



Delivering on the ever diversifying audit committee agenda

Audit Committee Institute

Part of the KPMG Board Leadership Centre



In our 2019 pulse survey, over 1,300 board members from all over the world, including one hundred from the UK, told us about what it takes to deliver an effective audit committee – commenting on topics ranging from technology transformation to environmental, social and governance (ESG) issues. We heard about the importance of having the right people in the business, and how, as the disruptive age brings ever increasingly diverse topics to the audit committee agenda, finding the time for robust oversight can become the greatest challenge.

Challenges in the core areas of oversight

When asked to identify the top three challenges to their core oversight role the response of UK audit committee members is quite surprising.

HR is at the top of the agenda, with 70 percent of UK respondents saying that finding the ‘talent and resources needed to maintain quality reporting’ in the finance function is a top three challenge, compared to less than 30 percent globally.

Much lower down the list is the question of ‘audit quality and independence’, which is selected as a top three challenge by fewer than one in five UK respondents. And perhaps as surprising, just behind that comes ‘fraud risk’ – a priority concern for just 21 percent.

Are auditor independence and fraud risk so engrained in the minds of audit committee members that they are no longer considered challenging or is there be an expectation gap to be managed?

The impact of technology transformation

Refreshingly, and perhaps contrary to what one might have thought, when it comes to ‘technology transformation’ audit committee members are heavily focussed on ‘the people’ aspects.

UK audit committee members are increasingly concerned about the impact on the workforce with 75 percent asking, ‘in this age of technological transformation, how can businesses ensure that their talent, skills and leadership evolve to support the organisation’s analytical and strategic capabilities?’

This compares to just 21 percent asking where technology can be leveraged to automate manual activities. It seems that audit committees recognise that technology and the workforce have to transform in unison.



For more on this topic, read the full global report ‘Keeping pace with disruptive risk and digital transformation’

Top priorities for the audit committee

When asked to identify their top five priorities outside of the core audit committee responsibilities (financial reporting, internal controls and the external audit) the responses from UK audit committee members paint a fairly unique picture.

Fewer than half selected legal and regulatory compliance, which was the clear priority ‘for the ‘rest of the world’, instead favouring technology related issues including cyber, data privacy and technology change.

Gaps in managing cyber risk

UK audit committee members are relatively unconcerned by the lack of talent in the cyber arena with only one in four UK respondents citing a talent gap. However, 57 percent are concerned about the company’s ability to keep its systems up to date.

And very positively just 28 percent see cyber being siloed as an IT risk in the business compared to the much higher global figure of 41 percent.

Risk management programmes

The responses relating to risk management programmes paint a worrying picture - only two in five UK audit committee members believe that their company has a robust risk management programme in place which is capable of capturing disruptive risks. Although low, this is better than the one in five global average.

Further, we see a deterioration compared to the results reported in our 2017 survey when more than two thirds of UK responses were favourable. It seems unlikely that risk management has actually declined in quality in this time – a more likely explanation might be that the emergence of disruptive risks has exposed gaps in structures previously considered robust, and that the audit committee’s expectations are rising.

Maximising the value of internal audit

Agility and focus were priorities for optimising internal audit functions, with the ability to flex the internal audit plan, to focus it on areas of risk and to test the risk management process itself, coming out as top issues in the UK – as well as the global average.

As well as promoting flexibility, UK audit committee members stressed the importance of ‘culture’, with 43 percent of respondents suggesting that adding culture considerations to existing audits or even a discreet culture audit would help the function maximise its value, compared to just 29 percent globally.

Worryingly almost half of the global respondents consider that in order to maximise its value, internal audit needs to improve its talent and expertise, although in the UK this is lower at just 32 percent.

Improving the effectiveness of the committee

The top responses to the question of how best to improve audit committee effectiveness show that UK audit committees are holding themselves to account on all manner of capabilities.

They call out the need for:

- A broader committee: more diversity of thinking, background, perspectives and experience; as well as additional expertise on specific risk areas.
- A deeper committee: for a better understanding of the business risks and more time spent on the ground with employees and customers.
- A stronger committee: more willing and able to challenge management

But above all of these, the UK respondents call out the need for more time with 43 percent saying that more white space on the agenda for open dialogue would most improve their effectiveness.

Should companies be looking to address what the blocker to this seemingly simple requirement could be?

Environmental, social and governance (ESG) issues

As ESG continues to gain traction throughout investor networks and beyond, it is surprising to find that less than one quarter of respondents see ESG matters as important to long term performance and value creation.

Less definitive but no less interesting is that around half of UK audit committees see ESG as part of the normal risk and regulatory compliance activities – posing the question of whether ESG risk management is so well embedded into the business as to be effectively managed in that way, or whether the audit committee may in fact be misjudging the importance of ESG matters to investors, employees, customers; and the companies permission to operate.

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