



On the 2024 audit committee agenda: Consumer & Retail

January 2024



Audit committees will be integral in helping guide consumer and retail (C&R) companies to meet new regulatory requirements and upcoming challenges unique to the industry.

The US economy saw the back half of 2023 finish on a higher note than predicted—a boost for C&R companies. Most saw year-over-year revenues rise but margins compact after exhausting pricing actions to cover inflationary input costs as consumer demand began to cool. Other unanticipated external factors with potentially long-term impacts need to be considered as companies determine the proper depth of financial reporting in annual filings.

Generative artificial intelligence (GenAI) exploded onto the scene in 2023, promising incredible opportunities to transform how C&R companies operate while simultaneously setting off alarm bells among management and directors, placing audit committees on high alert.

GenAI is making headlines, but artificial intelligence (AI), machine learning, cloud platforms, and advanced data analytics capabilities continue to expand at a rapid pace. C&R companies are implementing the new technologies as part of finance transformation, although many lack skilled talent to lead projects or maintain new technological capabilities.

The increased cyber risk from growing threats and proliferating customer data will draw more scrutiny heading into 2024 with the Securities and Exchange Commission (SEC)'s final rules on cybersecurity, requiring greater oversight falling mostly on the audit committee.

Additional new rules and looming regulatory decisions for US and global C&R organizations center around climate and environmental sustainability disclosures, as well as the implementation of a 15 percent global minimum tax rate, known as Pillar Two.

Our ongoing conversations with corporate directors and business leaders about developments in the C&R industry have helped us identify and provide insights around seven key issues for audit committee members in 2024.

- Ensure business processes, internal controls, and skills are in place to execute technology-enabled finance transformation while managing associated risks
- Monitor compliance with the SEC's new cybersecurity rules and customer privacy protections
- Oversee compliance with expanding domestic and global sustainability regulations and climate disclosures
- Define oversight responsibilities for generative AI and help establish a responsible governance framework for its advancement and adoption
- Monitor evolving tax developments and risks, particularly around greater tax transparency
- Leverage internal audit to review key risk areas, including the rise in retail theft
- Maintain oversight of financial reporting and disclosure requirements and the control environment amid economic volatility and geopolitical uncertainty

Ensure business processes, internal controls, and skills are in place to execute technology-enabled finance transformation while managing associated risks

Many consumer products and retail companies are in the midst of implementing large-scale finance technology transformation, leading to major business process changes and the need to revisit the design of their internal controls. Teams are stretched, and even organizations well into transformation are struggling with change management necessary to accelerate adoption let alone achieve the process improvements and forward-looking insights the transformation business case promised.

However, the end result of transformation—a stronger foundational enterprise system and rich data—will allow C&R companies to more fully capture the benefits of AI and GenAI efficiencies well into the future. Use cases abound, such as providing more precise intelligent forecasts that predict consumer demand and turning dense financial reporting into a narrative the marketplace can better understand. Finance executives are just beginning to think through which needs can be met by the new technologies as long as protections are in place for safe exploration.

Although not entirely new, we are seeing more organizations exploring ways to launch or increase their global shared services delivery model. As they move more work outside, companies need to consider proper governance, change management, and internal controls, particularly when financial processes could impact reporting.

Technology adoption is just one of many challenges C&R executives and finance functions are trying to balance in an uncertain business environment with too few resources, including more frequent forecasting updates to keep up with changing consumer behaviors, and meeting increased cyber and climate reporting and disclosure expectations. It's important for audit committee members to be mindful of the pressures on the finance team and to help ensure the company does not drift from its culture and values and risk losing top talent.

Key questions for the audit committee:

- What does the finance function need to realize full value from its large-scale transformation?
- How is finance managing an industry-wide talent and skills shortage? Are internal and external resources adequate? Is the company successfully recruiting and retaining talent?

- What are the finance use cases under consideration to test AI and GenAI with the greatest potential value and acceptable level of risk?
- How does finance ensure proper processes, controls, and change management are in place to help prevent strategic transformations from disrupting external financial reporting?

Monitor compliance with the SEC's new cybersecurity rules and customer privacy protections

The nature of cyberattacks is evolving and attacks have become more operationalized. Bad actors also are more effectively using AI and automation to increase attack frequency and lower the barrier to being effective.

With a focus on protecting brand in addition to preventing losses, C&R companies will want to understand the reality of cyber resiliency—the ability to remain resilient in the time it takes to detect a breach, assess the materiality, and act, including capabilities to fight automated attacks. The combination and balance of risk will drive security spend.

Audit committee members also need to question their companies' vendor security measures and practices, including third-and fourth-party relationships—and the adequacy of controls that may at times seem burdensome without a clear need, but are now needed more than ever.

Clearly top of mind on the C&R company audit committee for 2024 are the SEC final rules on cybersecurity, which greatly expanded obligations for timely disclosure. Public companies must disclose material "cybersecurity incidents" on Form 8-K within four days and material information regarding their cybersecurity risk management, strategy, and governance in their annual reports on Form 10-K.

The latter requirement drives the need to have or streamline committees or subcommittees responsible for cybersecurity, which is often the audit committee. Regardless of where cybersecurity is housed, companies now must quickly provide timebound oversight for related internal and disclosure controls and procedures, including how the materiality of cyber events is determined. Key to making effective disclosures is the materiality assessment, which is critical in deciding what should be escalated and discussed throughout the disclosure process, while ensuring proper documentation of materiality conclusions.

Overall, the clarity and transparency driven by the recent SEC cybersecurity rules require a more robust understanding about how a company manages and determines cyber risks impacting their business at a time when the cyber threats to C&R companies are escalating. Retailers continue their push to personalize customer experiences and create relationships with consumers, increasing the depth and breadth of customer data captured. C&R companies are also potentially increasing their risk by using third parties to explore market opportunities in expanding digital and social channels.

Regulator attention to consumer financial data privacy protections is likely to continue. In the coming year, companies can anticipate greater focus on customer data purpose limitation and minimization, along with consumer rights.¹ With C&R companies collecting more customer information than ever, maintaining trust is paramount and thus a key issue for audit committee oversight.

Key questions for the audit committee:

- Does management have refreshed policies and procedures in place to address the new SEC cyber disclosure rules, especially those allowing them to make a timely determination of the materiality of a cybersecurity event?
- How is the security capability supporting greater coordination and clarity across the organization, particularly to support IT security and financial reporting?
- Have data privacy and security practices kept up with changing business activities, expanding retail channels, new third-party vendors, and increased data collection?
- Are the company's operations and cyber resiliency practices updated and sufficient to provide resilience in the face of an attack?

Oversee compliance with expanding domestic and global sustainability regulations and climate disclosures

The constantly shifting environmental, social, and governance (ESG) landscape requires audit committees to stay on top of the latest regulatory developments in the US and abroad, and the company's ability to respond to the new requirements.

While the SEC's Enhancement and Standardization of Climate-Related Disclosures for Investors awaits final release, now expected in April 2024, California jumped ahead in October 2023 by passing the Climate Corporate Data Accountability Act (SB-253) and Greenhouse Gases: Climate-Related Financial Risk Act (SB-261). Given most C&R companies have operations in the state, this regulation will require organizations across the sector to accelerate their data gathering and reporting processes.

The California climate rules require companies to report Scope 1 and 2 greenhouse gas emissions beginning in 2026 and Scope 3, which includes emissions from third parties in their supply and value chains, in 2027. Disclosure requirements include details of the carbon offset project, accountability measures if not completed or falls short of projections, and relevant data and calculation methods used to independently reproduce and verify credits.² Limited assurance will be required beginning in 2026, increasing to reasonable assurance over time.

These California and expected SEC rules add to a growing stream of regulations from other jurisdictions and voluntary standard-setting bodies that C&R companies may already be following depending on their geographic footprint or their customers' expectations.

Audit committees are clarifying responsibility for oversight of these disclosures as a matter of compliance, and committee members should ask management to explain the process for ensuring data contained in communications about climate goals and metrics are consistent and carefully monitored.³ For the company, preparing robust processes and controls to support formal reporting, including the potential rigor of assurance, takes time and resources. Audit committees will want to check that progress is being made toward complete and accurate reporting, understanding data flows, and building adequate controls.

Many organizations are now looking to IT solutions to help manage these new responsibilities, including the ability to aggregate data and report with confidence. Cross-functional collaboration will be critical and companies will need to leverage internal audit's process understanding and control experience. Management needs to demonstrate that the company has a well-developed plan and the workforce for implementation in the most cost-effective way possible.

¹ KPMG, "[Ten Key Regulatory Challenges of 2024](#)"

² KPMG, "California imposes ESG reporting related to carbon offsets," November 2023

³ KPMG, "[Boardroom climate competence](#)," 2023

It's also important for C&R companies to look beyond required emissions disclosures for additional information that can provide a holistic picture of their efforts. A supermarket chain, for example, could decide to release data on plastic and food waste reduction and its related impact on cost savings. The end goal is a sustainability story that includes a bottom-line impact meaningful to shareholders.

Retail companies were ahead of many other sectors in articulating the “social” component of ESG as part of their brand and culture. They can enhance their efforts by prioritizing, capturing, and reporting data that provides a complete picture of the organization’s purpose, and by making sure social-related disclosures capture the “moments that matter” particularly in hiring, onboarding, developing, and retaining talent.

Key questions for the audit committee:

- Is the company on track to be compliant with California, SEC, and other relevant rules on climate-related disclosures as they are finalized and effective?
- How does the company identify and oversee governance for ESG-related risks, and the potential material impact of those risks on strategy, models, and outlook?
- Does the disclosure committee maintain controls and procedures around ESG information provided voluntarily in addition to disclosures required for SEC filings?
- How have the “social” disclosures matured across the company both externally and internally to support improved recruitment, development, and retention of talent?



Define oversight responsibilities for generative AI and help establish a responsible governance framework for its advancement and adoption

GenAI’s potential to accelerate growth and efficiencies across C&R organizations has created a wave of excitement, even as the technology presents complex business, regulatory, and technical challenges.

Importantly, GenAI’s moral, ethical, and regulatory risks are a real concern among C&R companies and brands. In a recent KPMG survey, only eight percent of industry executives “highly agree” that their companies have the right governance models and policies in place to integrate GenAI into the business.⁴ This reinforces the need for GenAI governance, and for the creation of a trusted environment to be an integral component of the enterprise risk agenda and a priority separate from and beyond regular cyber and information security efforts.

Audit committees will need to work closely with management to ensure both AI and GenAI are developed and deployed within a trusted framework. The first step involves participation in proper knowledge-building sessions focused on the risk implications of GenAI—not just on the technology itself—as well as how the global regulatory landscape is shaping up. Among the issues on the radar of US and other regulators are traceability to track processes and predictions in order to create transparency and identify bias; documenting and supporting understanding of AI algorithms; and accountability across the AI and machine-learning lifecycle.

The audit committee should become familiar with the company’s path to implementation and understand the monitoring mechanisms management has or plans to put in place. At the start, the company needs a secure environment to explore GenAI using a private or “white label” language learning model to protect their data and prompt logic, followed by processes and controls around data integrity and privacy, AI model fairness, and security. Companies benefit from a cross-functional AI governance council, which should include, at the very least, those responsible for data stewardship, legal, security, and HR matters.

⁴ KPMG, “[KPMG generative AI survey report: Consumer and retail](#),” April 2023

The audit committee would benefit from identifying a primary director responsible for understanding the risks and how to apply controls to GenAI, especially given how quickly companies need to act. For speed and deep expertise, companies will likely need external resources which adds third-party risk monitoring.

First movers will have a clear advantage, and audit committees play an important role in helping protect the company's customers and business to fully benefit from GenAI's promise. Seventy percent of C&R executives believe GenAI's will have the most transformational impact on sales and marketing according to a recent KPMG survey, compared to less than 50 percent of executives across all sectors who feel the same.⁵ Audit committees will not only need to ensure management is acting, but also that they are acting with care and purpose to safely drive growth.

Key questions for the audit committee:

- Does the company have a framework for the trusted and responsible use of AI and GenAI, including risk mitigation and controls?
- What are the governance processes ensuring accountability and transparency for how AI models are used and how to detect and limit unforeseen risks going forward? How does the company prevent bias, test fairness, and correct for discriminatory outcomes from data-fed algorithms?
- How is the company using technology to enhance compliance? Are AI use requirements being built into the technology?
- Is management keeping up with changing US and global regulations and policies around the use of GenAI, particularly as applied to consumers?

Monitor evolving tax developments and risks, particularly around greater tax transparency

January 2024 marks the effective date for several aspects of the Organisation for Economic Co-operation and Development Pillar Two rules designed to establish a globally coordinated minimum taxation regime. Audit committee members serving multinational companies will need an updated understanding of the rule's financial impact, which may include a material increase in the amount of cash taxes paid.

The wider impact on most C&R companies of Pillar Two is the cost and stress on the tax function of additional compliance and reporting obligations, even when a company's exposure is limited. Pillar Two requires a company to collect data and compute the effective tax rate in every jurisdiction it operates, whether that's five or 50, using new definitions of tax and income. To manage the significant compliance demands, 54 percent of chief tax officers (CTOs) across all sectors are looking at cosourcing this effort by leveraging a third-party firm's tax expertise and technology.⁶

Audit committees working closely with management on governance over the production of accurate, reliable financial reports for Pillar Two can also help ensure tax leaders have communicated the burden and resource needs that will be necessary to initially comply but also maintain.

Among CTOs in the C&R industry, 62 percent are using increased data and reporting requirements to justify budget increases for tax technologies.⁷ CTOs should be able to describe specific plans and costs associated with Pillar Two technology needs and how they align within other planned financial transformation projects. With these new investments, the same rigor around technology governance, risk, and controls should be applied for tax as for other financial reporting systems.

Management and directors also need to prepare for greater tax transparency. This includes the Improvements to Income Tax Disclosures project from the Financial Accounting Standards Board and public country-by-country reporting, which will result in companies having to disclose their profit allocation and related tax burden around the world for the first time to the public.

Key questions for the audit committee:

- What is the most recent estimated tax and financial impact of Pillar Two on the company?
- Does the tax function have the technology, processes, and human capital to comply with Pillar Two rules coming in 2024?
- What controls does the company have in place to manage cosourced or outsourced tax functions to comply with Pillar Two, and how will governance be enforced?
- Are management and the board aligned in their approach to tax transparency, including an understanding of how much and where information will be presented?

⁵ KPMG, "[KPMG generative AI survey report: Consumer and retail](#)," April 2023

⁶ KPMG, "[Chief Tax Officer Insights](#)," October 2023

Leverage internal audit to review key risk areas, including the rise in retail theft

The proliferating and interconnected nature of C&R industry risk requires a comprehensive approach to leveraging internal audit. Industry best practice is for internal audit to work closely with the audit committee to effectively orchestrate a risk-based coverage plan for the new reality. Additionally, the audit committee and internal audit together should determine if a move to a rolling internal audit plan, updated quarterly, is more responsive to the ever-changing C&R risk environment.

Total loss, near the top of internal audit concerns for 2024, represents multiple risks in one. The usual shrinkage issues and retail theft are supercharged by:

- Understanding that shrink is only part of the equation. Returns, voids, manager overrides, discount manipulation, appeasements, and chargebacks all play a role in significantly impacting margin.
- Destruction in stores, violence against employees, and danger to customers are leading retailers to pull out of certain locations. Retail crime has also become more organized and sophisticated with digital technologies and advanced analytics. And crimes are perpetrated both in person and online along the entire inventory and value chain, from stolen freight to fake websites.

Audit committees can get a fuller picture of the retail theft challenge by asking management to take a deeper dive periodically. For example, the self-checkout process is a growing source of loss from opportunistic theft and customer error, a byproduct of digital and workforce transformation. Audit committees can also look beyond just store loss prevention or asset protection teams annual read-outs to the committee and ensure the proper risk management, internal controls, and systems are in place to address the increased risk and losses.

Working with the audit committee, internal audit should bucket key risks into larger areas or themes to address. This helps to ensure the plan is covering the holistic risks of the organization: the customer, using analytics to understand behaviors; inventory and supply chain; cyber, cloud, and AI/GenAI technologies; talent, retention, culture, and new ways of working; transformational change programs (including technology and cost control); and legal, risk, and compliance.

Key questions for the audit committee:

- Is internal audit positioned to prioritize and address the interconnected relationship between C&R industry risks?
- Is the committee thinking through and challenging management on all aspects of the total loss equation?
- How are both data and analytics and emerging technologies being leveraged to drive efficiencies in internal audit to expand coverage of growing risks?
- Is management responding to internal audit findings in a timely manner with adequate remediation plans, particularly in high-risk areas?

Maintain oversight of financial reporting and disclosure requirements and the control environment amid economic volatility and geopolitical uncertainty

The effects of ongoing geopolitical uncertainty and economic volatility, and encompassing concerns over military conflicts and persistent inflation, have been counterbalanced somewhat by strong consumer demand supported by strong household balance sheets and low unemployment.

But now, several factors are slowing momentum. The pace of hiring is declining and employment in the most interest-rate sensitive sectors has already stalled. While inflation has cooled down recently, price increases previously implemented by companies are negatively impacting consumer demand and volume growth, with an outsized effect on lower-earning households. Credit card balances are on the rise and high interest rates mean new debt is compounding quickly. As a result, consumers are changing their spending behavior, including a shift to private label, increasingly looking for promotions and discounts and pulling back on big purchases that require financing.

These issues likely will continue to affect industry growth and results in 2024 and potentially beyond 2024. This, along with higher discount rates to be used in the valuation models, will put pressure on asset valuations such as long-lived asset groups and intangible assets, including underperforming stores and brands. Overall, forecasting in the C&R industry has become even more challenging in such a dynamic environment. Therefore, it is important for the audit committee to understand how management plans to address these headwinds and their impact on financial reporting, accounting conclusions, and disclosures.

Companies may be looking to optimize their portfolios by keeping brands and products that can generate volume growth and shedding those that don't fit strategically. They are also trying to reduce inventory levels in line with sales volumes for better working capital management in addition to dealing with inventory shrinkage in retail. The current economic and geopolitical environment may prompt questions around impairment triggers and valuation of assets as well as accurate and timely disclosures of underlying risks, known losses, and management plans.

The audit committee should understand management's strategies to grow volumes including the increased use of trade promotions and other discounts. C&R companies may be faced with providing more trade promotions as a means to grow volumes. The audit committee will want to know if promotion programs are effectively managed and the reserves are adequate.

A difficult business and geopolitical environment compounded by pressure from shareholders and other stakeholders could lead some to attempt to paint an overly optimistic picture in financial reporting, disclosures, and communications with the investors. This may include aggressive use of non-GAAP adjustments in presenting financial results. The audit committee should evaluate how current business challenges might be impacting the company's financial reporting and make specific inquiries about presentation of its financial results.

Finally, C&R companies looking to improve margins and profitability through productivity and cost reductions have difficult decisions to make about how much and where to cut. Companies will need to make sure that key aspects of the control environment and internal controls are not compromised. The audit committee should consider how current business challenges might be impacting the company's culture and make specific inquiries of management about the company's risk assessment process as well as accounting and disclosure implications of the emerging risks. A discussion with the external auditors on the topic of continuous risk assessment may also be warranted.

Key questions for the audit committee:

- Has the company assessed its portfolio of brands and products for impairment triggers, and do financial reporting disclosures accurately reflect business results, underlying risks, and appropriate fair value conclusions?
- What are the company's strategies to grow volumes and what are the related accounting and control implications of such strategies including potentially increased level of reserves needed for the trade promotions activity?
- Is the company's control environment including the tone from the top appropriate in a dynamic operating environment so as to maintain ethical business practices?



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