Corporate Controller & CAO Hot Topics

Audit Committee Focus Areas

The widening purview of audit committees (ACs) has made for packed agendas and more challenges for finance leaders on certain topics. It is necessary for leaders to understand what's top of mind for the AC to secure time for specific issues, and it often falls to controllers and CAOs to educate their boards on emerging concerns. While some topics like regulation, controls, disclosure, ESG, and talent remain standard fare, new concerns such as artificial intelligence, ERM, and cybersecurity are joining the list.

Finance leaders are working closely with their ACs to address today's business challenges. How ACs operate and how often they meet can vary by organization, yet finance leaders face similar challenges in directing the focus of their ACs. Education has become a key part of leaders' interactions with their ACs as they try to inform members on emerging issues. Key topics such as cybersecurity, materiality determinations, and AI are growing priorities for ACs. Amidst these other concerns, finance leaders are also focusing on shifts in the talent landscape; as baby boomers exit the workforce, leaders must actively seek tech savvy professionals with skills beyond accounting and finance. These emerging considerations are being added to the traditional, fiduciary topics that ACs must still oversee, making for extremely busy times for the ACs.

Given how closely KPMG works with many of the world's leading organizations, we have unique insights into how finance leaders are approaching these topics. Below are four areas that Corporate Controllers and CAOs are focused on as they work with their ACs to address pressing issues.

Managing the Agenda with the Audit Committee

Finance leaders have a strong interest in understanding the priorities of their ACs. At any given time, ACs may be working on everything from cybersecurity risks to natural disasters to financial compliance with the SEC or monitoring progress toward ESG goals. Depending on the company, ACs often have responsibility for additional areas as well (i.e., strategy falls to ACs at some organizations, but remains the responsibility of the full board at others).

There is diversity in how AC agendas operate. Research from KPMG's Audit Committee Institute shows that, in general, ACs meet on average eight times per year, with three of those in person and five virtual. A common practice of finance leaders is to reserve roughly half of those meetings for regular business report-outs, such as the quarterly financials, and the remainder of the meetings for special "hot topics" (e.g., generative AI, technology upgrades, meeting ESG goals) and subjects the AC wants to learn more about. The nature of those topics can vary by industry. For example, cybersecurity is a sharp focus and on nearly every AC meeting agenda for companies in some industries but does not make every agenda for committees in others, which may be more focused on other topics such as ESG or geopolitical risks.

"Standard" Topics

Even as they gain new responsibilities, ACs remain focused on their core mandates around fiduciary duties. Understanding regulations, overseeing internal controls, and reviewing filings and disclosures continue to fill a good portion of ACs' time. Interest in emerging issues means that some of these traditional topics don't receive as much attention as they would have previously. However, committees' interest in new topics such AI or ESG often pertain to the reporting required or the controls being put in place. In that respect, even as their attention turns to new topics, the focus to some extent remains the same.

As they vie for space on crowded AC agendas, some finance leaders are making efforts to get additional time in front of ACs through topic-specific meetings or retreats. While such efforts often target emerging issues, they focus on traditional topics as well. In one example, a finance leader had success in reserving time on the agenda to have presentations by leadership and management from their operations team, to help educate the AC in more detail on the company's core business functions. This can be helpful context as the AC contemplates other topics on its plate.

Emerging Concerns

ERM

While the fiduciary role of the AC hasn't changed, the risk environment has shifted dramatically, creating a keen focus on enterprise risk management. ACs have an interest in understanding the process by which significant risks are identified, how those risks were allocated, and what steps are being taken by functions or individuals in terms of mitigating risk or taking advantage of opportunities. Heightened risk in certain areas is largely due to uncertainty, making it difficult for ACs to know how to approach some current issues. Examples include uncertainty in the market due to fluctuating interest rates and geopolitical strife, risks associated with cybersecurity and AI, and climate.

AI

Automation and generative AI are a central focus for ACs as these digital areas pose both opportunities and threats. On the opportunities side, companies are interested in how generative AI can help identify new opportunities and increase efficiency. In addition, companies want to be using the latest technology and not fall behind the competition by being unwilling to modernize. However, many ACs are approaching the new technology options with an eye on the potential risks as well as the challenge of proving ROI on costly technology upgrades and tools. This has led some companies to create policies that explicitly

spell out which technologies employees are permitted to use and how.

While ACs are interested in exploring use cases for generative AI, and companies continue to pursue different pilots and proofs of concept for the new tools, many finance leaders have yet to find use cases that justify the expense. Often, however, the lack of viable use cases is simply a result of priorities: many companies are focusing AI resources on operations and other areas ripe for cost savings, and not giving as much attention to compliance and accounting at the moment. That said, leading companies are still identifying areas in finance with high potential for AI application. The risks that AI presents around data security are in sharp focus in the finance function as leaders have concerns about company financial data being put into public AI models. These risks are such that some companies are enacting strict policies on how employees can use AI and investigating how or if their external auditor is using AI to perform the financial statement audit.

Cybersecurity

Regardless of industry, cybersecurity is a main concern for ACs, especially in the wake of new SEC disclosure rules. This being the first round of filings since the rule went into effect, there was vast diversity in how companies handled disclosures. Broadly, companies are uncertain as to how much information to disclose. On one hand, they want to disclose everything they are required to, but on the other hand, they don't want to panic shareholders unnecessarily or "be the boy who cried wolf" for minor incidents. Some organizations are opting to err on the side of transparency and have decided to disclose everything, even if not technically required.

Responsibility for cybersecurity oversight may fall to the board of directors, the AC, or in some cases, other areas like finance or legal. Now that many organizations have their first disclosure cycles behind them, there is some divergence among finance leaders between whether the AC or the broader board takes primary responsibility.

A significant challenge of the disclosure rules centers on the difficulty of defining materiality. It can be more difficult to define materiality in the context of cybersecurity versus other areas because a cyber breach can impact so many more areas of value to the company (e.g., brand, customer data, intellectual property, etc.) than just cash or physical goods. Given this difficulty in defining materiality, some finance leaders are declining to do so. In some cases, although they have not specifically defined materiality, leaders have enacted agreed-upon frameworks for their operations teams to show how they would go about thinking about it. In other instances, organizations are forming ad hoc committees to define materiality with respect to an actual event. Such committees are typically comprised of "the usual suspects," including risk management teams, chief information security officers, and finance teams.

ESG

ESG remains a focus for boards at large as well as specific committees, including the audit committee – especially with recent events surrounding the SEC's rule and subsequent stay. While some boards have established sustainability committees to steer the organization's efforts around sustainability, ESG is broad enough that its components are frequently taken up by the AC as well. Rather than driving the strategic efforts, ACs are more focused on the compliance and reporting aspects of ESG. Interactions between finance leaders and their ACs around ESG have involved preparing members for the roles and responsibilities they will have in ESG assurance.

With the release of the SEC rule, the need for standardized, quality data in climate reporting is becoming a reality for publicly traded companies in the U.S. While the SEC's stay pauses the need for calculating the impact of certain climate-related events or conditions on the financial statements, the remaining provisions of the rule are required for many companies under other reporting regimes and jurisdictions. Therefore, companies are advised to continue to move forward with relevant preparations and to carry out an interoperability analysis.

Talent in Finance

When hiring new talent, finance leaders are increasingly doing so with an eye toward where the industry is heading. Some functions may look to offshore resources or automation, and baby boomers will continue to age out of the workforce and retire. In response, many organizations are looking to modernize and infuse innovation into a field that has sometimes been looked at as staid and conservative in order to attract younger, Millennial and Gen Z professionals into the field.

To that end, leaders more and more are looking for talent with different skills than have been traditionally sought after—the "classic CPA" is not necessarily who companies look to hire anymore. As in other business areas, finance is becoming more data- and technology-focused, and leaders want employees who are comfortable using and working with data and new technology, including AI. In addition, many organizations are investing in their teams to upskill in new technologies and tools, in order to increase their department's resiliency overall.

Given these and other shifts in the workforce, many organizations are placing a stronger emphasis on succession planning. Tapping potential successors to key roles involves not only identifying high potential talent, but also giving them face time with the board and committees. One approach companies are taking is to add "talent spotlight" portions to AC meetings which give junior talent that normally wouldn't be at such meetings an opportunity to highlight their work and thereby gain exposure to committee members with whom they may be working more in the future.

The mandates of ACs have expanded to match the growing number of risks that companies face. Finance leaders have seen their responsibilities increase as well, driven largely by broad issues such as cybersecurity and ESG that impact nearly all functions and areas of the business. While finance leaders are in positions to direct the focus of ACs, they will need to go beyond that if they hope to address today's risks. Close collaboration between leaders and their committees will be required as the audit landscape continues to evolve.

Additional resources

Quarterly webcast: A Boardroom Lens on Generative AI (kpmg.com)

On the 2024 audit committee agenda (kpmg.com)

Directors Quarterly: April 2024 (kpmg.com)

KPMG Audit Committee Guide

Why finance should lead the adoption of generative AI (kpmg.com)

Navigating Enhanced Cybersecurity Regulations (kpmg.com)

Trends in material weaknesses (kpmg.com)

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