



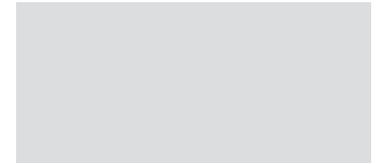
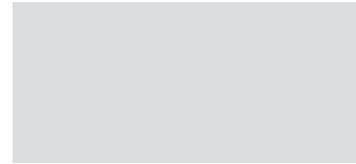
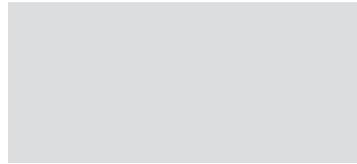
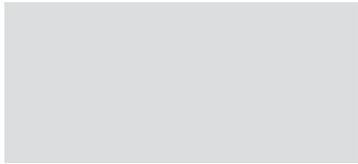
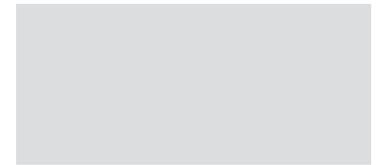
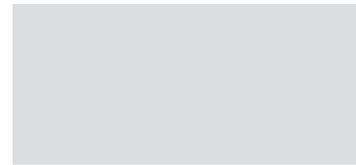
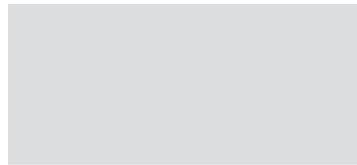
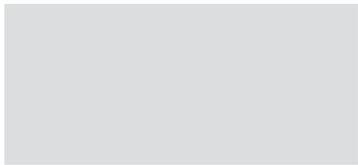
**2015 Global Audit  
Committee Survey – an  
Australian perspective**

KPMG's  
Audit Committee  
Institute

[kpmg.com/au/aci](http://kpmg.com/au/aci)

**KPMG**  
cutting through complexity

# Contents

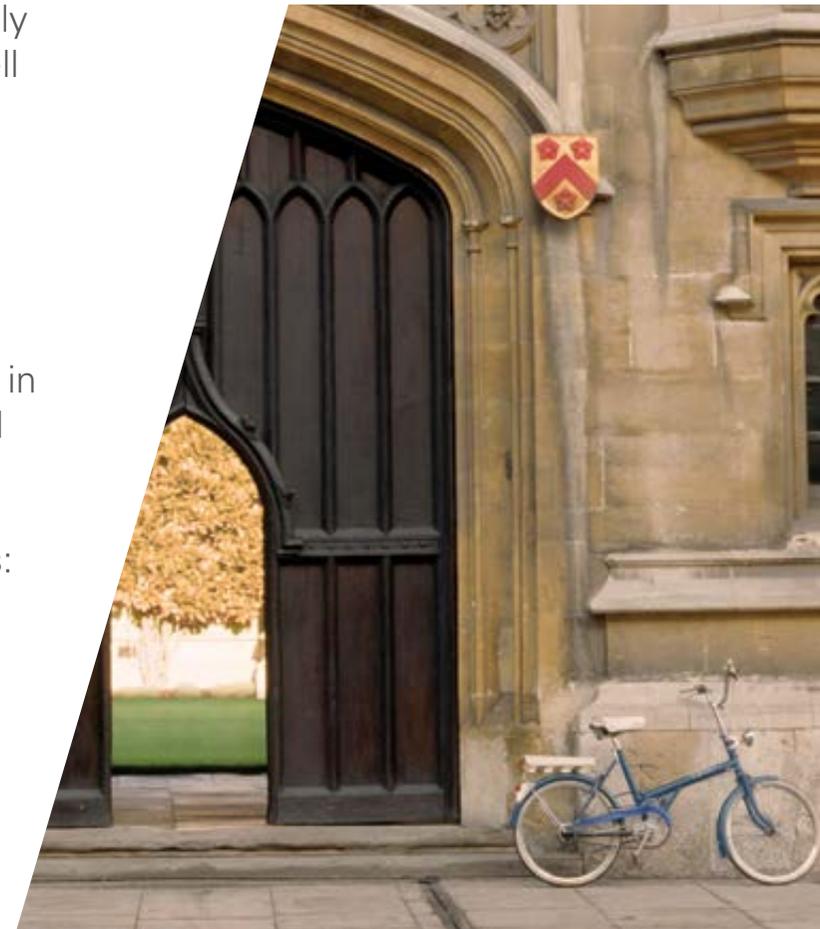


# 2015 Global Audit Committee Survey

Short of a crisis, the issues on the audit committee's radar don't change dramatically from year to year (and they probably shouldn't); but sometimes small shifts can tell a big story.

KPMG's Audit Committee Institute surveyed more than 1,500 audit committee members, including 78 Australian respondents, in 35 countries around the world on a range of timely issues, including risk and information quality, the audit committee's agenda and workload, oversight of auditors and audit committee effectiveness.

Perhaps not surprisingly, the greatest concerns nominated for companies globally in 2015 are economic and political uncertainty and volatility, cyber security, operational risk and regulation and the impact of public policy initiatives. But for many audit committees today, these headline risks are also driving a slower moving – yet critically important – trend potentially impacting the audit committee's effectiveness: agenda overload.



# Global Snapshot



**Uncertainty and volatility, regulation and compliance, and operational risk top the list of challenges facing companies today.**

Many audit committees around the world point to economic and political uncertainty and volatility, regulation and compliance, and operational risk and controls as posing the greatest challenges for their companies. It is little surprise, given the struggling global economy, ongoing geopolitical turmoil, heightened government regulation, and speed of risk and technology change.

In Australia, the pace of technology change and possible disruption to the business model also figure prominently, with the challenges posed by economic and political uncertainty not as significant when compared with many other respondents around the globe.



**Audit committees want to spend more time on risk oversight – particularly cyber security and the pace of technology change.**

In the months ahead, audit committees want to devote more – or significantly more – agenda time to overseeing the company’s risk management processes and operational risk and controls, as well as cyber security and the pace of technology change.



**The quality of information about cyber security and technology risk, talent, innovation, and business model disruption is falling short.**

Audit committee members rate much of the information they receive as good or generally good, yet many continue to express concern about the information they receive (at the committee or full board level) related to cyber risk and technology change, talent management, growth and innovation, and possible disruption to the business model. (The CIO ranks lowest in terms of quality interaction and communication with the audit committee.)

Exposure to (and readiness for) critical infrastructure failures – financial systems, telecommunications networks, transportation, energy/power – may also require more attention.



**More boards are reallocating risk oversight duties as the audit committee’s workload becomes more difficult.**

Three quarters of audit committee members surveyed say the time required to carry out their duties has increased moderately (51 percent) or significantly (24 percent); and half said that, given the audit committee’s agenda time and expertise, their role is becoming “increasingly difficult.” More than one-third of boards have recently reallocated risk oversight duties among the full board and its committees (up from 25 percent last year) or may consider doing so in the near future.

In Australia, 55 percent say the time required to carry out their responsibilities has increased moderately and 14 percent significantly.

Continued ...

# Global Snapshot



**CFO succession planning is still a major gap, and many audit committees want to dive deeper into finance issues.**

Assessments of CFO performance and interactions with the audit committee are generally viewed as effective; yet more than 40 percent of audit committee members say the committee is “not effective” in CFO succession planning (clearly a pressing issue given the rate of CFO turnover). Many audit committees would like to hear about various aspects of the finance organisation’s work—financial risk management, capital allocation, tax, debt—in greater depth.



**Views on audit reforms are mixed; and while confidence in audit quality continues to be strong, there’s still room for auditors to offer more insight.**

Across the globe, audit committee views on whether the EU’s audit reforms (including mandatory rotation) will improve audit quality vary widely, with the greatest scepticism in the United States (only eight percent view such reforms positively). The views of Australian respondents are generally consistent albeit a little less extreme than their United States counterparts.

The greatest areas for external auditors to improve their performance include: offering insights and benchmarking on industry-specific issues; helping the audit committee stay up to speed; and sharing views on the quality of the financial management team. On internal audit, audit committees are still looking for greater value.



**A deeper understanding of the business, greater diversity of thinking, more open dialogue, and IT expertise would most improve the audit committee’s effectiveness.**

Audit committees say they would be more effective in their role by having a better understanding of the company’s strategy and risks; more “white space” time on the agenda for open dialogue; greater diversity of thinking, perspectives, and experiences; and technology expertise on the committee. In terms of assessing their effectiveness, “facilitated, open committee discussion” is thought to be more effective than survey questionnaires and third-party interviews of committee members.

# Top Challenges and Concerns

**Q1** Which of the following risks (aside from financial reporting risk) pose the greatest challenges for your company? (select three)

		 GLOBAL %	 AUSTRALIA %
	Uncertainty and volatility (economic, regulatory, political)	<b>52</b>	<b>37</b>
	Government regulation/impact of public policy initiatives	<b>47</b>	<b>50</b>
	Legal/regulatory compliance	<b>33</b>	<b>22</b>
	Operational risk/control environment	<b>30</b>	<b>40</b>
	Talent management and development	<b>27</b>	<b>27</b>
	Growth and innovation (or lack of innovation)	<b>26</b>	<b>21</b>
	Pace of technology change (e.g. emerging technologies, mobile, social media, data analytics, cloud computing)	<b>21</b>	<b>32</b>
	Possible disruption to the business model	<b>20</b>	<b>27</b>
	Cyber security – including data privacy and protection of intellectual property	<b>16</b>	<b>21</b>
	Global systemic risk (pandemic, social unrest, geopolitical instability...)	<b>9</b>	<b>4</b>
	Supply chain risk	<b>7</b>	<b>10</b>
	Tax risk	<b>7</b>	<b>1</b>
	Other	<b>4</b>	<b>9</b>

# Risk and Information Quality

## Q3 Information quality needing improvement

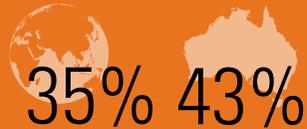
**Cyber security – including data privacy and protection of intellectual property**



**Talent management and development**



**Pace of technology change (e.g. emerging technologies, mobile, social media)**



**Growth and innovation (or lack of innovation)**



**Possible disruption to the business model**



Audit committee members rate much of the information they receive as good or generally good, yet many continue to express concern about the information they receive (at the committee or full board level) related to cyber risk and technology change, talent management, growth and innovation, and possible disruption to the business model.

In Australia, audit committees are clearly most concerned about cyber security and the pace of technology change.

Not surprisingly therefore, the CIO ranks lowest in terms of quality interaction and communication with the audit committee, both globally and with Australian respondents. Eighteen percent of Australian respondents indicate that the quality of communication with CIOs needs improvement. This compares with only 3 percent for CFOs.



## Considerations Going Forward

- Work with management to define or refine the audit committee's (and board's) information needs. Recognise when asymmetric risk – the over-reliance on senior management's information and perspective – is too high, and seek out independent sources of information and perspective.
- Is the audit committee (and board) hearing views from those below and beyond senior management – e.g., from middle management and business unit leaders, sell-side analysts and critics, and other third parties – about the risks and challenges facing the company? Are there dissenting views?
- Consider whether the board needs to recalibrate how its committees communicate and coordinate on risk oversight. Are committee chairs communicating regularly to ensure they understand what's going on in the other committees?
- Is management actively "listening to the conversation" on social media to better understand the risks, opportunities, and changing attitudes and perceptions about the company?

# Audit Committee Agenda and Workload

**Q7** To what extent has the amount of time required to carry out your audit committee responsibilities changed over the past two years?



**Q8** 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?



**Q2** How much “more” or “significantly more” agenda time should your audit committee devote to the following in 2015, compared to 2014?



Three quarters of audit committee members say the time required to carry out their duties has increased moderately (51 percent) or significantly (24 percent); and half said that, given the audit committee’s agenda time and expertise, their role is becoming “increasingly difficult.” In Australia, the responses are a little more positive at 55 percent and 14 percent respectively, with Australian audit committee members also more satisfied that their audit committees have the time and expertise to oversee the major risks on its agenda.

Audit committees in Australia want to devote more – or significantly more – time to overseeing the company’s risk management processes and internal controls around operational risks, as well as cyber security and the pace of technology change.

The clear message is that audit committee members cannot always do it all. Overseeing financial reporting and audit is a major undertaking in itself, and the risk environment is clearly straining many audit committee agendas today. More than one-third of boards have recently reallocated risk oversight duties among the full board and its committees (up from 25 percent last year) or may consider doing so in the near future.



## Considerations Going Forward

- Reassess whether the committee has the time and expertise to oversee other major risks.
- Be wary of “mission creep,” and consistently question whether new and ongoing issues belong on the audit committee’s agenda. Does cyber risk require more attention at the board level?
- Take a hard look at the board’s risk oversight approach. Does the allocation of risk oversight activities make sense in light of how the risk and regulatory environment has changed recently? Is there a need for another committee, additional expertise, or better communication and coordination on risk oversight among committees?

# Oversight of Auditors

**Q16** Will the EU's audit reforms improve audit quality?



**Q13** Where are the greatest opportunities for improvement in external auditor performance? (select three)



**Q18** How satisfied are you that your company's internal audit function delivers the value it should?



Across the globe, audit committee views vary widely on whether the EU's audit reforms – including mandatory rotation – will improve (or hamper) audit quality. Australian respondents expressed the strong view that the reforms will not help audit quality, with more than 50% believing they will result in no change or potentially decrease audit quality.

The greatest areas for external auditors to improve their performance include: offering insights and benchmarking on industry-specific issues; helping the audit committee stay up to speed; and sharing views on the quality of the financial management team. On internal audit, audit committees are still looking for greater value.



## Considerations Going Forward

- Stay apprised of various audit reform initiatives and take the lead on ensuring audit quality.
- Set the tone and clear expectations for the external auditor, and actively monitor auditor performance through frequent, quality communications (formal and informal) and a robust evaluation of the external auditor's performance.
- Internal audit should be a crucial voice on risk and control matters – from financial reporting and compliance issues to key operational and technology risks facing the business. Does internal audit have the stature – and a direct line to the audit committee – to ensure that its voice is heard and valued?
- Leverage internal audit as a barometer of the company's financial and operational health – helping the audit committee understand the quality of financial and operational controls, processes, and people.

# Audit Committee Effectiveness

**Q20** What would most improve your audit committee's overall effectiveness? (Select three)

**Better understanding of the business (strategy and risks)**



**Greater diversity of thinking, background, perspectives and experiences**



**More "white space" time on agenda for open dialogue**



**Additional expertise – technology**



Audit committees say they would be more effective in their role by having a better understanding of the company's strategy and risks; more "white space" time on the agenda for open dialogue; greater diversity of thinking, perspectives, and experiences; and technology expertise on the committee. Australian respondents feel strongly additional technology expertise and more "white space" time would enhance their audit committee's effectiveness.

Australian respondents also take the view that their audit committees are most effective in their oversight of financial reporting and disclosures (74 percent highly effective) and least effective in their oversight of CFO succession planning (26 percent 'not effective') and assessing the CFO's performance (16 percent 'not effective').

In terms of assessing their effectiveness, "facilitated, open committee discussion" is thought to be more effective than survey questionnaires and third-party interviews of committee members.

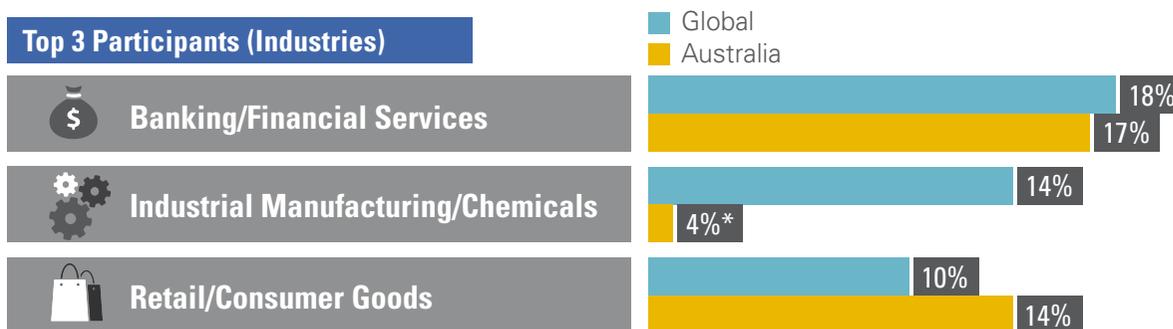
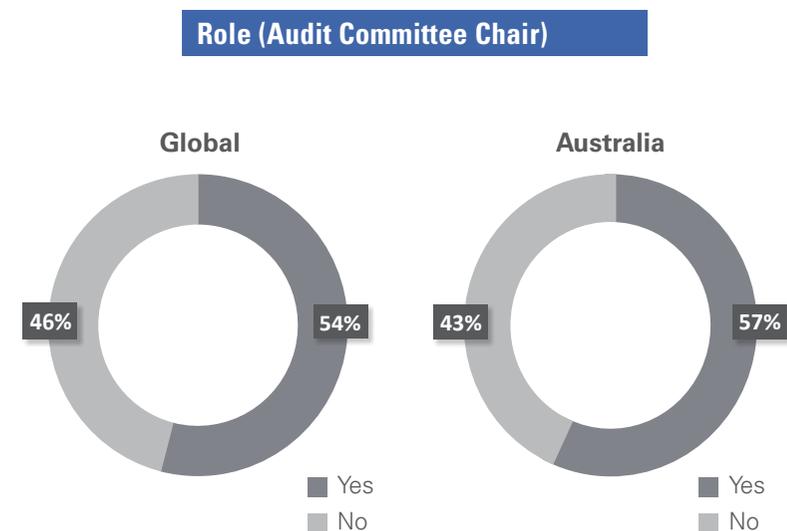
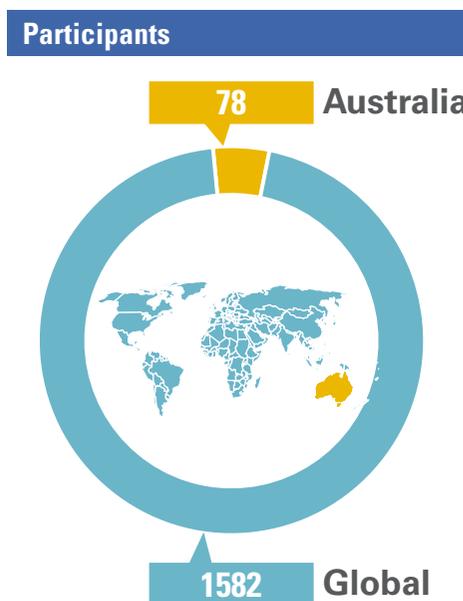


## Considerations Going Forward

- Audit committee meetings should be well thought-out and structured in a way that allows the committee to make the most of its time together. Limit (or exclude) PowerPoint presentations in favour of quality discussion; expect pre-read materials to have been read before the meeting; reach a level of comfort with management and auditors so that financial reporting and compliance activities can be addressed efficiently, freeing up time for more substantive issues facing the business.
- Spend time with management and auditors outside of the boardroom. Informal meetings with the CFO, controller, auditors, and others outside of regularly scheduled meetings can help the audit committee chair (and the committee) stay up to speed and sharpen the committee's formal meeting agendas.
- Tap all resources at the committee's disposal. Internal auditors. External auditors. The C-suite. Outside experts. The audit committee should fully leverage the array of resources and perspectives necessary to support the committee's work.
- Spread the committee's workload. Allocate oversight duties to each audit committee member, rather than relying on the audit committee chair to shoulder most of the work.
- Take a hard, honest look at the committee's composition, independence, and leadership. Is there a need for a fresh set of eyes or greater diversity of experiences and thinking? Is it time for a rotation?

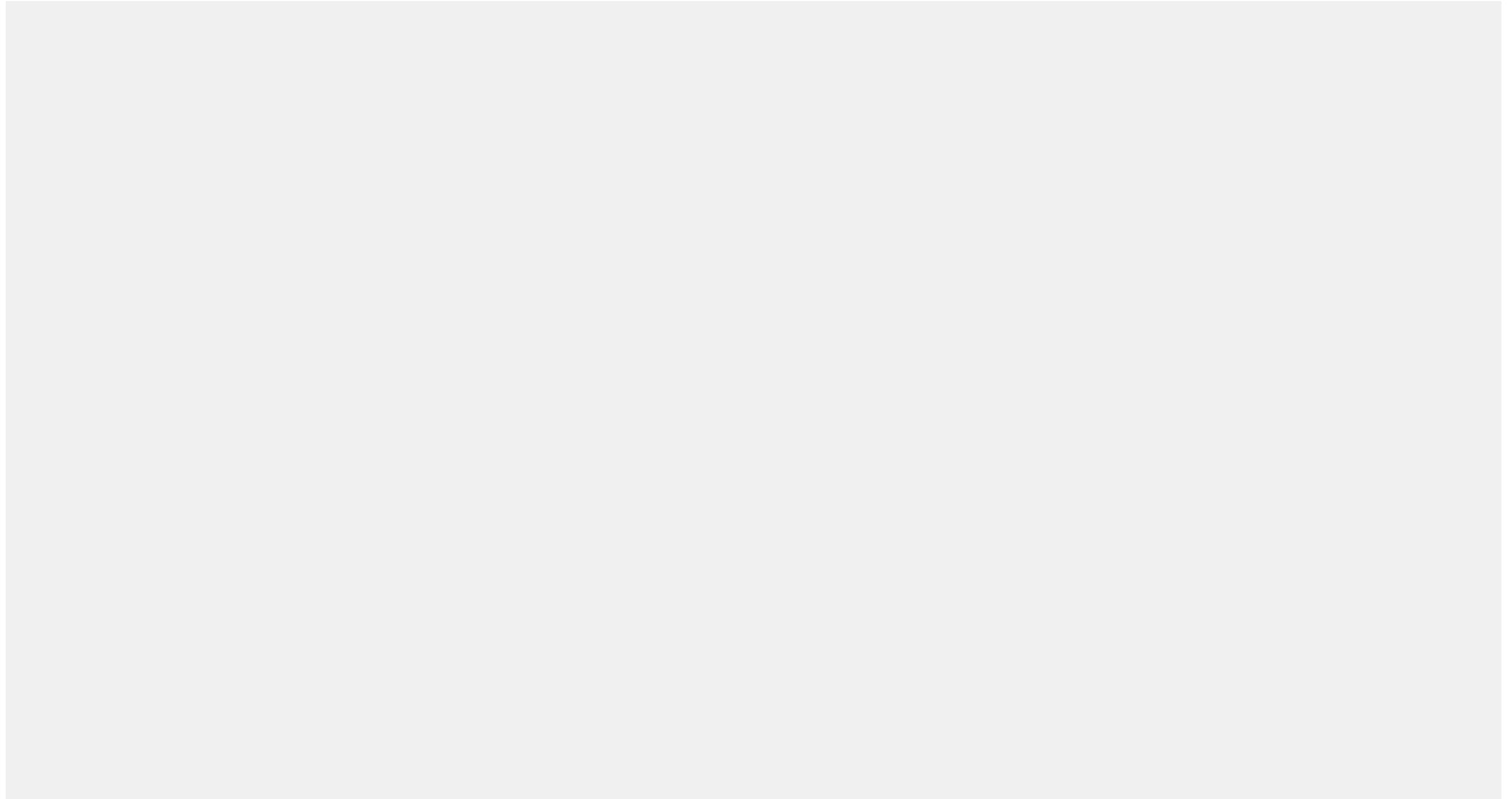
# About the Participants

The survey is based on responses from more than 1500 audit committee members in 35 countries between August and September 2014. Of the Australian respondents, 57 percent are audit committee chairs and 59 percent serve on audit committees of companies that earn more than \$500 million in annual revenue. Respondents were asked to answer survey questions based on the largest company, by revenue, they represent.



\* Australia's top 3 included Energy/Natural Resources (10 percent). Insurance, Transportation and Healthcare were also well represented at 8 percent each.

# View the latest thinking from KPMG





# 2015 Audit Committee Survey – an Australian perspective

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

All rights reserved. The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International. Liability limited by a scheme approved under Professional Standards Legislation.

April 2015. VICN12734AUD.