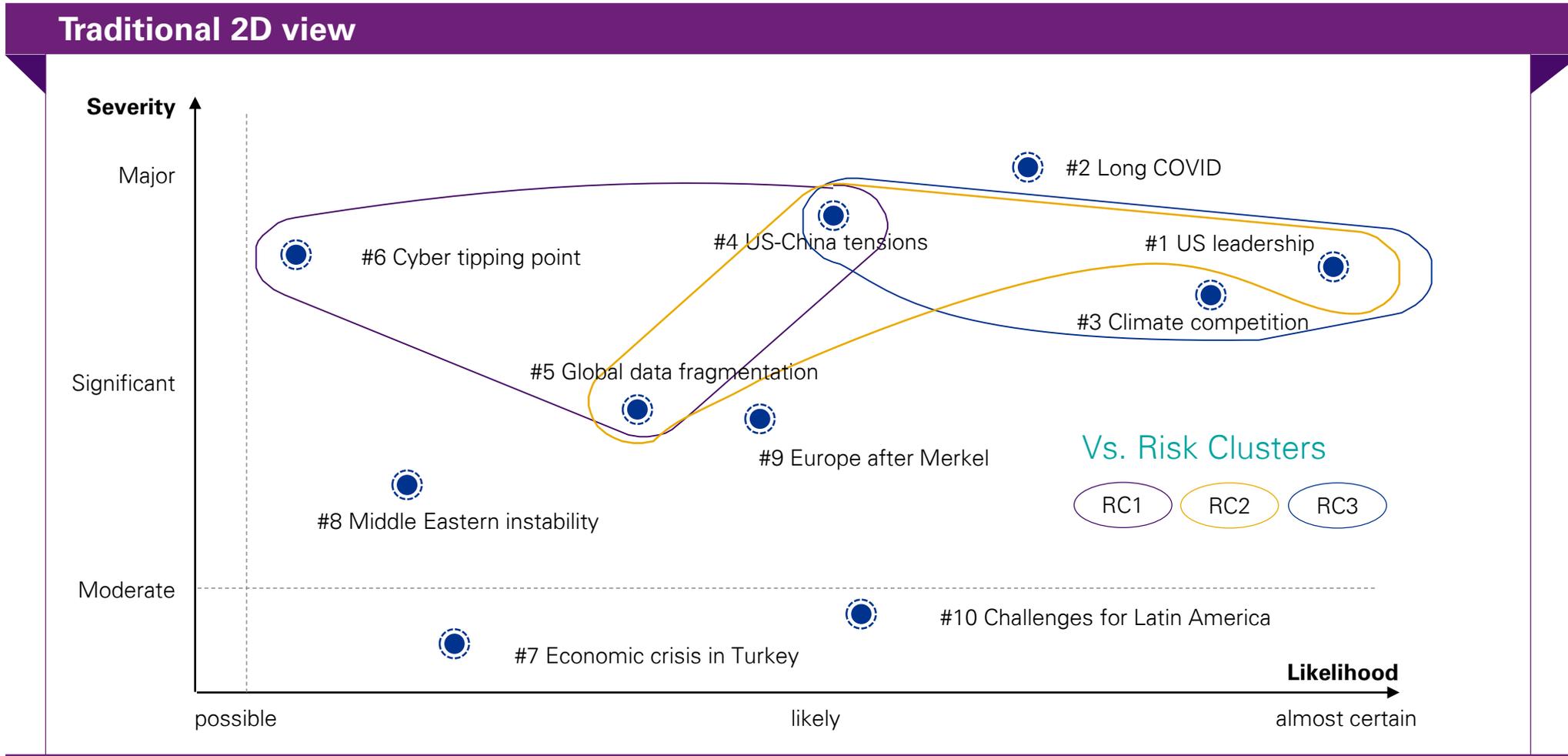
Middle Eastern instability

Europe after Merkel

Challenges for Latin America

Source: [Top Risks 2021: The Bottom Line for Business](#)

Top Risks 2021: 4D version



Top Risks 2021

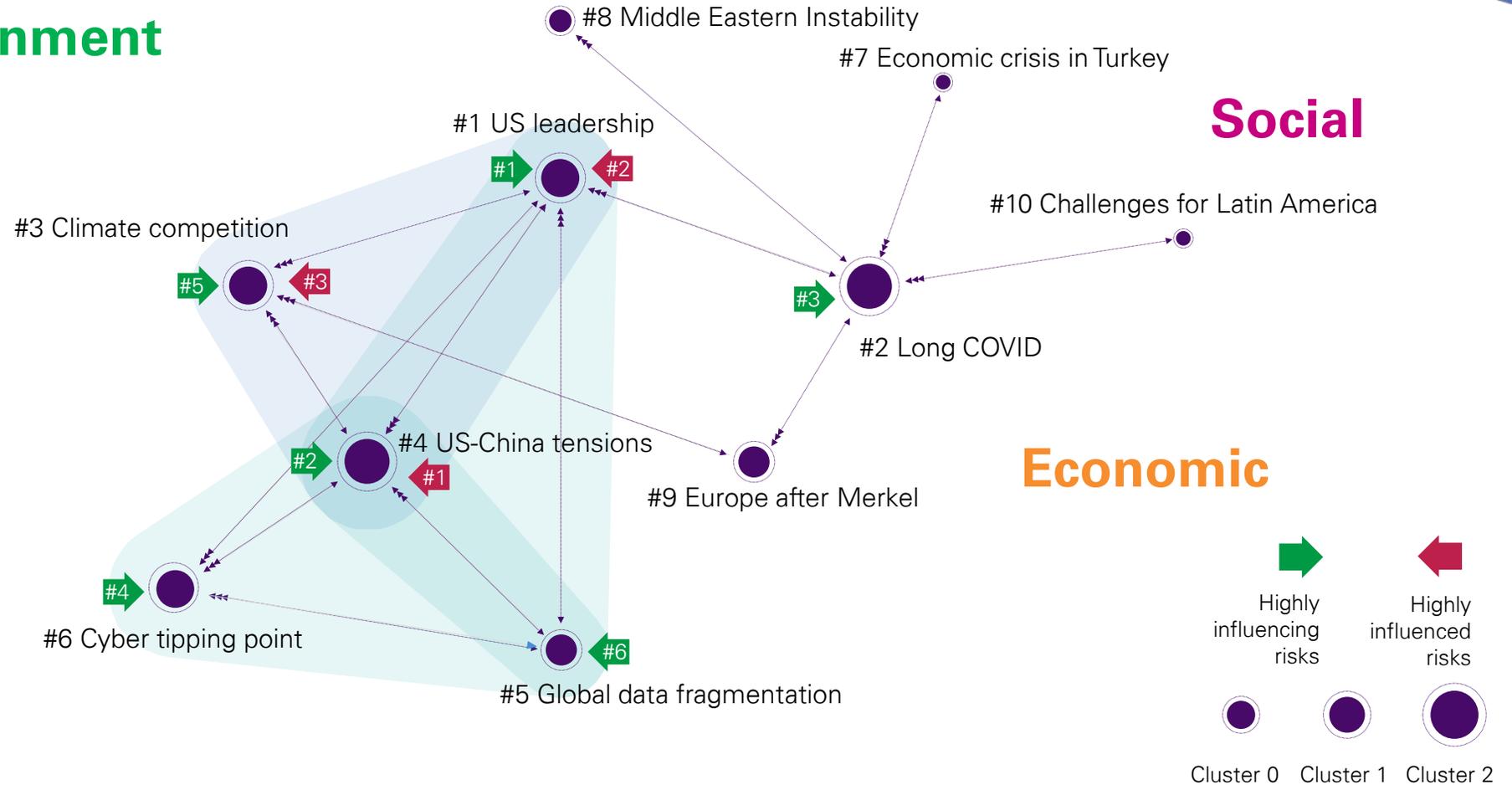


Environment

Social

Economic

Technology

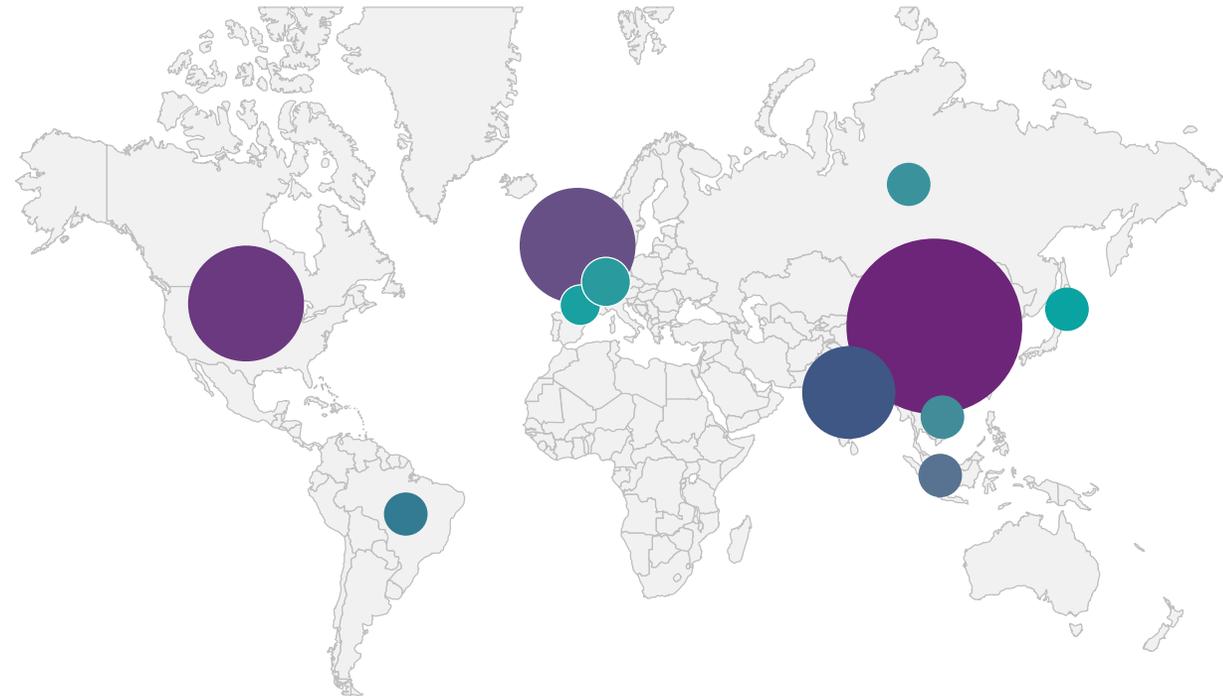
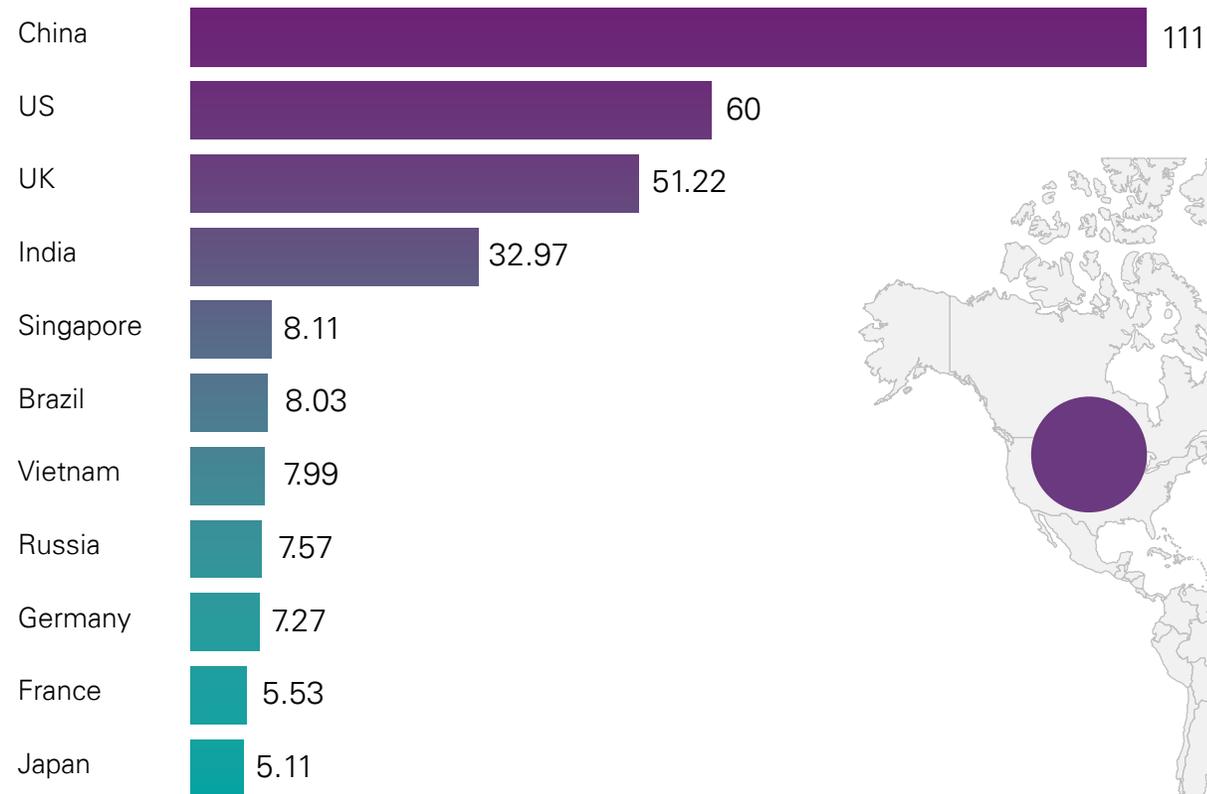


Technology: Data



Countries with the most cross-border data

million Mbps, 2019



Technology: Cybersecurity



No end in sight for cyber disruption



Destructive attacks



2010

2011

2012

2013

2014

2015

2016

2017

2018

2019

2020

2010: Chinese hackers penetrate the source code repositories of dozens of major technology companies and defense contractors (Operation Aurora)

2014: Chinese hackers penetrate the US office of Personnel Management, obtaining personal data on millions of US government employees, including workers with top secrets security clearances

2014: North Korean hackers penetrate Sony Picture's email network and release data in retaliation for movie making fun of Kim Jong-un

2016: Likely Russian hacker group the shadow Brokers publishes stolen NSA hacking tools

2016: Russian cyber actors hack into the email accounts of the Democratic National Committee and Hillary Clinton campaigns as part of US election Interference operations

2017: Chinese hackers revealed to have infiltrated dozens of companies via compromised managed service providers (Operation Cloudhopper)

2020: SolarWinds supply chain hack exposes up to 18,000 organizations, including US government agencies and major companies



Espionage

Environment



Net zero: by country

 In law	 Proposed legislation	 In policy document	 Under discussion	 NO Stated Intent
Sweden	EU	Finland	China	India
UK	Spain	Austria	US	Russia
France	Chile	Iceland	Brazil	Australia
Denmark	Fiji	Japan	Italy	Indonesia
New Zealand	Canada	South Korea	Mexico	Saudi Arabia
Hungary		Germany	Netherlands	Turkey
		Switzerland	Argentina	
		Norway	Peru	
		Ireland	Greece	
		South Africa	Tanzania	
		Portugal	ORC	
		Costa Rica	Belgium	
		Slovenia	Pakistan	
		Marshall Islands	Bangladesh	
			Colombia	
			Angola	

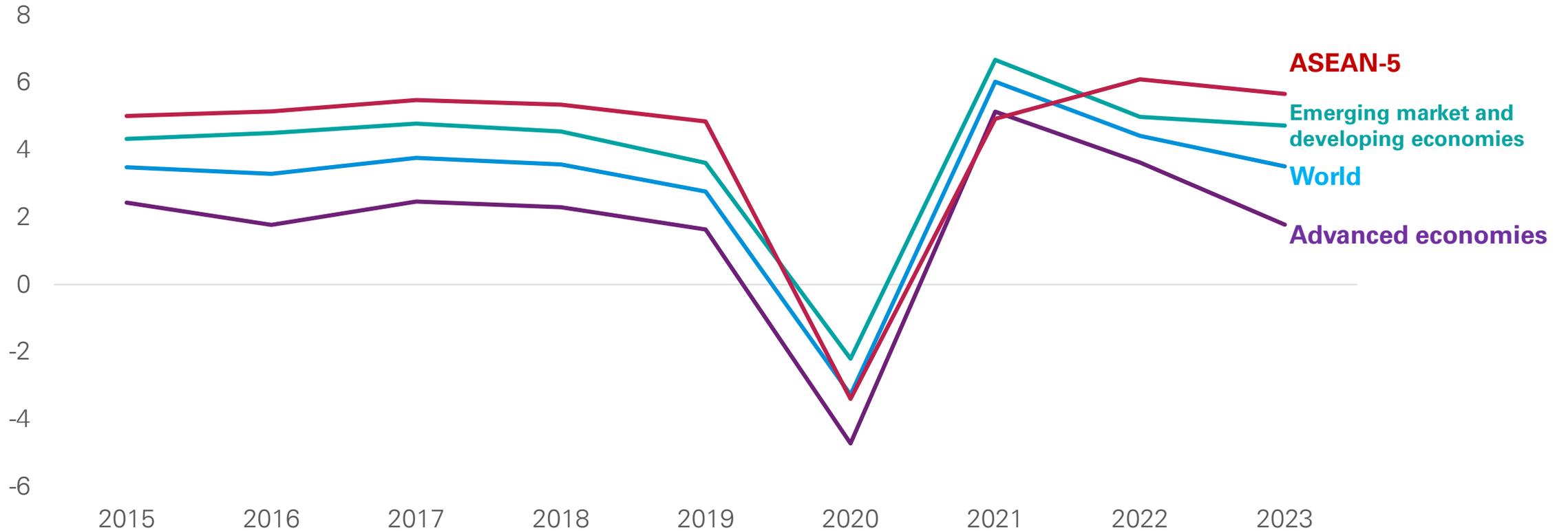
as at Jan 2021

 G20 countries

 Source: Eurasia Group, ECIU

Economic

Economic recovery in the region

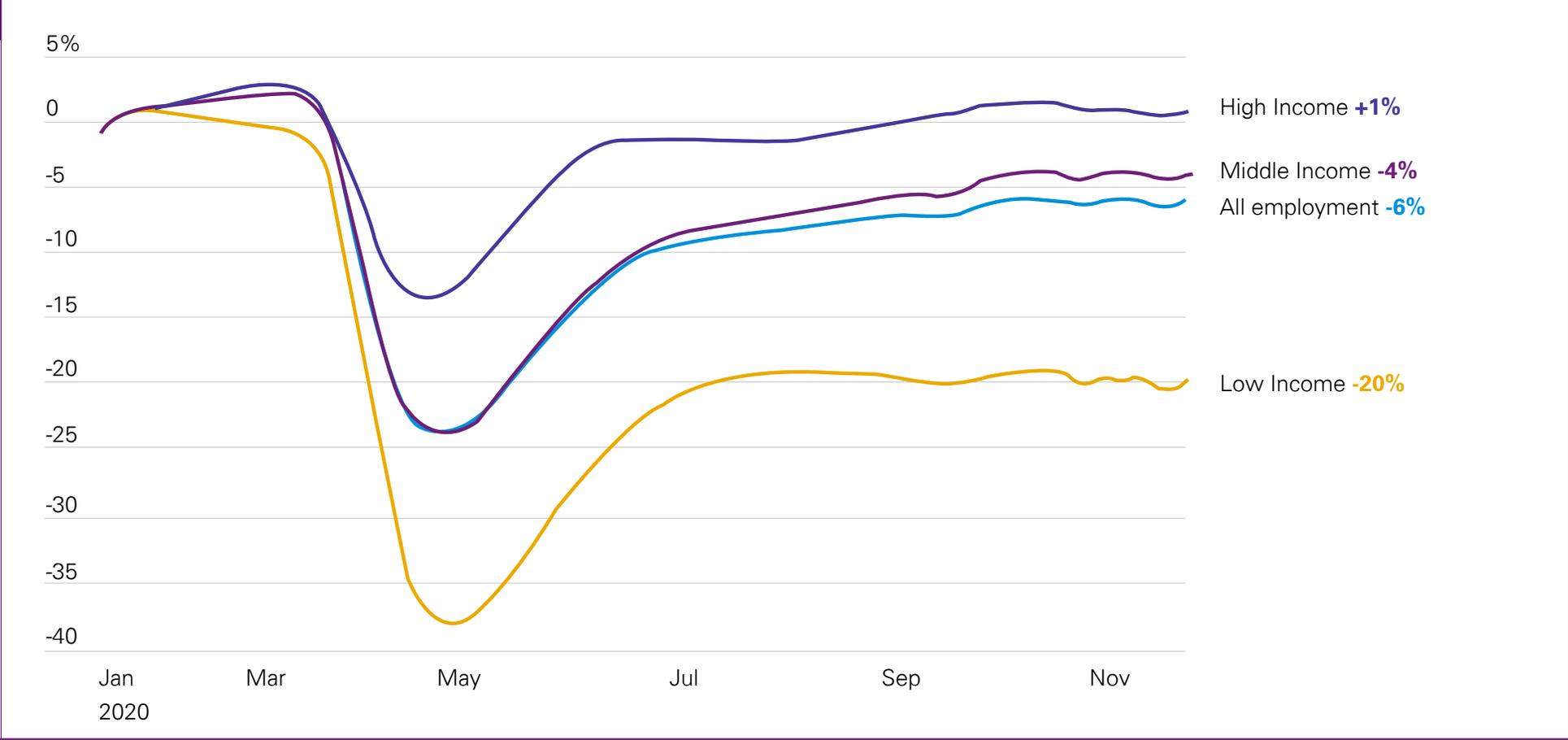


Source: IMF, April 2021

"ASEAN-5" refers to Indonesia, Malaysia, the Philippines, Singapore, and Thailand.



Changes in US employment



Actions for Boards

Keep tabs on geopolitical risks



- Conduct geopolitical risk assessments as part of **due diligence workflows**
- Conduct **regular geopolitical risk assessments** in order to detect and respond to geopolitical changes before these negatively impact the company.

Focus on the horizon and long-term value



- Board should consider **long-cycle trends e.g. populism, nationalism, globalism, megatrends etc. and the resulting impacts.**
- Management should be focused on short-cycle impacts (keystone events/proactive engagement).

Analyse and plan with flexibility



- Scenario analysis and Contingency planning: the key is to separate the **knowns from the unknowns** in order to have a manageable set of **possible business responses**



Audit Committee priorities 2021





Results from our Poll

Poll Questions:

2. Please select the top three challenges of AC Oversight role in this more complex environment:

*Based on responses over 400 webinar attendees at KPMG Asia-Pacific Board Leadership Centre Webinar



Audit Committee Study Report 2020

“ This is the **first full-year audited results since the removal of quarterly reporting in early 2020**. So there could be much more interest in these results than before... This is also the **first set of audited financial numbers that will reveal how severe an impact COVID-19 would have had on different businesses over the full year**.

Closing remarks by Tan Boon Gin, CEO of SGX RegCo, at the ACRA-SGX-SID Audit Committee Seminar, 12 Jan 2021



Ranked **“going concern and liquidity”** as their top concern, alongside impairment of asset values and internal controls



Responded that **issues covered by ACs had expanded over time**, to include areas such as risk management and cybersecurity



Said that **time required to ensure that internal controls remain adequate and efficient has increased by 10% to 50%** due to the COVID-19 pandemic

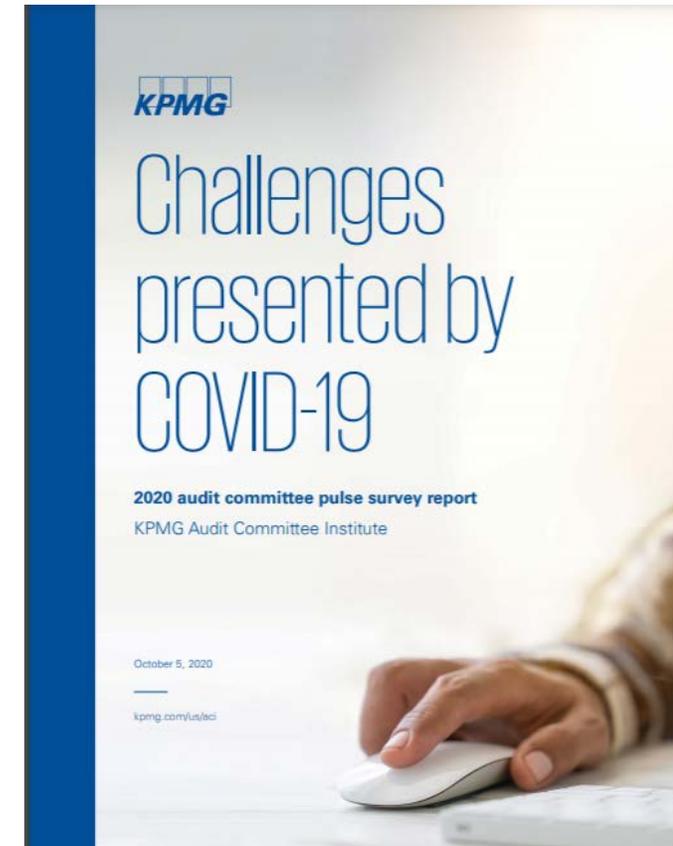
Source: [A Study on the Profile of Audit Committees of Listed Companies in Singapore 2020](#)

- (1) On 12 Jan 2021, SGX RegCo announced enhanced requirements on auditors and valuers and standards governing valuation reports that will take effect from 12 February 2021. This includes requiring all primary-listed issuers to appoint ACRA-registered auditors from financial years beginning on or after 1 January 2022 (SGX RegCo will exempt secondary-listed issuers from developed markets, and will assess other secondary-listed issuers on a case-by-case basis), expanding SGX RegCo’s administrative powers to direct appointment of additional auditor in exceptional circumstances, requiring property valuers to have at least five years of relevant experience in valuing properties in a similar industry and area as the property to be valued and specifying standards for property valuation reports.
- (2) A study on the profile of audit committees of listed companies in Singapore 2020 conducted by the Singapore Institute of Technology, commissioned by ACRA, ISCA, SGX RegCo and SID, released 12 Jan 2021.

Challenges presented by COVID-19

The KPMG Audit Committee Institute surveyed over 100 U.S. audit committee members to understand how COVID-19 is affecting audit committee oversight and operations.

- 1 Disclosures regarding the current and potential effects of COVID-19 is a top area of focus
- 2 Companies are reassessing, enhancing, or establishing new internal controls due to COVID-19-related disruption to business operations
- 3 Internal auditors are adjusting their audit plans and activities
- 4 Audit committee members expect some environmental, social, and governance (ESG) issues to get significantly more attention from the board as a result of COVID-19 and societal changes
- 5 COVID-19 has prompted many audit committees to reassess the scope of their workload/agendas and risk oversight responsibilities
- 6 Audit committee members say the remote work environment necessitated by COVID-19 has had little impact on the efficiency and effectiveness of their interactions with management and auditors.



What's on the 2021 Audit Committee Agenda



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 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.
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.

Understanding 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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-  Maintain focus on the corporate reporting and control implications of COVID-19 – going concern*, forecasting, internal controls over financial reporting
 -  Understanding the impact of COVID-19* on the external audit process – estimates, impairment of asset values, valuation
 -  Oversee the scope and quality of the company's ESG reports and disclosures
 -  Understand how technology is impacting the finance function's talent, efficiency and value-add
 -  Help ensure that internal audit remains focused on the most critical risks, including any COVID-19 risks
 -  Sharpen the focus on the company's ethics, compliance and whistle-blower programs
- *Consistent with ACRA's financial reporting practice guidance on areas of review focus under ACRA's financial reporting surveillance program

Actions for Audit Committees

Exercise vigilance over financial integrity



How have **budgets, forecasts and underlying assumptions been updated** to reflect the expectations and conditions present as at financial year-end?

Where is management using estimates in the absence of available information?

Understand key risks and clarify incoherent reporting



Is **Management Discussion and Analyses of principle risks and uncertainties** consistent with disclosures and any economic outlook provided in other parts of the Annual Report?

How has management stress-tested their assumptions?

Reinforce the right risk culture and conduct



How is management assessing the company's internal control effectiveness, considering the **effects of remote working, new suppliers, increased fraud risk and pressure to meet financial targets?**

AC should focus on the tone set by senior management.



Thank you



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