



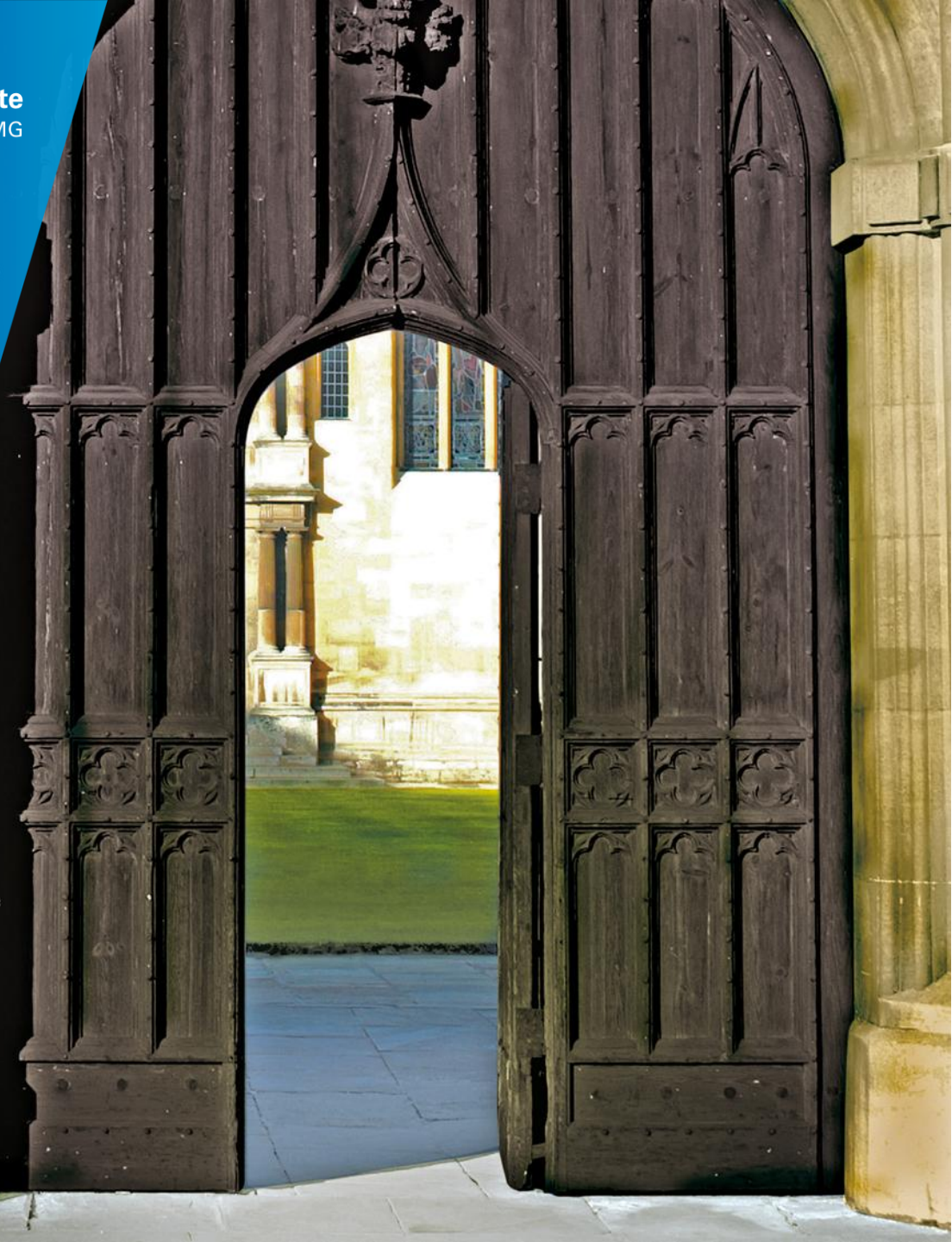
*cutting through complexity™*

**Audit Committee Institute**

Sponsored by KPMG

# Risk and the Audit Committee

**Timothy Copnell**





# Agenda

- Introduction
- Responsibilities
- Information flows
- 'New' thinking

# The Audit Committee Institute

KPMG's Audit Committee Institute (ACI) was founded to help audit committee members enhance their awareness, commitment, and ability to implement effective audit committee processes.

ACI's exist in around 30 countries; over 40,000 members worldwide. In the UK, active membership includes audit committee members from the majority of the FTSE 100

UK ACI initiatives include:

- Over 40 breakfasts seminars and workshops each year – all focused on audit committee issues. An ideal opportunity to network with other audit committee members
- Comprehensive Quarterly update publications
- Ad hoc publications on subjects like internal audit, business codes and recession related risks
- Regular aide memoire e.g. *Ten to dos for audit committee members in 2011*
- Checklists, specimen documents and other tools to make the audit committee role easier
- Regular surveys of audit committee practices
- A hotline for audit committee members
- A website [www.kpmg.co.uk/aci](http://www.kpmg.co.uk/aci)



## Risk management is the top audit committee concern



# Responsibilities - the rules and recommendations

## The UK Corporate governance Code

- The board should maintain sound risk management and internal control systems C.2)
- The board should, at least annually, conduct a review of the effectiveness of the company's risk management and internal control systems and should report to shareholders that they have done so (C.2.1)

## The FRC Guidance on internal control

- Reviewing the effectiveness of internal control is an essential part of the board's responsibilities. The role of board committees in the review process, including that of the audit committee, is for the board to decide

## The Disclosure and Transparency Rules

- The [audit committee] should ... monitor the effectiveness of the issuer's internal control, internal audit where applicable, and risk management systems

## Responsibilities (continued)

- Board – overall responsibility
- Management - responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the board that it has done so.
- Audit committee – review, on behalf of the board, the company’s internal control and risk management systems.(or some part thereof)
- Risk committees
  - Where do they fit in?
  - Overlap with the audit committee (or oversight gaps)
  - Interaction with the board

**Point 1. The buck always stops with the board**

**Point 2. Clarity of purpose is essential**

- Quality of audit committee papers
  - timely
  - prioritised
  - Signposted
  - manageable
- Quality of discussions and presentations
  - executives
  - risk management (CRO)
  - Internal audit (and other assurance providers)
  - Others
- Cross connectivity between committees
- Reporting to the board

**Point 3. The audit committee is only as good as the information it has**

# 'New' thinking

## New' thinking in light of the financial crisis and economic slowdown

- Risk focus has been too narrow
  - 'internal' risks rather than 'external risks'
  - 'financial' risks rather than 'non-financial' risks
  - 'identification' rather than 'management'
  - Compliance driven
- Risk management has been too static
  - key strategic risks can change very quickly
  - more scenario planning
  - greater stress testing
  - 'bubbling under' risks
- Risk management has been too short-term
  - Macro-economic cycle neglected
  - Important issues get hijacked by real-time events

**Point 4. Risk approach must be more holistic**

**Point 5. Risk approach must be more dynamic**

**Point 6. Risk horizon must extend further**



## Summary

- **Point 1. The buck always stops with the board**
- **Point 2. Clarity of roles and responsibility is essential**
- **Point 3. The audit committee is only as good as the information at its disposal**
- **Point 4. The risk horizon should be holistic**
- **Point 5. The risk approach should be dynamic**
- **Point 6. The risk horizon should extend throughout the economic cycle**



# Thank You

**Timothy Copnell, Associate Partner**

**Office:** 0207 694 8082

**Email:** [tim.copnell@kpmg.co.uk](mailto:tim.copnell@kpmg.co.uk)