Board of Trustees

Audit Committee Meeting

May 17, 2023

ALASKA PERMANENT FUND CORPORATION
801 W 10TH SUITE 302 | JUNEAU, AK 99801
907.796.1500 | apfc.org

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APFC ALASKA PERMANENT FUND CORPORATION
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Board of Trustees Audit Committee Meeting
May 17, 2023
8:15 a.m. – 10:15 a.m.

Soldotna City Hall
177 N Birch St, Soldotna, AK 99669

Webinar Access (click link to join webinar)
Join via WebEx and enjoy the ability to listen on your computer and follow presentations:
https://apfc.org/bot-audit-committee
Event Password: APFCAudit

Teleconference Option
Phone: *1-415-655-0003*
Access Code: 2630 294 3227
Numeric Password: 27322834

AGENDA

Wednesday, May 17, 2023

8:15 a.m.	CALL TO ORDER
	ROLL CALL (Action)
	APPROVAL OF AGENDA (Action)
	APPROVAL OF MINUTES (Action) • Audit Committee Minutes – September 1, 2022
	SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION
8:20 a.m.	FY23 KPMG AUDIT PLAN AND RISK ASSESSMENT (Information) Melissa Beedle, Engagement Manager, KPMG Beth Stuart, Engagement Partner, KPMG
8:45 a.m.	INTERNAL AUDIT DISCUSSION (Information) Mike Barnhill, Chief Operations Officer
9:15 a.m.	FY23 YEAR-TO-DATE FINANCIAL STATEMENT REVIEW (Information) Valerie Mertz, Chief Financial Officer
9:45 a.m.	AUDIT COMMITTEE SELF-ASSESSMENT (Information) Adam Crum, Committee Chair Valerie Mertz, Chief Financial Officer
	OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS
10:15 a.m.	ADJOURNMENT

NOTE: TIMES MAY VARY AND THE CHAIR MAY REORDER AGENDA ITEMS
(Please telephone Jennifer Loesch at 907.796.1519 with agenda questions.)

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SUBJECT: Approval of Minutes ACTION: __X__

DATE: May 17, 2023 INFORMATION:

BACKGROUND:

Staff reviewed the following Audit Committee meeting summary minutes. Draft copies are attached for your approval.

- September 1, 2022 Audit Committee Meeting

RECOMMENDATION:

The Chair of Audit Committee should ask whether any member has any questions or corrections regarding the minutes from the September 1, 2022 Audit Committee Meeting. If there are not corrections, The Committee Chair should announce, "that there being no corrections the minutes are hereby approved". A formal motion to approve the minutes is not required under §41 of Robert's Rules of Order.

ALASKA PERMANENT FUND CORPORATION
AUDIT COMMITTEE MEETING
WEBEX/TELECONFERENCE
September 1, 2022
1:00 p.m.

Originating at:
Alaska Permanent Fund Corporation
801 West 10th Street
David Rose Board Room
Juneau, Alaska 99801

Trustees Present:

Steve Rieger, Chair	Ellie Rubenstein
Craig Richards	Jason Brune

Trust Staff Present:

Val Mertz, Acting CEO/CFO	Marcus Frampton, CIO
Chris Poag, General Counsel	Nellie Metcalfe
Christopher Lavallee	Jennifer Loesch
Paulyn Swanson	Rachel Price
Jacki Mallinger	Norix Mangual
Adam Kane	Lara Pollock
Valeria Buschfort	Brittney Ortega
Joe Shinn	Sang Won Song
Stephen Adams	

Other Participants:

Larissa Murray	Beth Stuart, KPMG
Melissa Beedle, KPMG	

PROCEEDINGS

CALL TO ORDER

CHAIR RIEGER called the Audit Committee meeting to order and asked for a roll call.

MS. LOESCH called the roll and added that Trustee Richards was also in attendance.

APPROVAL OF AGENDA

CHAIR RIEGER stated that there was a proposed agenda in the packet and that they would work with that agenda.

TRUSTEE RICHARDS stated that he had an announcement that he would like to make.

APPROVAL OF MINUTES

CHAIR RIEGER asked for a motion to approve the minutes of the May 19, 2022, meeting.

TRUSTEE BRUNE asked for a point of order of the general counsel, that if two of the members were not present for a meeting, could they make a motion to approve minutes.

MR. POAG replied that this was not a motion that required a roll-call vote. As long as those in attendance could attest that it seems accurate, they could approve the minutes. He suggested perhaps rolling the minutes to the next Audit Committee meeting, or that the Chair could give up the chair, make the motion, and second it.

CHAIR RIEGER added that if it did not require a roll-call vote, he could state that he was there, and the minutes seem good. He asked if that would be adequate.

MR. POAG replied that it was designed to reflect the minutes are an accurate reflection of what happened at the meeting.

CHAIR RIEGER asked if there was anyone from the public that wanted to testify.

MS. LOESCH replied there was not.

CHAIR RIEGER asked Ms. Mertz to introduce KPMG.

MS. MERTZ stated that the results of the FY22 audit would be presented by Beth Stuart, the engagement partner and office managing partner for the Anchorage KPMG office; and Melissa Beedle, the Juneau-based engagement manager. She welcomed back Ms. Stuart who, by KPMG policy, had to roll off for a couple years, and that this is her first year back. She stated that Ms. Beedle had been on for eleven years and possesses a lot of great institutional knowledge.

TRUSTEE RICHARDS announced that effective next week Commissioner Mahoney was resigning and moving on to the next things in her life for personal reasons. On behalf of the Full Board, he thanked her for her very good service and wished her the best in her endeavors.

CHAIR RIEGER also thanked Commissioner Mahoney for all of her service and stated that it was a pleasure to work with her. He moved on to the Audit report and KPMG.

FY22 KPMG AUDIT REPORT

MS. STUART stated that she was glad to be there and continued that the goal was to help the Audit Committee feel confident that goals have been accomplished for the corporation, and to the present the results and scope of the audit process. She added that they would begin with a summary of the required communications.

MS. BEEDLE stated that the first two slides outline the required communications. She had the management representation letter in hand and stated that they completed all of the procedures related to the audit and expected to issue an unmodified or unqualified opinion later this afternoon. She continued that some of the other required communications by auditing standards were: notification if there were any significant, unusual transactions or deficiencies that were found during the course of the audit, for which there were none during the FY22 audit; if there were also any matters to communicate related to errors or omissions in the financial statement presentation or the content included in those financial statements. There were no changes to the risk assessment or the audit strategy that was presented in May. There were a couple of items that relate to an uncorrected audit misstatement that carries forward year after year, and then the significant accounting estimates that were identified during the audit. She added that there were no illegal acts, fraud or any instance that raised any red flags identified during the audit. There were also no matters to report for noncompliance with laws, no significant findings, or difficult matters. She stated that a formal letter will be issued to the Board which would include a copy of the management representations that were provided as part of the audit, which will come in a few days.

MS. STUART summarized the required communications and identified that there were two key audit areas focused on: one was the valuation of real estate investments; and the other was the valuation of the private markets' funds. She stated that the audit was conducted in accordance with that plan, and it did not identify any other areas of significant risk or significant actions. She continued that, as part of the audit, an understanding of APFC's process to value or review the values of real estate was provided. She added that no control exceptions or deficiencies were found in that process. The conclusion was that the process used by APFC was appropriate and the values reported were appropriate. In the review of the Tyson's Corner appraisal, the specialists felt that a few of the elements that drove valuation were optimistic; but, overall, concluded that the valuation was within reason. She moved to the various private investments where an understanding of the process used by APFC to value those investments was obtained. They were all valued at a net asset value per share that was reported by the underlying fund manager. She explained the process and stated that the underlying valuation is determined by reviewing the underlying fund audited financial statements and the market fluctuations. She explained the process for the private markets and the change that took place. Overall, the conclusion was that the method was appropriate; the underlying valuations were fair; and that the amounts reported in the financial statements were accurate.

CHAIR RIEGER recognized Trustee Rubenstein.

TRUSTEE RUBENSTEIN asked about the annual meeting and if there was a better way to push off the audit date, or if it had to be at the annual meeting. Every year the numbers do not come in June 30th, and perhaps we could give the managers a few more weeks to get the numbers in.

MS. STUART replied that it is a State of Alaska statute that requires the timing of October 1st for all the State agencies to have submitted audited financial statements to the State, and the annual meeting pushes that timeline up even farther.

MS. MERTZ stated that, specific to APFC, is a statute requiring an annual report that contains audited financial statements published by the end of September.

CHAIR RIEGER asked if there was an overriding State statute that would keep the Fund from moving it back.

MS. STUART was not aware of that, and stated that the reporting cycle and the speed of information seemed to be accelerating.

MS. MERTZ added that the numbers feed the State coffers, and there is that timeline, as well.

TRUSTEE BRUNE stated that the Fund could stop investing in the companies that do not give timely reports.

TRUSTEE RUBENSTEIN agreed. She asked if some of the reporting delay was due to the current inflationary environment.

MS. STUART replied that it was regular turnaround. She stated that the public markets were straightforward and concurred with the prices reported and confirmed the holdings with the custodian bank. The financial statements tied to the footnote disclosures were reviewed, and the information agreed with the general ledger that was audited.

MR. POAG stated that the State of Alaska is exempt from the ESG because the Fund is not a public company or a registered investment advisor under the SEC. He stated, for the record, the investment responsibilities are set out in State law with no obligation to consider ESG in making investments. He continued that when considering an investment, governance may be a very important factor. That is the factor, which is not a requirement to consider whatever ESG means, because he thought there was so much misinformation about what ESG means, and it is misused by people all the time.

CHAIR RIEGER moved to the next thing on the agenda, an Executive Session. He asked for a motion.

EXECUTIVE SESSION

> **MOTION**: In accordance with Alaska's Open Meetings Act, a motion that the Board of Trustees convene in Executive Session for the purpose of meeting with APFC's external auditors, KPMG, to discuss the integrity of financial reporting and control procedures, which may include discussion of APFC staff. This topic is appropriate for Executive Session because the immediate knowledge of details discussed could negatively impact the value of the Permanent Fund or be harmful to the reputation or character of the APFC staff was made by TRUSTEE BRUNE; seconded by TRUSTEE RUBENSTEIN.

TRUSTEE RICHARDS stated a point of order. At every audit meeting the rule was different on whether the nonmembers vote.

CHAIR RIEGER ruled that the Board members or the committee members vote. He asked if there were any objections to the motion.

There being no objection, the MOTION was APPROVED.

(Executive Session from 2:00 p.m. until 2:40 p.m.)

CHAIR RIEGER came back into regular session. He stated that while in Executive Session, the trustees considered only the matters mentioned in the motion and took no action. He continued that next on the agenda was Ms. Mertz's review of the FY22 year-end financial statements.

FY22 YEAR-END FINANCIAL STATEMENTS

MS. MERTZ noted that the year-end financial result is with the Audit Committee. She stated that Jacki Mallinger, the senior portfolio accountant in the finance group, was here. She oversees the audit process, as well as the financial reporting monthly and annually, and a lot of other things, and she would carry the presentation.

MS. MALLINGER stated that she would be presenting the FY22 year-end results. She explained that the information throughout her presentation was preliminary from the initial soft close. It was explained earlier how the process was to perform an initial soft close in late July, and then reopen the books around the third week of August to post adjustments for any known changes since the first soft close. She touched on the adjustments made during the hard close throughout her presentation. She noted that everything was preliminary unless stated otherwise. She went through the key takeaways for FY22. The accounting net loss was $2.7 billion, which included unrealized gains and losses. She added that it was reflective of a total return of negative 1.32 percent for the fiscal year. She continued that, despite the negative return, the Fund was able to beat its performance benchmark by 192 basis points.

CHAIR RIEGER asked how that was calculated for Total Return.

MS. MERTZ replied that the Total Return number is generated by Callan based on the pricing and the transfers in and out of the various asset classes rolled up. There were things reflected in the accounting number that Callan did not take into account, like corporate operating expenses and those types of things. The accounting records definitely feed into the numbers that Callan used to calculate performance.

MS. MALLINGER continued that the statutory inflation rate for FY22 was 4.7 percent. She added that there was no preparation for inflation-proofing in FY22. Had there been, $1.4 billion would have been transferred from the earnings reserve to the corpus of 6/30. She moved to the first section of the balance sheet which was assets with three main categories: Cash and temporary investments; receivables; and investments at fair value. Total assets came in at about $78 billion. She moved on to adjustments and stated that the most significant adjustment was for the private asset valuations that were reported on a lag. She explained that the capital account statements are received on a one-to-three-month lag. The whole goal of rolling back the June financials is to capture as many of those Q4 statements as possible before performing the hard close. She stated that the next section of the balance sheet was liabilities. That had two categories which were accounts payable and income distributable to the State of Alaska. On accounts payable line item, about 98 percent of that was attributed to securities trading and the decrease in $1.3 billion between fiscal years was due to the timing of fixed income purchase. The income distributable line represented the amounts that were due to the Alaska Capital Income Fund at the end of the fiscal year, which brought about the only other hard-close adjustment which recorded impairments on the alternative investments. She continued that every year the investments were reviewed for impairment and through analysis and recommendation of the investment staff and advisers, it was determined that one real estate asset and nine private equity funds were impaired. This led to a realized loss of $258 million. She explained that also brought down the amount to be transferred to the Alaska Capital Income Fund to about $24 million. She moved to the last section of the balance sheet, which was Fund balance, which has three main components; the assigned and committed portions, making up the earnings reserve account. Total Fund balance had decreased about $5.2 billion during the fiscal year. She noted that both the nonspendable and net earnings reserve account received a pro rata share of all unrealized gains and losses in the portfolio. She explained each component separately. She moved to the next statement which was revenues, expenditures and changes in Fund balance. Revenues has two categories: cash flow income, and changes in the fair value of investment, which she explained. The expenditures were costs that operated the corporation and managed the Fund. The operating expenditures included salaries, travel, and the big one being investment management fees. Also included were the other legislative appropriations from corporate receipts that were not part of the operating budget. She continued to the changes in Fund balance which were other changes, not revenues or expenditures; deposits into the Fund; draws from the Fund. This brought them to an ending Fund balance of $76.6 billion. She then went through the summarization of the adjustment made during the hard close. She wrapped up her presentation by thanking her team for all the hard work.

CHAIR REIGER stated that next on the agenda is an update of legal matters.

UPDATE OF LEGAL MATTERS

MR. POAG stated that every year, as part of the audit process, the CFO sends a letter asking to advise the external auditor about any legal matters worked on that could be material to negatively impact on the Fund. He continued that this year there were no legal matters to report to the external auditor. In the same letter he was asked to talk about unasserted claims or assessments. There was nothing to report in that category. He assured the auditors that if there was something to report in that category, he would work with the CFO to include that in the financial statements. The last thing he does every year is to let the external auditors know if he was aware of any noncompliance with the rules, regulations or State law. There is nothing to report there, and he did assure the auditors that those requirements were complied with.

CHAIR RIEGER thanked Mr. Poag, and asked for any requests for a future agenda item.

TRUSTEE RICHARDS stated that he discussed potentially increasing the size of the Audit Committee to four, and he thought that would probably be in the plan.

CHAIR RIEGER asked for a motion to adjourn.

> **MOTION:** A motion to adjourn the meeting was made by TRUSTEE BRUNE; seconded by TRUSTEE RUBENSTEIN.

There being no objection, the MOTION was APPROVED.

(Audit Committee Meeting adjourned at 3:18 p.m.)

Alaska Permanent Fund Corporation

Discussion with those charged with governance

Audit plan and strategy for the year ending June 30, 2023

May 17, 2023

Delivering a better audit experience drives us

With KPMG, you can expect an experience that's better for your team, your organization, and the capital markets. An experience that's built for a world that demands agility and integrity.

We aim to deliver an exceptional client experience by focusing on:

Quality

Experience

Productivity

Insights

See how.

Engagement management to fit your team

KPMG and APFC have a joint interest in driving quality and eliminating peaks in workload, particularly in the post year end period to reduce surprises. That's why we're:

Accelerating work and aligning on key expectations to drive quality and an exceptional client experience

Actively listening to your feedback to inform our audit strategy and deliver value in the moments that matter

Proactively communicating and coordinating with all levels of management and those charged with governance, including updates on key milestones

KPMG

Required communications to those charged with governance

Audit plan required communications and other matters

Our audit of the financial statements of the Alaska Permanent Fund (the Fund) as of and for the year ended June 30, 2023, will be performed in accordance with auditing standards generally accepted in the United States of America.

Performing an audit of financial statements includes consideration of internal control over financial reporting (ICFR) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR.

Matters to communicate		Response
Role and identity of engagement partner	✓	Lead audit engagement partner is: Beth Stuart
Significant findings or issues discussed with management	X	
Materiality in the context of an audit	✓	Page 7
Our timeline	✓	Page 8
Risk assessment: Significant risks	✓	Page 9
Risk assessment: Additional risks identified	✓	Page 10
Involvement of others	✓	Page 11
Independence	✓	Page 12
Responsibilities	✓	Page 13
Inquiries	✓	Page 14

✓ = Further information provided X = No matters to report

KPMG

Materiality in the context of an audit

We will apply materiality in the context of the preparation and fair presentation of the financial statements, considering the following factors:

Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.	Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.	Judgments about materiality involve both qualitative and quantitative considerations.
Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.	Determining materiality is a matter of professional judgment and is affected by the auditor’s perception of the financial information needs of users of the financial statements.	Judgments about the size of misstatements that will be considered material provide a basis for a. Determining the nature and extent of risk assessment procedures; b. Identifying and assessing the risks of material misstatement; and c. Determining the nature, timing, and extent of further audit procedures.

KPMG

Our timeline

February - March

Planning and risk assessment

- Meet with management to discuss operations, changes during the year, and audit timing
- Planning and initial risk assessment procedures, including:
  - Assessing involvement of others
  - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the Corporation and its environment

April - June

Interim

- Ongoing risk assessment procedures, including:
  - Identification and assessment of risks of misstatements and planned audit response for remaining processes
  - Inquire of those charged with governance, management and others within the Corporation about risks of material misstatement
- Communicate audit plan
- Identify IT applications and environments
- Evaluate design and implementation of entity level controls and process level controls for certain processes
- Perform process walkthroughs and identification of process risk points for certain processes
- Perform interim substantive audit procedures
- Send audit confirmations

July - September

Year-end

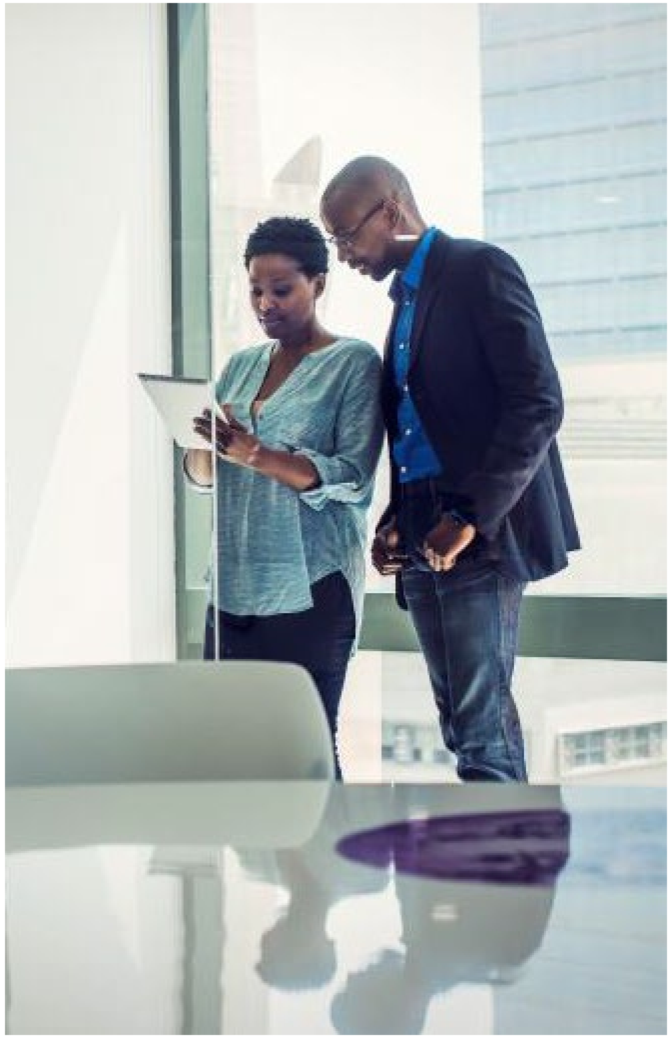
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Present audit results to those charged with governance and perform required communications

September 1: Issue audit reports on financial statements.

Risk assessment

Significant risk	Susceptibility to:	
	Error	Fraud
Management override of controls Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.		**Yes**

Other significant audit matters	Relevant factors affecting our risk assessment
Valuation of alternative investments	- Complexity of alternative investment valuations - Size of the alternative investment portfolio - Timing of the valuation received
Valuation of real estate investments	- Complexity of real estate valuation - Size of the directly owned real estate portfolio - Timing of valuation received



Involvement of others

Audit of financial statements	Extent of planned involvement
Service Organization: Bank of New York Mellon	- Obtain service auditors' report - Test user controls identified in the report
KPMG professionals with specialized skill or knowledge who are involved in performance of audit procedures: Alternative investment specialists	- Provide guidance on risks related to alternative investments, including current economic environment - Review audit team's procedures over alternative investments - Review third party real estate appraisals for selected real estate investments - Assist in portfolio risk assessment and scoping of non-public portfolio

KPMG

Shared responsibilities: Independence

Auditor independence is a shared responsibility and most effective when management, those charged with governance and audit firms work together in considering compliance with the independence rules. In order for KPMG to fulfill its professional responsibility to maintain and monitor independence, management, those charged with governance, and KPMG each play an important role.

System of Independence Quality Control

The firm maintains a system of quality control over compliance with independence rules and firm policies. Timely information regarding upcoming transactions or other business changes is necessary to effectively maintain the firm's independence in relation to:

- New affiliates (which may include subsidiaries, equity method investees/investments, sister companies, and other entities that meet the definition of an affiliate under AICPA independence rules)
- New officers or directors with the ability to affect decision-making, individuals who are beneficial owners with significant influence over the Fund, and persons in key positions with respect to the preparation or oversight of the financial statements

Certain relationships with KPMG

Independence rules prohibit:

- Certain employment relationships involving directors, officers, or others in an accounting or financial reporting oversight role and KPMG and KPMG covered persons.
- The Fund or its directors, officers, from having certain types of business relationships with KPMG or KPMG professionals.

KPMG

Responsibilities

Management responsibilities

- Communicating matters of governance interest to those charged with governance.
- The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

KPMG responsibilities – objectives

- Communicating clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from those charged with governance information relevant to the audit.
- Providing those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.
- Promoting effective two-way communication between the auditor and those charged with governance.
- Communicating effectively with management and third parties.

KPMG responsibilities – other

- If we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we should:
- Withdraw from the audit engagement when possible under applicable law or regulation;
- Communicate the circumstances to those charged with governance, and
- Determine whether any obligation, either legal contractual, or otherwise, exists to report the circumstances to other parties, such as owners, or regulators.
- Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Establishing the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.
- Communicating any procedures performed relating to other information, and the results of those procedures.

New team member

John T Kennedy

Engagement Quality Reviewing Partner

KPMG LLP
6565 Americas Parkway, NE, Suite 700
Albuquerque, New Mexico 87110

Tel 505-880-3891

Cell 505-328-1680

jtkennedy@kpmg.com

CPA—New Mexico, Texas and Arizona

Background

John is an audit partner in the KPMG Albuquerque office with more than 36 years of experience.

Professional and industry experience

John's professional responsibilities are primarily in the government, higher education, and not-for-profit areas. He has served clients throughout his career with large investment portfolios. Many of his clients have sophisticated, diversified investment strategies that include a significant concentration in alternative investments.

John has served governmental entities throughout his entire career. He has deep knowledge of the Governmental Accounting Standards Board pronouncements and related requirements, including the financial reporting requirements relating to investments.

John participates in various firm initiatives impacting the governmental sector. He also participates in KPMG's internal audit quality review program.

Representative clients

- Department of the Interior Bureau of Trust Funds Administration
- Chickasaw Nation
- Children's Mercy Hospital Foundation
- Greater Texas Foundation
- Jicarilla Apache Nation
- Navaho Nation
- New Mexico State University Foundation
- University of Houston Foundation
- University of New Mexico Foundation

Inquiries

Are those charged with governance aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
  - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
  - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Do those charged with governance have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting the Company?
  - If so, have the instances been appropriately addressed and how have they been addressed

KPMG

Cybersecurity considerations

Factors and forces elevating cybersecurity risks:

- Shifts to remote work, online customer engagement, digital finance – “remote everything”
- Acceleration of digital strategies/transformation
- Surge and sophistication of cyber attacks
- Risks, vulnerabilities posed by third-party vendors

Your considerations for robust oversight

- Focus on internal controls, access, and security protocols
- Increase diligence around third-party vendors
- Insist on a robust data governance framework
- Obtain cyber expertise at board or upper management level
- Provide ongoing cyber awareness training to leaders in the company
- Trust but verify the information reported by the Chief Information Officer function and by third-party cyber service providers

Our audit responsibilities

- Evaluate risks of material misstatement resulting from, among other things, unauthorized access to financial reporting systems (e.g., IT applications, databases, operating systems)
- Determine whether there is a related risk of fraud
- Develop audit approach based on risk assessment
- If a cybersecurity incident occurs, we understand and evaluate its effect on our audit approach, as well as evaluate management’s assessment of the effect on the financial statements and disclosures

2023 Audit Committee agenda

Eight issues for audit committees to keep in mind as they carry out their 2023 agendas

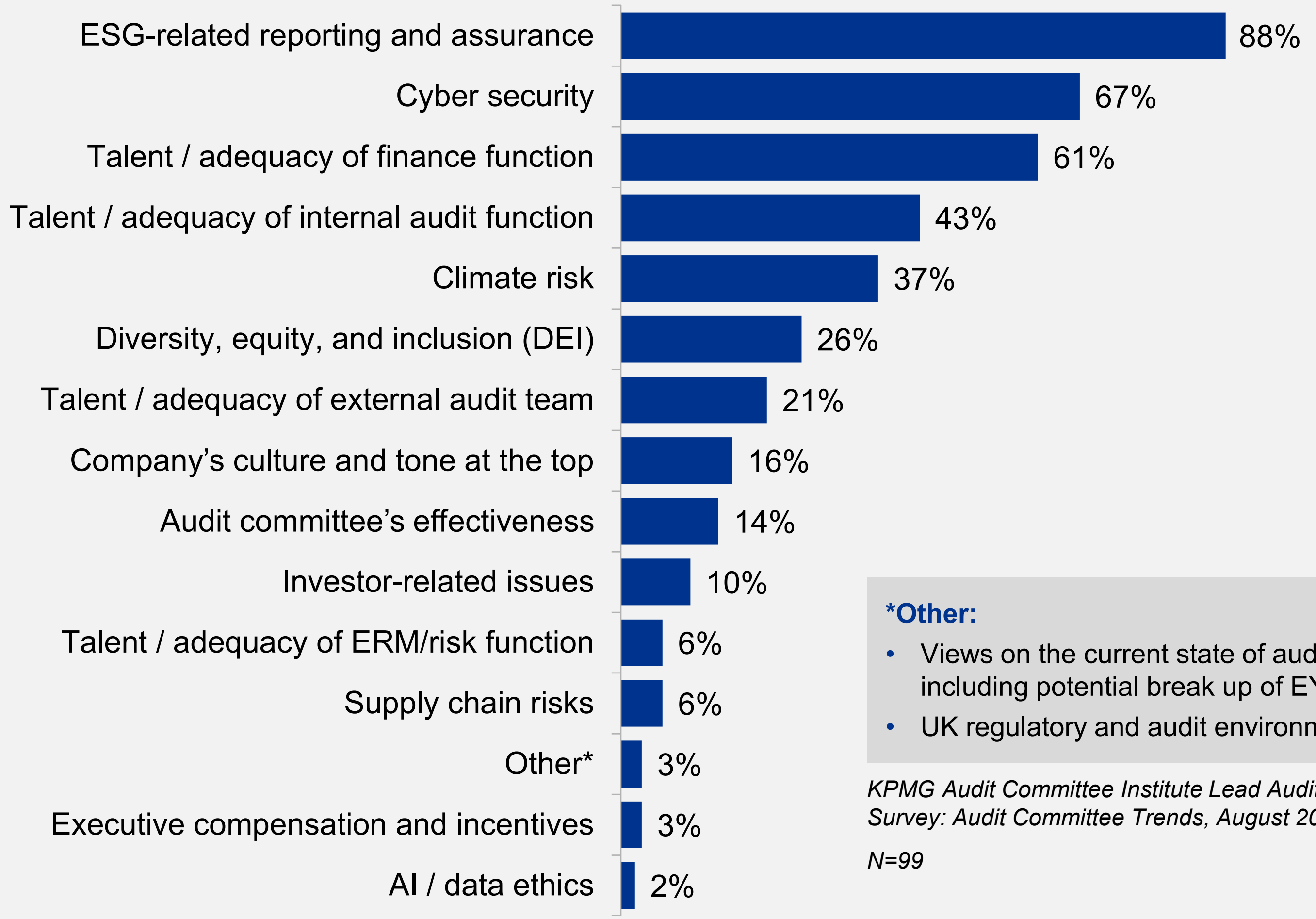
- Stay focused on financial reporting and related internal control risks—job number one.
- Clarify the role of the audit committee in overseeing the company's climate and other ESG risks—particularly the scope and quality of ESG/sustainability reports and disclosures.
- Maintain a sharp focus on leadership and talent in the finance organization.
- Reinforce audit quality and set clear expectations for frequent, candid, and open communications with the external auditor.
- Make sure internal audit is focused on the company's key risks—beyond financial reporting and compliance—and is a valuable resource for the audit committee.
- Help sharpen the company's focus on ethics, compliance, and culture.
- Stay apprised of global tax developments and risks and understand that tax has become an important element of ESG.
- Take a close look at the audit committee's composition and skill sets.

KPMG Audit Committee Institute: On the 2023 audit committee agenda

Audit Committee Institute Lead Partner Survey

In this survey, KPMG Lead Audit Engagement Partners were asked the following question:

Beyond the required (SEC, PCAOB) communications between the auditor and audit committee, what issues has your audit committee(s) asked for your perspective on – presumably reflecting the committee's increased focus and/or concern? (select all that apply)



***Other:**

- Views on the current state of audit industry, including potential break up of EY
- UK regulatory and audit environment

KPMG Audit Committee Institute Lead Audit Partner Survey: Audit Committee Trends, August 2022

N=99

U.S. Audit Quality, Transparency, and Impact reports

- Interactive dashboard highlights key quality metrics
- Details KPMG's investment in our audit approach, people, technology, quality management system and the future of audit

Audit Quality Report

- Provides more granular detail on our commitment to continually enhance audit quality
- Outlines KPMG LLP's structure, governance and approach to audit quality
- Discusses how the firm aligns with the requirements and intent of applicable professional standards

Transparency Report

- Provides annual update on our progress on meeting goals aligned to People, Planet, Prosperity, and Governance
- Our goals reflect a materiality assessment and our aspiration to be an employer of choice

KPMG Impact Plan

Reports and supplements available at: audit.kpmg.us/auditquality

KPMG

SAS 145 Adoption

We will expand our risk assessment procedures, particularly in relation to the entity's use of IT.

We may modify the nature, timing, and extent of our audit procedures and request different information compared to previous audits.

SAS 145 (AU-C 315), *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

- SAS 145 clarifies and enhances certain aspects of the identification and assessment of the risks of material misstatement to drive better risk assessments, and therefore, enhance audit quality, such as:
  - Requirements and guidance related to the auditor's risk assessment, in particular, obtaining an understanding of the entity's system of internal control and assessing control risk
  - Guidance that addresses the economic, technological, and regulatory aspects of the markets and environment in which entities and audit firms operate
- It does not fundamentally change the key concepts underpinning audit risk, which is a function of the risks of material misstatement and detection risk. Amendments have been made to other AICPA Professional Standards
- Affects both preparers and auditors
- Applies to audits of financial statements for periods ending on or after December 15, 2023. However, KPMG is early adopting SAS 145 for audits of financial statements for periods ending on or after **December 15, 2022**.

KPMG

Questions?

For additional information and audit committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit the KPMG Audit Committee Institute (ACI) at www.kpmg.com/ACI

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APFC ALASKA PERMANENT FUND CORPORATION
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907.796.1500 | apfc.org

SUBJECT: Internal Audit Discussion

ACTION: ________

DATE: May 17, 2023

INFORMATION: ____X____

Background:

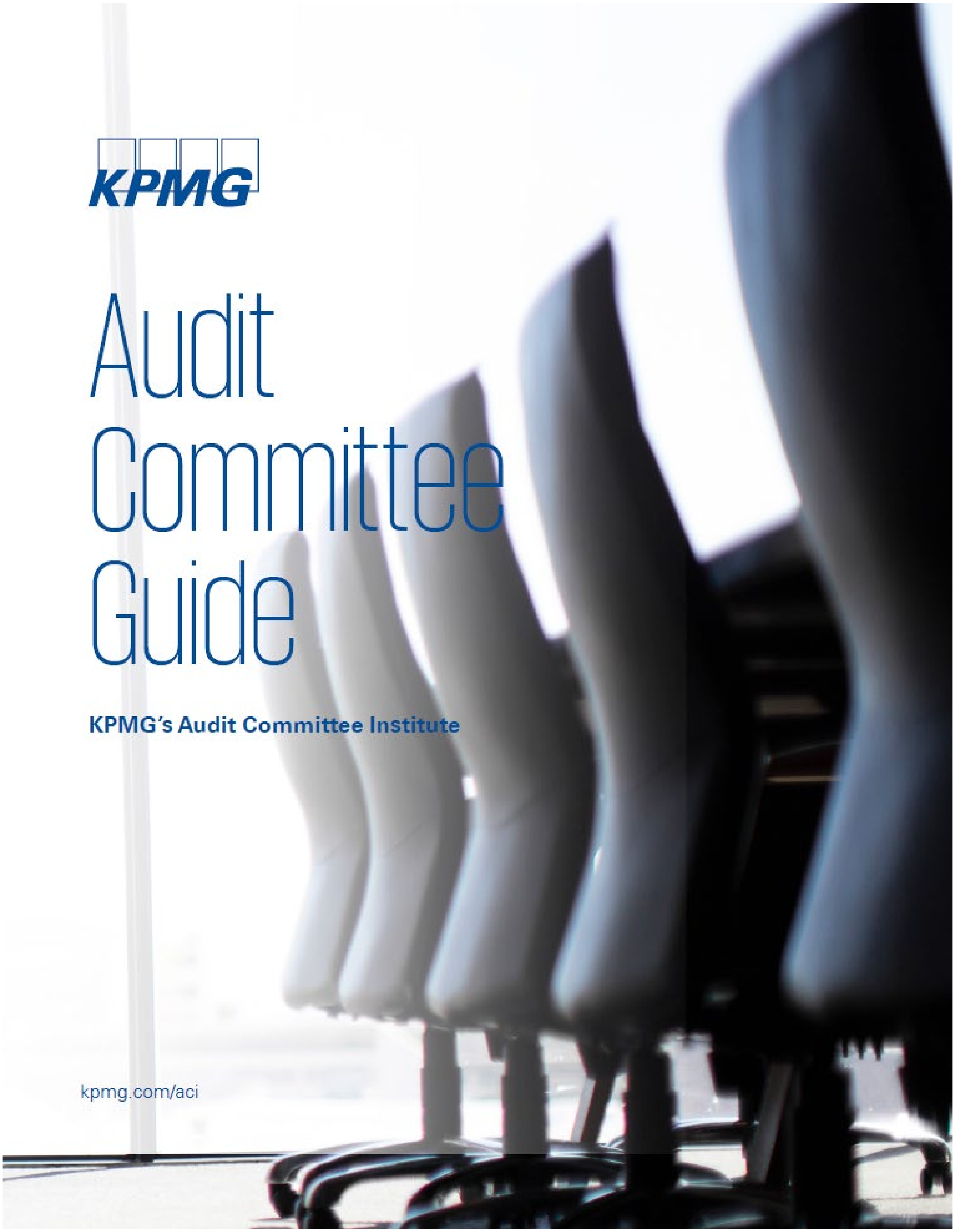
On May 9th, the Governance Committee reviewed the recommendations put forward by Funston Advisory Services, the firm retained to review APFC's governance practices. One of these recommendations was to consider adding an internal audit function to the organizational structure, either through internal staff or an external consultant.

Status:

Staff will be leading a discussion with the Audit Committee to continue the discussion around the need to add an internal audit function and how it might best be implemented at APFC. KPMG will be available to provide input as well.

Included here are the following documents to aid in the discussion:

- Information from KPMG on internal audit
- Alaska Housing Finance Corporation's audit department charter
- Information regarding the role of the UTIMCO System Audit Office
- Example of a UTIMCO internal audit results



KPMG

Audit Committee Guide

KPMG's Audit Committee Institute

kpmg.com/aci

About KPMG's Audit Committee Institute

As part of the KPMG Board Leadership Center, the Audit Committee Institute (ACI) engages with audit committee chairs, board members, and business leaders to help articulate their challenges and promote continuous improvement. With a presence in more than 35 countries worldwide, ACI delivers actionable thought leadership—on financial reporting and audit quality, risk and compliance, talent and technology, and more—all through a board lens. Learn more about ACI's programs, resources, and insights for directors at kpmg.com/aci.

Give the external auditor clear performance objectives and evaluate the auditor against those objectives. Work with the external auditor to develop clear performance objectives against which the committee will evaluate the auditor's performance in the coming year, and then evaluate the auditor accordingly. (See Appendix G: External Auditor Assessment Tool.)

Consider how the audit committee can most effectively carry out its "direct responsibility" for oversight of the external auditor given management's extensive interactions with the engagement team, often on a daily basis. For example, what should be the role of the audit committee versus management in negotiating audit fees? Surveys continue to suggest that in many cases, the CFO—and not the audit committee—plays *the primary* role in negotiating audit fees. Depending on the unique facts and circumstances, management may be able to help the audit committee during fee negotiations; but in all cases, the audit committee—not management—has direct and final responsibility for determining the auditor's fees. Financial management might initially develop a fee estimate in concert with the external auditor and then propose an overall plan to the audit committee for its consideration. Of course, the audit committee needs to consider and balance management's inherent bias to reduce the auditor's time and fees, and the external auditor's bias to increase audit fees. If this is a concern, the audit committee might take a more active role in the process.

Similarly, the audit committee should consider its role (versus financial management's) in other key areas, such as evaluating the auditor's performance, partner rotation, and reviewing audit plans. In all of these areas, management works closely with the engagement team, and certainly has important insights and knowledge that can help the audit committee carry out its direct responsibility for oversight of the external auditor.

Audit quality initiatives

In recent years, investors, regulators, and other stakeholders—noting stronger communications and deeper engagement between audit committees and auditors—generally have expressed confidence in the quality of financial statement audits. That said, the PCAOB continues to focus on internal control over financial reporting (ICOFR) as well as various projects to enhance audit quality and auditor independence, objectivity, and professional skepticism, including changes to the auditor's reporting model, enhanced transparency (auditor's signature on the audit opinion), audit quality indicators, and others.

Audit committees should stay apprised of these initiatives (and consider sharing their views with regulators, as appropriate), and understand the implications for the company's audit (including multinational audit activities) and the audit committee's oversight role and interaction with auditors. The audit committee should always take the lead role in helping to ensure audit quality.

Internal audit

Under NYSE listing rules, the audit committee must oversee the internal audit function (whether in-house or outsourced), including:

- Reviewing with the *external* auditor the responsibilities, staffing, and budget of the internal audit function
- Holding executive sessions with the internal auditor.

As part of their responsibilities, audit committees typically also review the internal audit plan and results of their work. Beyond these requirements, there are few mandates prescribing the audit committee's responsibility for oversight of internal audit. However, as audit committees have come to rely on internal audit (and the head of internal audit) as one of their primary resources in the oversight of financial reporting and risk management processes, a number of leading practices for oversight of internal audit have evolved. Today, many audit committees play an important role in two key areas:

— Helping to define or clarify internal audit's role and helping to ensure that it has the skills and resources to be successful in that role

— Defining the reporting relationships for internal audit.

Internal audit's role and resources

At a time when audit committees are wrestling with heavy agendas—and issues like cybersecurity and global compliance are putting risk management to the test—internal audit should be an indispensable resource to the audit committee and a crucial voice on risk and control matters.

This often means focusing not just on financial reporting and compliance risks, but critical risks to the business—key operational and technology risks, and related controls. Does internal audit have the stature—and a direct line to the audit committee—to ensure that its voice is heard and valued? "High-performing departments stand apart in their mindset and how they approach their work," says one seasoned internal audit executive. "They grasp the importance of delivering value, and they are seen by stakeholders as an indispensable resource."

As noted above, an important role for the audit committee is to help clarify and define the role of internal audit in the organization. Do the internal auditor, CEO, CFO, and audit committee have a shared view of the role of internal audit in the organization? Recognize that there are competing demands on internal audit—from the CEO, CFO, business unit leaders, and risk and IT officers—and that the lack of a shared view can undermine internal audit's effectiveness.

Clarify internal audit's role in connection with risk management—which is *not to manage risk*, but to provide added assurance regarding the adequacy of risk management processes. To this end, are internal audit plans focused on the most significant risks to the business, including strategic and operational risks? Do we have the right controls around these risks? Are the controls functioning properly? Is the audit committee obtaining assurances regarding mitigation of the strategic and operational risks?

The audit committee can help internal audit add value to the organization by:

— **Making sure internal audit has the necessary skills.** Given its evolving responsibilities, internal audit may require new skills, including operational knowledge (supply chain, shared services, outsourcing), IT experience, cross-cultural training for global organizations, knowledge of emerging markets, risk management and evaluation, cybersecurity, data analytics, fraud detection, local language skills, and more.

— **Reinforcing internal audit's stature within the organization and its accountability to the audit committee.** As internal audit becomes more involved in helping the organization manage risk and achieve strategic objectives, there is a greater need for the audit committee to help ensure the objectivity of the internal audit function. Direct and open lines of communication between the audit committee and the head of internal audit become more important.

Also, 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.

Reporting relationships for internal audit

There's an inherent tension in the internal auditor's role: the head of internal audit is an important member of the company's management team, while at the same time responsible for reviewing management's conduct and performance. This is a difficult position, and the challenge for the audit committee is to establish a relationship that helps the head of internal audit and internal audit staff operate effectively in its dual management/monitoring role.

The Institute of Internal Auditors (IIA) and others suggest that internal audit report "functionally" to the audit committee and "administratively" to the CEO or other C-level executive—e.g., the CFO, General Counsel, or other C-level—who can effectively serve as the "internal audit champion."

What is the role of the audit committee versus management in this reporting relationship—e.g., reviewing and approving internal audit's plan, budget, and resources; hiring or firing the head of internal audit; conducting a performance review and determining compensation? Each organization will need to structure the head of internal audit's reporting relationships and oversight roles according to its unique needs and circumstances; however, in many cases it will make sense for *both* the audit committee and the internal audit champion to be jointly responsible for overseeing internal audit.

Management is in a good position to review the internal auditor's audit plans, budget, and resources and to recommend appropriate compensation and hiring or terminating the head of internal audit. All of these issues, however, should be subject to the audit committee's approval—a "review and consent" model.

Under no circumstances should internal audit's findings and reports be "filtered" before they are presented to the audit committee, and the audit committee should set a clear expectation for the internal auditor to report any concerns regarding sensitive matters, including issues involving senior management, directly to the audit committee. A relationship built on trust and confidence is essential to ensuring that internal audit will bring important (sometimes controversial) issues to the audit committee's attention without hesitation.

Cosourcing of internal audit

Many organizations do not have internal audit professionals with the technical skills and/or industry experience to meet the demands of the business; or they may not have a large enough staff—with language skills and knowledge of local cultures—to meet the audit-related needs of a company operating internationally. As a result, they may cosource internal audit services to support specific areas of the internal audit function.

In these cases, the audit committee should be involved in any proposal to cosource internal audit activities, and to continue provide oversight of the cosourced services. The audit committee should ensure that the company's head of internal audit has management responsibility for the cosourced function—including adequate resources to manage the cosourced services effectively—and that there are appropriate controls around the cosourced function.

ALASKA HOUSING FINANCE CORPORATION
INTERNAL AUDIT DEPARTMENT CHARTER

Purpose and Mission

The purpose of Alaska Housing Finance Corporation's (AHFC) Internal Audit Department (IAD) is to provide independent, objective assurance and consulting services designed to add value and improve AHFC's operations. The mission of IAD is to enhance and protect AHFC's value by providing risk-based and objective assurance, advice, and insight. The IAD helps AHFC accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The IAD will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The Director of the IAD will report periodically to Executive Management and the Audit Committee (AC) regarding the IAD's conformance to the Code of Ethics and the *Standards*.

Authority

The Director of the IAD will report functionally to the AC and administratively (i.e. day-to-day operations) to the Chief Executive Officer (CEO). To establish, maintain, and assure that AHFC's IAD has sufficient authority to fulfill its duties, the AC will:

- Approve the IAD's charter.
- Approve the risk-based Annual Internal Audit and Compliance Plan.
- Review the IAD's Annual Operating Budget.
- Receive communications from the Director of the IAD on the IAD's performance relative to its Annual Internal Audit and Compliance Plan and other matters.
- Approve decisions regarding the appointment and removal of the Director of the IAD.
- Provide input into the annual performance evaluation of the Director of the IAD.
- Make appropriate inquiries of the Director of the IAD to determine whether there is inappropriate scope or resource limitations.

The Director of the IAD will have unrestricted access to, and communicate and interact directly with the AC.

The AC authorizes the IAD to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of AHFC, as well as other specialized services from within or outside AHFC, in order to complete the engagement.

Independence and Objectivity

The Director of the IAD will ensure that the IAD remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Director of the IAD determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for AHFC or its subsidiaries.
- Initiating or approving transactions external to the internal audit department.
- Directing the activities of any AHFC employee not employed by the IAD, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Director of the IAD has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Director of the IAD will confirm to the AC, at least annually, the organizational independence of the IAD.

The Director of the IAD will disclose to the AC any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Department Activities

The scope of the IAD's activities encompasses, but is not limited to, objective examinations of evidence for providing independent assessments to the AC, CEO, Management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for AHFC. The IAD assessments include evaluating whether:

- Risks relating to the achievement of AHFC's strategic objectives are appropriately identified and managed.
- The actions of AHFC's directors, officers, employees, and contractors comply with AHFC's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.

- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly affect AHFC.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Director of the IAD will report periodically to the CEO and the AC regarding:

- The IAD's purpose, authority, and responsibility.
- The IAD's plan and performance relative to its plan.
- The IAD's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the audit committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to AHFC.

The Director of the IAD also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The IAD may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the IAD does not assume Management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of Management.

Responsibility

The Director of the IAD has the responsibility to:

- Submit, at least annually, to the CEO and the AC a risk-based Internal Audit and Compliance Plan (Plan) for review and approval.
- Communicate to the CEO and the AC the impact of resource limitations on the Plan.
- Review and adjust the Plan, as necessary, in response to changes in AHFC's business, risks, operations, programs, systems, and controls.
- Communicate to the CEO and the AC any significant interim changes to the Plan.
- Ensure each engagement of the Plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow-up on engagement observations and corrective actions, and report periodically to the CEO and the AC any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the IAD staff collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the IAD Charter.
- Ensure trends and emerging issues that could affect AHFC are considered and communicated to the CEO and the AC as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the IAD.
- Ensure adherence to AHFC's relevant policies and procedures, unless such policies and procedures conflict with the IAD Charter. Any such conflicts will be resolved or otherwise communicated to the CEO and the AC.

- Ensure conformance of the IAD with the Standards, with the following qualifications:

    - If the IAD is prohibited by law or regulation from conformance with certain parts of the *Standards*, the Director of the IAD will ensure appropriate disclosures are made and ensure conformance with all other parts of the Standards.

    - If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Director of the IAD will ensure that the IAD conforms to the *Standards*, even if the IAD also conforms to the more restrictive requirements of other authoritative bodies.

Consulting Engagements

IAD will consider accepting proposed consulting engagements based on the engagement's potential to improve management of risk, add value, and improve AHFC's operations. The following must be included as part of the decision making process in order for IAD to agree to a consulting engagement:

- The relative complexity and extent of work needed to achieve the engagement's objectives.
- The cost of the engagement in relation to the potential benefits.
- The needs and expectations of the clients, including the nature, timing and communication of the engagement results. For all engagements, these must be documented and agreed upon.
- The IAD must monitor the disposition of results of the engagements to the extent agreed upon with the client. However; if governance, risk management control issues are identified during an engagement that could result in a negative significant impact to AHFC they will be communicated to senior management.

Quality Assurance and Improvement Program

The IAD will maintain a Quality Assurance and Improvement Program that covers all aspects of the IAD. The program will include an evaluation of the IAD's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the IAD and identify opportunities for improvement.

The Director of the IAD will communicate to the CEO and the AC on the IAD's Quality Assurance and Improvement Program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside AHFC.

Approval/Signatures:

Director, Internal Audit	10/19/22 Date
Jeff Hall Chair, AHFC Audit Committee	10-19-22 Date
CEO/Executive Director	10-19-22 Date

The Role of the System Audit Office at UTIMCO

Background of UTIMCO

The University of Texas Investment Management Company (UTIMCO) is a 501(c)(3) investment management corporation whose sole purpose is the management of investment assets under the fiduciary care of the Board of Regents of The University of Texas System (UT Board).

Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of $17.3 billion, including the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, the General Endowment Fund, the Short Intermediate Term Fund, the Short Term Fund, Separately Invested Funds, and the Institutional Index Funds.

UTIMCO is governed by a nine-member Board of Directors appointed by the UT Board. The UTIMCO Board of Directors includes three members of the UT Board, the Chancellor of The University of Texas System, and five outside investment professionals, including one representative from the Texas A&M System.

The UT Board delegates investment management responsibility to UTIMCO subject to compliance with UT Board approved investment policies. Day-to-day management of funds is further delegated to UTIMCO management, which provides a comprehensive range of investment management services. UTIMCO staff includes investment professionals, accountants, information technology specialists, operations and administrative personnel, all of whom work together to provide total investment support.

Overall Role of System Audit Office

The University of Texas System (UT System) Audit Office provides an independent internal audit appraisal function established within UT System to examine and evaluate its activities as a service to the UT Board, the Chancellor, and the Executive Staff of the UT System.

The mission of the UT System Audit Office includes the following elements:

- To provide to management and the UT Board independent, objective evaluations of the operations, policies, procedures, and controls at UT System Administration.
- To provide to the internal audit departments of mid-size and small campuses supplemental assistance and resources so that they can provide management and the UT Board with independent, objective evaluations of their operations, policies, procedures, and controls.
- To provide for UT System management and the UT Board oversight of all internal audit departments in the UT System to assure that an effective internal audit function which includes a risk based annual and long-range audit plan, a reporting mechanism, and a quality assurance program, is in place system-wide.

System Audit Office Role at UTIMCO

Historically, UTIMCO has never employed an internal auditor who provided independent services. The UT System Audit Office has performed periodic internal audits (e.g., investment management fees and general computer controls) and testing for UTIMCO's external auditors to reduce the scope of their procedures on the external audits of the funds. Internal audit reports issued by the UT System Audit Office have been provided to and discussed with the UTIMCO Audit and Ethics Committee.

In fiscal year 2005, the UT System Audit Office performed procedures surrounding implementation of the *Sarbanes-Oxley Act* (Act). The procedures include reading controls narratives prepared by management, verifying the accuracy and completeness of the narratives with staff, testing controls identified, and reporting deficiencies in our testing. This work may be used by UTIMCO's external auditors to reduce the scope of their testing of UTIMCO's internal controls for the annual audits of the Corporation and the Funds and for opinions on internal control under the Act.

UTIMCO's Audit and Ethics Committee Charter

UTIMCO's Audit and Ethics Committee Charter includes the following language:

> The Corporation (UTIMCO) utilizes the UT System Internal Audit Department to perform internal audit functions hereunder with respect to the Corporation and investment funds and report directly to the Committee. The Committee has the following duties and responsibilities with respect to internal audit:
>
> - Review the independence, qualifications, activities, resources and structure of the internal audit function;
> - Ensure that significant findings and recommendations made by the internal auditors and management's proposed responses are received, discussed and appropriately acted on;
> - Review the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate coordination with the external auditor;
> - Review completed internal audits and the status of management's implementing related recommendations; and
> - Receive a progress report on the internal audit plan with explanations for any deviations from the original plan.

Conclusion

Given that the mission of the UT System Audit Office is to provide internal audit resources to other UT System institutions and that the dual role of reporting to the UT Board and UTIMCO's Audit and Ethics Committee is consistent with the stated mission, the UT System Audit Office performs a similar function at UTIMCO.

SUMMARY

BACKGROUND: The University of Texas/Texas A&M Investment Management Company (UTIMCO) completed a self-assessment of its compliance program in 2014, which was validated by an external peer review team in 2015. Since a review of the compliance program had not been completed since 2015, we and UTIMCO decided to evaluate the compliance program and provide a baseline assessment for the new chief compliance officer (CCO).

OBJECTIVE: To determine whether the UTIMCO compliance program is effective, using the United States Department of Justice's (DOJ) guidelines for the "Evaluation of Corporate Compliance Programs" that were updated in June 2020. As part of our effort to achieve this objective, we surveyed all UTIMCO employees and interviewed a sample of the UTIMCO Board of Directors and UTIMCO employees.

CONCLUSION: UTIMCO's compliance program has elements of an effective compliance program. UTIMCO has identified and monitors the majority of its key risks, has robust and detailed monitoring programs in place, and regularly reports to governance and leadership the results of monitoring plan activities. The majority of those interviewed cited the tone at the top and culture as strengths. While most reported that UTIMCO's compliance program was effective, they also cited opportunities to improve program efficiency and effectiveness. Consistent with feedback from the surveys and interviews, some compliance program elements need attention, including the confidential reporting process, risk assessment frequency and methodology, monitoring, quarterly reporting, disciplinary procedures, compliance self-assessment, and training.

OBSERVATIONS

1 Medium	Employee uncertainty about protection from retaliation for reporting suspected compliance or ethics violations increases the risk that such incidents go unreported and unresolved and negatively impact UTIMCO's culture and reputation.
2 Medium	Insufficient updating of UTIMCO's compliance risk assessment with input from stakeholders increases the risk that threats to the accomplishment of organizational objectives and misconduct are not effectively identified, monitored, and managed.
3 Medium	Without compliance testing, UTIMCO's compliance program cannot ensure that monitoring activities are effective. Ineffective or inefficient monitoring activities increase the risk that controls are not functioning as intended.
4 Medium	Insufficient compliance testing of operational due diligence follow-up activities increases the risk that external investment managers are not implementing corrective actions, resulting in potential investment loss and reputational damage.
5 Medium	Lack of metrics with summarized qualitative information and too much detail provided to UTIMCO leadership and governance does not facilitate efficient and effective compliance oversight.
6 Low	Lack of a documented disciplinary procedure increases the risk that disciplinary actions are not consistently enforced and/or that they are not commensurate with the severity of the violation.
7 Low	Lack of a periodic compliance self-assessment increases the risk of operating an outdated compliance program, since the program will not have incorporated stakeholders' feedback, lessons learned, or opportunities to improve the efficiency of existing compliance processes.
8 Low	Training that is perceived as being too lengthy and without any post-training assessment increases the risk of employees not fully retaining the content presented and understanding their responsibilities.

Management developed action plans to address these observations and anticipates implementation by December 31, 2022.

Survey Results Summary [107 of 113 (95%) Responses Received]

Strengths

99%	Believe that their immediate supervisor conducts herself/himself in an ethical manner.
98%	Understood the frequency and delivery method of compliance training.
97%	Knew where to locate policies and procedures.
97%	Expressed willingness to report legal and ethics violations.
92%	Were either "very aware" or "aware" of key compliance risks related for their areas.
88%	Believed that they had received sufficient training to identify potential non-compliance.

Opportunities

83%	Believed leadership promotes a culture of ethics as demonstrated by their actions. Four responded that they did not believe this to be true and 11 were unsure.
21%	Expressed uncertainty regarding whether they would be protected from retaliation or retribution if they were to report a suspected violation.
9%	Did not believe that ethical behavior is rewarded, and that unethical behavior will be remediated consistently, regardless of position in the organization.
16	Employees did not know how to locate the compliance hotline number.
13	Employees did not include the chief compliance officer as someone to report compliance issues to.
26	Employees did not include their immediate supervisor as someone to report compliance issues to.

Interview Results Summary [20 Interviews]

Strengths

Program Effectiveness: The majority of those interviewed believed that the compliance program is effective.

Tone at the Top: Management respects and follows policies and ethical standards. Leadership has set high standards and has sent a clear message that credibility takes time to build but can be easily lost.

Culture: Adherence to UTIMCO's "RIGHT" values, which focuses on cultural values and integrity, is measured in the 360-evaluation process and impacts employee incentive compensation.

Monitoring Plans: The monitoring plans are comprehensive, with templates provided to facilitate monitoring activities. An automated service to provide initial and ongoing background checks was implemented at a lower cost and improved background check efficiency.

Quarterly Reporting: Board members get a thorough report at every Audit and Ethics Committee meeting.

Policies: UTIMCO's policies are robust, well-accessible, comprehensive, and available through UTIMCO's intranet.

Training: Annual training is comprehensive and incorporates lessons learned, and efforts to make training fun and engaging are appreciated.

Hotline: Leadership encourages employees to report potential compliance violations or ethical concerns. Most of those interviewed believed that employees do not feel worried about retaliation if they were to report a compliance issue.

Opportunities

Risk Assessment: Members of leadership and governance did not have an opportunity to review the most recent risk assessment and provide feedback. The top five risks are on target but very broad and could be more focused. There is also an opportunity to review and update the risk assessment process.

Monitoring Plans: Tracking calls and meetings is not an effective metric for investment due diligence. The amount of monitoring activities takes a lot of time and could be reduced.

Reporting: Update reporting to governance to increase efficiency and reduce redundancy of information presented. Leverage metrics and develop a monitoring dashboard to streamline reporting.

Training: Too much material to cover in one session. Shorter, periodic training on different subjects would facilitate learning and retention. Implementing training technology could improve accessibility and flexibility while accommodating busy schedules.

Hotline: While people are encouraged to report potential ethical concerns, a few individuals expressed some level of uncertainty as to whether employees feared retaliation if they were to report ethical concerns.

Confidential Reporting Structure and Reporting Process

Employee uncertainty about protection from retaliation for reporting suspected compliance or ethics violations increases the risk that such incidents go unreported and unresolved and negatively impact UTIMCO's culture and reputation.

The United States Federal Sentencing Guidelines state that organizations, in order to have an effective compliance and ethics program, "shall take reasonable steps…to have and publicize a system, which may include mechanisms that allow for anonymity or confidentiality, whereby the organization's employees and agents may report or seek guidance regarding potential or actual criminal conduct without fear of retaliation." UTIMCO has a confidential compliance hotline, hosted by an outside vendor, whereby employees and external parties can anonymously report suspected compliance and ethics violations. The compliance hotline number is available on UTIMCO's public webpage and its internal SharePoint site.

To what extent do you believe that you will be protected from retaliation or retribution if you report a suspected violation?	
Strongly protected	56
Somewhat protected	29
Somewhat unprotected	7
Not protected	6
Not sure	9

While UTIMCO has established a confidential reporting structure and reporting process, and most employees were aware of the different avenues for reporting potential compliance issues, 21 percent of respondents (22 of 107) expressed some uncertainty about being protected from retaliation or retribution. These results indicate that not all employees have confidence in UTIMCO's confidential and anonymous reporting process. In addition, UTIMCO employees may not be aware that suspected compliance or ethics violations could also be reported to the UT System compliance hotline.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. Management is pleased that 85 out of 107 respondents feel protected from retaliation or retribution for filing a suspected compliance or ethics violation, and that only 13 feel "somewhat unprotected" or "not protected." UTIMCO has undertaken additional training and awareness campaigns on the hotline, both in annual training and in ad hoc discussions at All Hands meetings. Repeated discussions on UTIMCO's culture (RIGHT) occur throughout the organization and are measured annually in the firm's 360 peer review process. UTIMCO will continue to measure our employees' level of awareness on these topics at annual training and through additional compliance or employee engagement surveys to assess whether these efforts are proving effective.

We anticipate all planned actions will be completed or in place by December 31, 2022.

OBSERVATION 2

MEDIUM

Risk Assessment Process

Insufficient updating of UTIMCO's compliance risk assessment with input from stakeholders increases the risk that threats to the accomplishment of organizational objectives and misconduct are not effectively identified, monitored, and managed.

Periodic risk assessments are a key element of an ethics and compliance program and should serve as the foundation for all compliance program elements. Historically, the CCO has been responsible for conducting the risk assessment, which entailed the development of multiple risk assessments for the various functional areas and seeking feedback from certain organizational leaders. This approach to developing the risk assessment was more siloed as it was limited to input from selected individuals instead of a wider array of employees and governance. While the UTIMCO Employee Ethics and Compliance Committee (EECC) and the Audit and Ethics Committee were updated on monitoring activities for the high-risk areas each quarter, they were not asked to provide their review and input for the most recent risk assessment that was completed in October 2019.

While the legacy risk assessment process is based on sound principles, UTIMCO was unable to fully use the spreadsheet tool to produce a consolidated risk assessment. UTIMCO provided the individual risk assessments by functional area, which identified the high organizational and fraud risks and included the top five compliance risk areas that have consistently been reported to UTIMCO's EECC and the Audit and Ethics Committee. However, there was one human resources (HR)-related high risk that was not included among the top risks. Consistent with the risk assessment, interviews suggested that HR high risks were also important, should be monitored, and periodically reported on to the Audit and Ethics Committee.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. HR-related issues are covered in the conflicts of interest section of the Institutional Compliance Program. New UTIMCO personnel have been and will continue to be assessing the compliance program with fresh eyes. UTIMCO hired a new General Counsel in August 2020 (who was subsequently named Interim Chief Compliance Officer in April 2021) and a new generalist attorney at the Senior Director level in April 2021. UTIMCO is seeking to hire a new compliance attorney at the Senior Director level in 2021. Collectively, we intend to review and develop new or additional frameworks for risk assessments and monitoring.

We anticipate all planned actions will be completed or in place by December 31, 2022.

Monitoring Plans for Key Risks

> Without compliance testing, UTIMCO's compliance program cannot ensure that monitoring activities are effective. Ineffective or inefficient monitoring activities increase the risk that controls are not functioning as intended.

A robust monitoring and testing program can help ensure that an organization's compliance and ethics program is followed and that key risks that can impact achievement of objectives are being mitigated and managed. UTIMCO's responsible parties complete comprehensive, detailed monitoring plans for key risks associated with investment due diligence, investment risk management, and information technology and security. UTIMCO compliance monitors conflicts of interests, and in coordination with accounting, monitors investment compliance; however, UTIMCO compliance does not test or validate that key monitoring activities conducted by the other responsible parties to ensure that they are in place and functioning as intended.

The monitoring plans are detailed, comprehensive, and completed quarterly. However, feedback from some employees suggests that certain monitoring activities, such as tracking and reporting the number of calls and meetings with external managers, do not provide meaningful metrics or effectively mitigate risk. In addition, the investment due diligence monitoring plans include monitoring steps for activities that may not necessarily warrant compliance monitoring, such as the initial identification of possible investments. As indicated by one of UTIMCO's responsible parties, some monitoring plan reports read like an activity report, listing descriptions of operational actions that occurred over the quarter but may not necessarily clearly address a specific risk. In other cases, some employees interviewed suggested that certain monitoring steps were duplicative, that guidance provided by UTIMCO compliance for completing the monitoring plans was not consistent, and that the rationale for certain monitoring activities was not sufficiently explained to those tasked with completing the monitoring plans. These factors can contribute to manual errors, inefficiency, and inconsistent reporting of monitoring of key risks.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. New UTIMCO personnel have been and will continue to be assessing the compliance program with fresh eyes. UTIMCO hired a new General Counsel in August 2020 (who was subsequently named Interim Chief Compliance Officer in April 2021) and a new generalist attorney at the Senior Director level in April 2021. UTIMCO is seeking to hire a new compliance attorney at the Senior Director level in 2021. Collectively, we intend to review and develop new or additional frameworks for risk assessments and monitoring.

We anticipate all planned actions will be completed or in place by December 31, 2022.

Operational Due Diligence Monitoring Plan

Insufficient compliance testing of operational due diligence follow-up activities increases the risk that external investment managers are not implementing corrective actions, resulting in potential investment loss and reputational damage.

Financial scandals, volatile markets, and an increasingly complex regulatory environment have increased the importance of inspecting a prospective, external investment manager's operational activities. Awareness of potential control weaknesses and risks in an external investment manager's operations, organizational structure and staffing, investment strategy, and third-party relationships can seriously impact an investment's overall success. UTIMCO's operational due diligence (ODD) team, which reports to the chief operating officer (COO), examines external investment managers' operational activities. UTIMCO considers the ODD team's results in coordination with investment due diligence before deciding to invest.

The ODD team appears to perform thorough reviews of a prospective investment manager's operations, governance, personnel, compliance, and technology. In addition, the ODD team provides specific and actionable recommendations for an investment manager to address identified deficiencies. The COO indicated that the ODD team is working on a monitoring plan which would include following up on ODD recommendations. Once the monitoring plan is in place, UTIMCO compliance could periodically validate ODD's monitoring plan to ensure that external investment managers are implementing corrective actions as part of the ongoing due diligence process.

MANAGEMENT ACTION PLAN

Management agrees and has already taken significant steps to address this observation. In late 2020, Legal & Compliance (L&C) identified ODD compliance as a major initiative in its 2021 Action Plan. Starting in January 2021, L&C and ODD teams began regularly collaborating to ensure ODD risks associated with any existing or potential external manager were properly identified and that recommended actions were included in UTIMCO's agreements as contractual obligations to the extent necessary and possible. In July 2021, the ODD team will launch a risk-based approach to ODD monitoring where those managers deemed "riskier" will be reviewed on a more frequent or set basis.

We anticipate all planned actions will be completed or in place by June 30, 2022.

Periodic Reporting

Lack of metrics with summarized qualitative information and too much detail provided to UTIMCO leadership and governance does not facilitate does not facilitate efficient and effective compliance oversight.

The UTIMCO compliance program reports on high-risk monitoring plans and the compliance work plan to two committees of the UTIMCO Board of Directors—the Audit and Ethics Committee and the Risk Committee. This results in duplicative reporting to governance and information that the Risk Committee may not need to exercise its fiduciary duties.

Various metrics are reported to the Audit and Ethics Committee; however, they are not organized in a dashboard that could summarize UTIMCO's compliance with key policy requirements. Quarterly compliance reporting to both the Audit and Ethics Committee and the Risk Committee includes detailed qualitative narratives regarding various compliance checks performed, most of which do not indicate policy exceptions. Opportunities exist to use metrics and summarized qualitative information to reduce the volume of reported detail, while focusing attention on the most important items. Reduction of reporting redundancy and detail and elimination of unnecessary monitoring steps could also improve efficiency of compliance monitoring and reporting without introducing additional risk of non-compliance.

MANAGEMENT ACTION PLAN

Management agrees and has already taken significant steps to address this observation. Certain Compliance dashboard reporting is currently in the process of being rolled out. Additional reporting is currently in development. Additionally, UTIMCO will recommend that the charters of the Audit & Ethics Committee, Risk Committee and Cyber Risk Committee be reviewed at the September 2021 UTIMCO Board and Committee meetings with the aim of eliminating duplicative or unnecessary reporting.

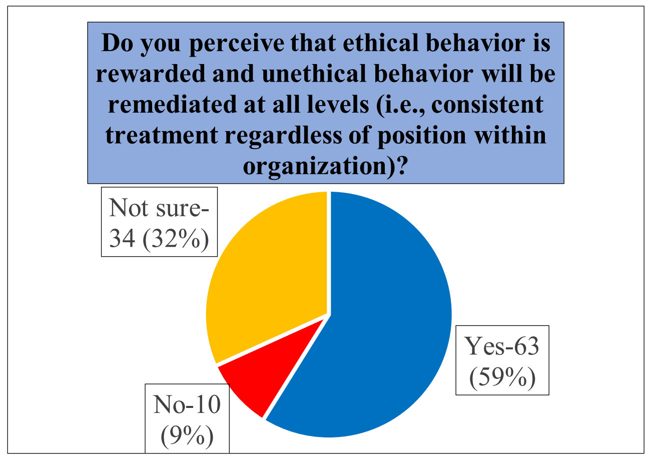
We anticipate all planned actions will be completed or in place by December 31, 2022.

Documented Disciplinary Procedures

Lack of a documented disciplinary procedure increases the risk that disciplinary actions are not consistently enforced and/or that they are not commensurate with the severity of the violation.

The DOJ guidance states that a "hallmark of effective implementation of a compliance program is the establishment of incentives for compliance and disincentives for non-compliance." The key to this is "whether the company has clear disciplinary procedures in place, enforces them consistently across the organization, and ensures that the procedures are commensurate with the violations."

UTIMCO has communicated its expectations regarding violations of policy through its Code of Ethics, Employee Handbook, and initial and annual compliance training. UTIMCO has also created a disciplinary procedure for employee securities transaction violations. However, UTIMCO has not developed standardized disciplinary procedures for other potential disciplinary actions outside of securities transaction violations. As indicated by the survey question to the right, nine percent of employees did not perceive that ethical and unethical behavior is treated consistently regardless of position within UTIMCO, while 32 percent were not sure. While incidents are handled on a case-by-case basis, documented procedures would provide additional guidance for more consistent application of disciplinary actions.



MANAGEMENT ACTION PLAN

Management agrees with the observation and will prepare disciplinary action procedures to supplement UTIMCO's existing policies and procedures.

We anticipate all planned actions will be completed or in place by December 31, 2021.

OBSERVATION 7
LOW

Compliance Self-Assessment and Potential Opportunities for Improvement

Lack of a periodic compliance self-assessment increases the risk of operating an outdated compliance program, since the program will not have incorporated stakeholders' feedback, lessons learned, or opportunities to improve the efficiency of existing compliance processes.

The DOJ's guidance states that a "hallmark of an effective compliance program is its capacity to improve and evolve" and suggests that organizations take "reasonable steps to ensure that [their] compliance and ethics programs is followed" and that they periodically evaluate their compliance program's effectiveness.

In the six years between the compliance peer review and this audit, UTIMCO has not performed a self-assessment or surveyed employees to obtain their input regarding employee understanding, engagement, concerns, or opportunities for improvement. Interviews with employees indicated that little has changed in terms of compliance program practices; however, UTIMCO leadership team members and investment practices have changed since the last peer review.

A self-assessment could identify opportunities to update the compliance program and automate certain activities. For example, UTIMCO employees perform several activities to complete quarterly monitoring plans. Some manual, legacy activities are time consuming and include use of various documents and spreadsheets to track data and compile reports, which increases the risk of manual errors. Automating compliance activities, where practical, could reduce these risks. One employee interviewed suggested that UTIMCO could use a third-party service to automate the reporting of employees' personal trades and for monitoring employee trading through identification of potential exceptions for further review. This could improve efficiency and reduce the risk of errors without diminishing effectiveness. While opportunities exist to leverage technology to improve effectiveness and efficiency, UTIMCO reported recently implementing a third-party technology solution that provides timely and continuous background check information on prospective and current external investment managers at a fraction of the cost of the legacy process.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. New UTIMCO personnel have been and will continue to be assessing the compliance program with fresh eyes. UTIMCO hired a new General Counsel in August 2020 (who was subsequently named Interim Chief Compliance Officer in April 2021), a new generalist attorney at the Senior Director level in April 2021 and is seeking to hire a new compliance attorney at the Senior Director level no later than August 2021. L&C's 2021 Action Plan identified compliance automation as a major initiative and has made some progress toward that goal. UTIMCO will explore leveraging existing resources, using off-the-shelf software or bespoke applications to streamline manual processes. We will also explore requiring self-assessments or peer assessments on a set and consistent basis.

We anticipate all planned actions will be completed or in place by April 30, 2022.

Compliance Training and Testing

> Training that is perceived as being too lengthy and without any post-training assessment increases the risk of employees not fully retaining the content presented and understanding their responsibilities.

According to the DOJ's guidance, a "hallmark of a well-designed compliance program is appropriately tailored training and communications." Compliance program policies and procedures should be accompanied by a training program that informs and tests employees on the policies that they are responsible for knowing.

UTIMCO has taken steps to ensure that its policies and procedures have been integrated into the organization by conducting periodic training for all directors, officers, and employees. In addition, we were informed that efforts were underway before the audit began to update policies and procedures and strengthen organization of and access to them.

UTIMCO provides compliance training upon a director's appointment or an employee's hiring and then annually thereafter. Compliance training topics are based on risk and incorporates lessons learned from prior compliance incidents. Most of the employees interviewed indicated that UTIMCO's compliance training content was good and were aware that the compliance team was available to answer questions about compliance training and policies. Some employees even complimented the compliance team's efforts to make training fun and interesting. However, the current training program does not include any testing of employees to confirm their comprehension of the compliance and ethics content presented. In addition, the general consensus of those interviewed was that UTIMCO's annual compliance training lasted too long and covered too much content for one session. Some of those interviewed suggested breaking up the training into specific topics and making training available at different times during the year.

UTIMCO could enhance the effectiveness and efficiency of its compliance training program by using automated compliance training technology and tools that are available throughout the year; include shorter, targeted sessions to facilitate retention of information presented; and include testing of employees to ensure retention and serve as a way to measure training curriculum effectiveness.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. New training was launched in April 2021, with 100% of UTIMCO employee completing the training within the required time frame. Some testing was included in the training this year. The presentation materials are posted on the internal L&C website to serve as an easy reference guide. UTIMCO will explore launching video training next year with additional testing to determine comprehension of key concepts. In addition, L&C's 2021 Action Plan contains a goal of providing targeted training on discrete topics in a "lunch and learn" type format on a quarterly basis, with the first such training anticipated for CY Q3 2021.

We anticipate all planned actions will be completed or in place by April 30, 2022.

METHODOLOGY

This engagement was conducted in accordance with the guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

SCOPE AND PROCEDURES

The scope of the audit included UTIMCO's current institutional compliance activities, with historical information focusing primarily on calendar year 2020. Audit procedures included reviewing background information about UTIMCO's compliance program, gathering feedback from UTIMCO directors and employees, and testing selected compliance activities during the scope of this audit. These procedures included, but were not limited to:

- Surveying UTIMCO employees across the company (i.e., leadership, management, and staff in investment and non-investment positions) to assess awareness of the compliance program;
- Interviewing UTIMCO directors, compliance team members, and employees across the company;
- Reviewing the compliance risk assessment and monitoring processes; and
- Validating monitoring of compliance high-risk areas through sample testing.

We will follow up on management action plans in this report to determine their implementation status. Any requests for extension to the implementation dates require approval from the System Administration Internal Audit Committee. This process will help enhance accountability and ensure that timely action is taken to address the observations.

OBSERVATION RATINGS

Priority	An issue that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of System Administration or the UT System as a whole.
High	An issue considered to have a medium to high probability of adverse effects to a significant office or business process or to System Administration as a whole.
Medium	An issue considered to have a low to medium probability of adverse effects to an office or business process or to System Administration as a whole.
Low	An issue considered to have minimal probability of adverse effects to an office or business process or to System Administration as a whole.

CRITERIA

DOJ's "Evaluation of Corporate Compliance Programs" (updated June 2020), and UTIMCO and UT System policies and procedures, as applicable.

REPORT DATE

June 8, 2021

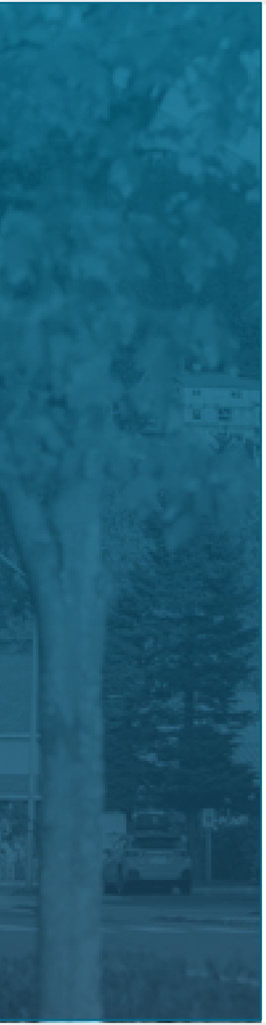
REPORT DISTRIBUTION

Britt Harris, President, Chief Executive Officer and Chief Investment Officer, UTIMCO
Joan Moeller, Senior Managing Director and Chief Operating Officer, UTIMCO
Carolina de Onís, Managing Director and General Counsel, UTIMCO
James B. Milliken, Chancellor, UT System
Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, UT System
Phil Dendy, Chief Compliance and Risk Officer, UT System
Jason King, Executive Director of Systemwide Compliance and Ethics Officer, UT System
UT System Administration Internal Audit Committee
External Agencies (State Auditor, Legislative Budget Board, Governor's Office)

APFC ALASKA PERMANENT FUND CORPORATION

FY23 Year-to-Date Financial Statement Review

May 17, 2023



Key Takeaways

as of March 31st

- Accounting net income: $2.8b
- Statutory net income: $1.6b
- Mineral revenues deposited to corpus: $645m
- POMV transfers to General Fund: $3.0b
- Total return 3.12%

Total Assets (millions)

	FY23 as of 3/31	FY22 as of 6/30
Cash	$2,441.9	$4,050.4
Receivables	955.0	617.0
Investments	74,247.3	73,009.9
Total assets	**$77,644.2**	**$77,677.3**

Investments (millions)

Fair value	FY23 as of 3/31	FY22 as of 6/30
Marketable debt securities	$13,170.1	$13,968.3
Preferred and common stock	26,355.7	25,778.8
Real estate	7,997.3	7,099.5
Absolute return	5,427.0	5,075.6
Private credit	2,661.7	2,527.9
Private equity	15,170.9	15,544.8
Infrastructure	3,464.6	3,015.0
Total investments	**$74,247.3**	**$73,009.9**

Unrealized Gains (Losses) (millions)

Asset Class	FY23 as of 3/31	FY22 as of 6/30	FY22 as of 3/31
Marketable debt securities	$(712.6)	$(1,182.6)	$(701.8)
Preferred and common stock	2,589.0	854.1	5,476.4
Real estate	2,303.2	2,511.1	2,142.9
Absolute return	1,376.7	1,273.4	1,156.9
Private credit	285.5	346.2	378.0
Private equity	5,432.1	6,324.6	7,111.0
Infrastructure	986.4	868.3	750.3
Currency	(43.8)	39.7	15.3
Total unrealized gains	**$12,216.5**	**$11,034.8**	**$16,329.0**

Liabilities (millions)

	FY23 as of 3/31	FY22 as of 6/30
Accounts payable	$883.0	$1,316.1
Income distributable	380.3	24.0
Total liabilities	**$1,263.3**	**$1,340.1**

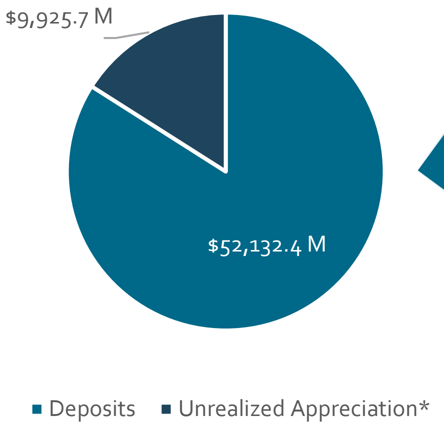
Fund Balances (millions)

	FY23 as of 3/31	FY22 as of 6/30
Nonspendable	$62,058.1	$60,187.6
Committed	7,705.7	3,360.6
Assigned	6,617.1	12,789.0
Total fund balances	$76,380.9	$76,337.2
Total liabilities and fund balances	**$77,644.2**	**$77,677.3**

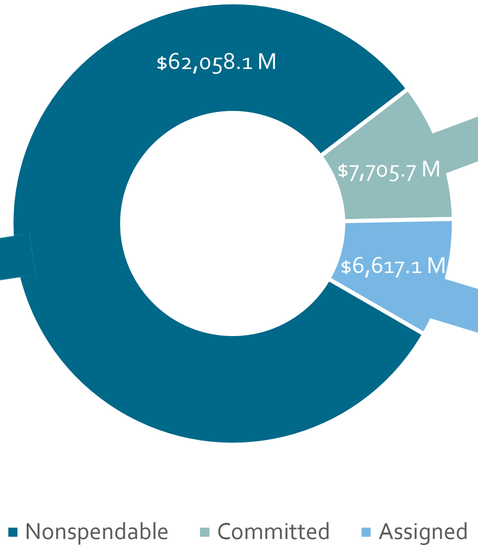
Structure

Principal

Principal: Nonspendable

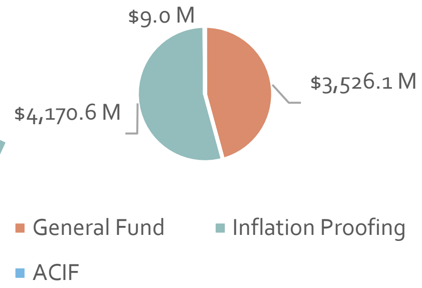


Alaska Permanent Fund

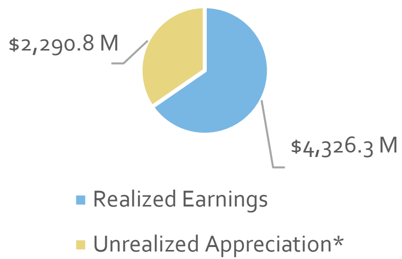


Earnings Reserve Account

ERA: Committed



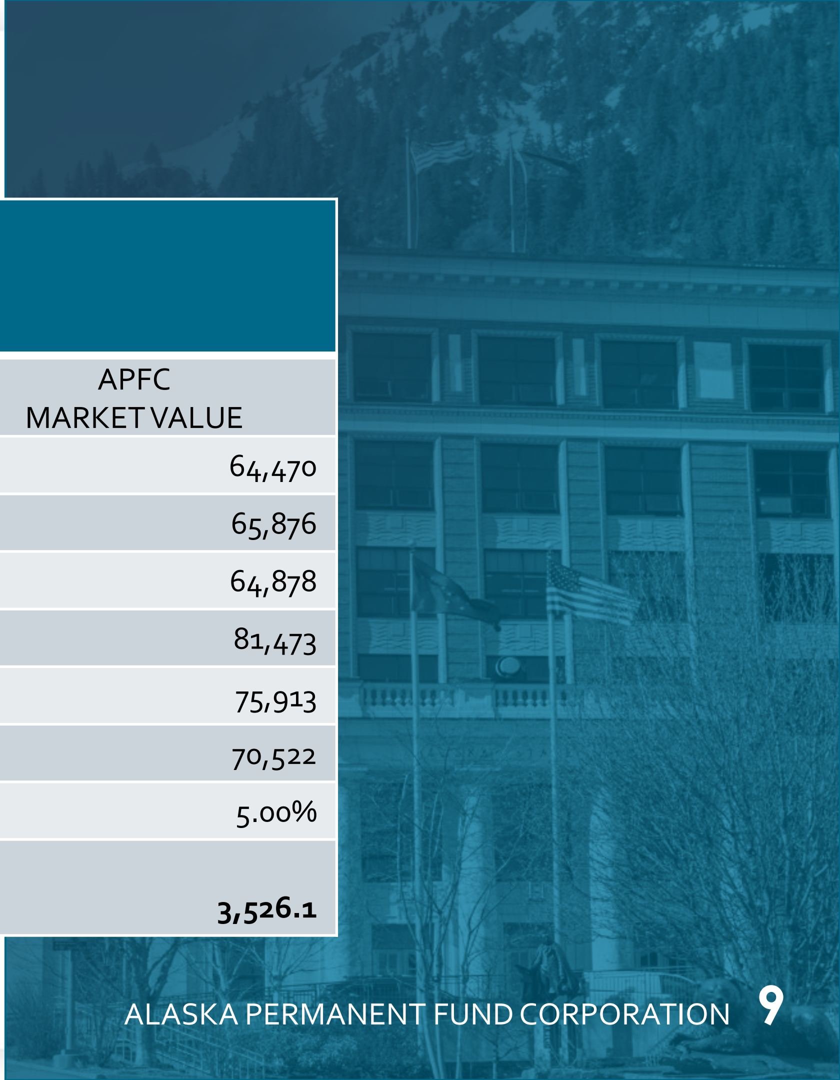
ERA: Assigned



*Unrealized appreciation on invested assets is allocated proportionately between Principal and ERA

General Fund Transfer

ALASKA PERMANENT FUND GENERAL FUND COMMITMENT FISCAL YEAR ENDING JUNE 30, 2023 (millions)			
FISCAL YEAR	GAAP MARKET VALUE	STATE vs AMERADA HESS	APFC MARKET VALUE
2018	64,894	424	64,470
2019	66,300	424	65,876
2020	65,302	424	64,878
2021	81,897	424	81,473
2022	76,337	424	75,913
		Average market value	70,522
		PERCENTAGE from AS 37.13.140(b)	5.00%
		Amount available for appropriation per AS 37.13.140(b)	**3,526.1**



Revenues (millions)

	FY23 as of 3/31	FY22 as of 6/30
Interest	$373.9	$456.1
Dividends	455.7	696.8
Real estate and other income	321.0	531.2
Total interest, dividends & other income	$1,150.6	$1,684.1
Total increase (decrease) in fair value of investments	1,738.6	(4,547.8)
Total revenues	**$2,889.2**	**$(2,863.7)**

Net Change in Investments Value

(millions)

Asset Class	FY23 as of 3/31	FY22 as of 6/30
Marketable debt securities	$(35.4)	$(2,467.7)
Preferred and common stock	2,133.7	(4,851.6)
Real estate	(174.3)	947.5
Absolute return	112.5	294.4
Private credit	(7.4)	105.8
Private equity	(287.1)	1,000.4
Infrastructure	206.6	485.3
Derivatives & currency	(210.0)	(61.9)
Total net increase	**$1,738.6**	**$(4,547.8)**

Expenditures (millions)

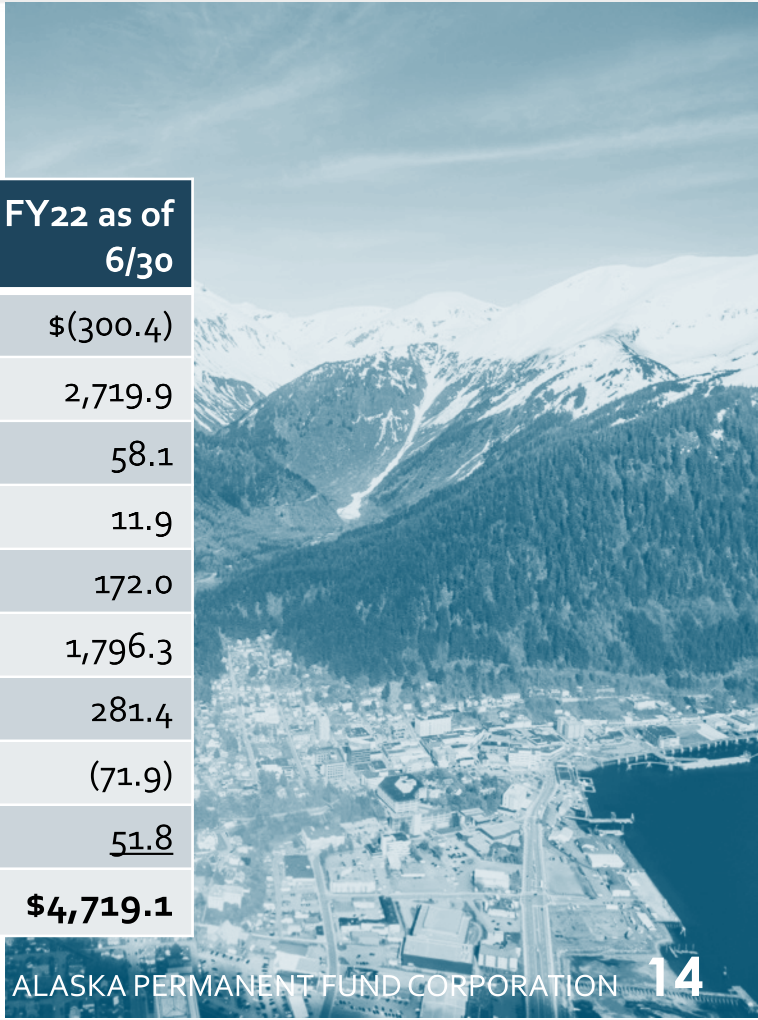
	FY23 as of 3/31	FY22 as of 6/30
Operating expenditures	$(120.6)	$(142.2)
Other legislative appropriations	(9.4)	(9.3)
Total expenditures	$(130.0)	$(151.5)
Excess (deficiency) of revenues over expenditures	**$2,759.2**	**$(3,015.2)**

Statutory Net Income (millions)

	FY23 as of 3/31	FY22 as of 6/30
Accounting (GAAP) net income	$2,759.2	$(3,015.2)
Unrealized (gains) losses	(1,181.8)	7,582.8
ACIF realized income	(9.0)	(24.0)
Statutory net income	**$1,568.4**	**$4,543.6**

Realized Earnings by Asset Class (millions)

Asset Class	FY23 as of 3/31	FY22 as of 6/30
Marketable debt securities	$(142.5)	$(300.4)
Preferred and common stock	858.7	2,719.9
Real estate	149.7	58.1
Absolute return	9.2	11.9
Private credit	124.9	172.0
Private equity	719.6	1,796.3
Infrastructure	92.8	281.4
Derivatives & currency	(123.8)	(71.9)
Other	18.9	51.8
Total	**$1,707.5**	**$4,719.1**



Changes in Fund Balances

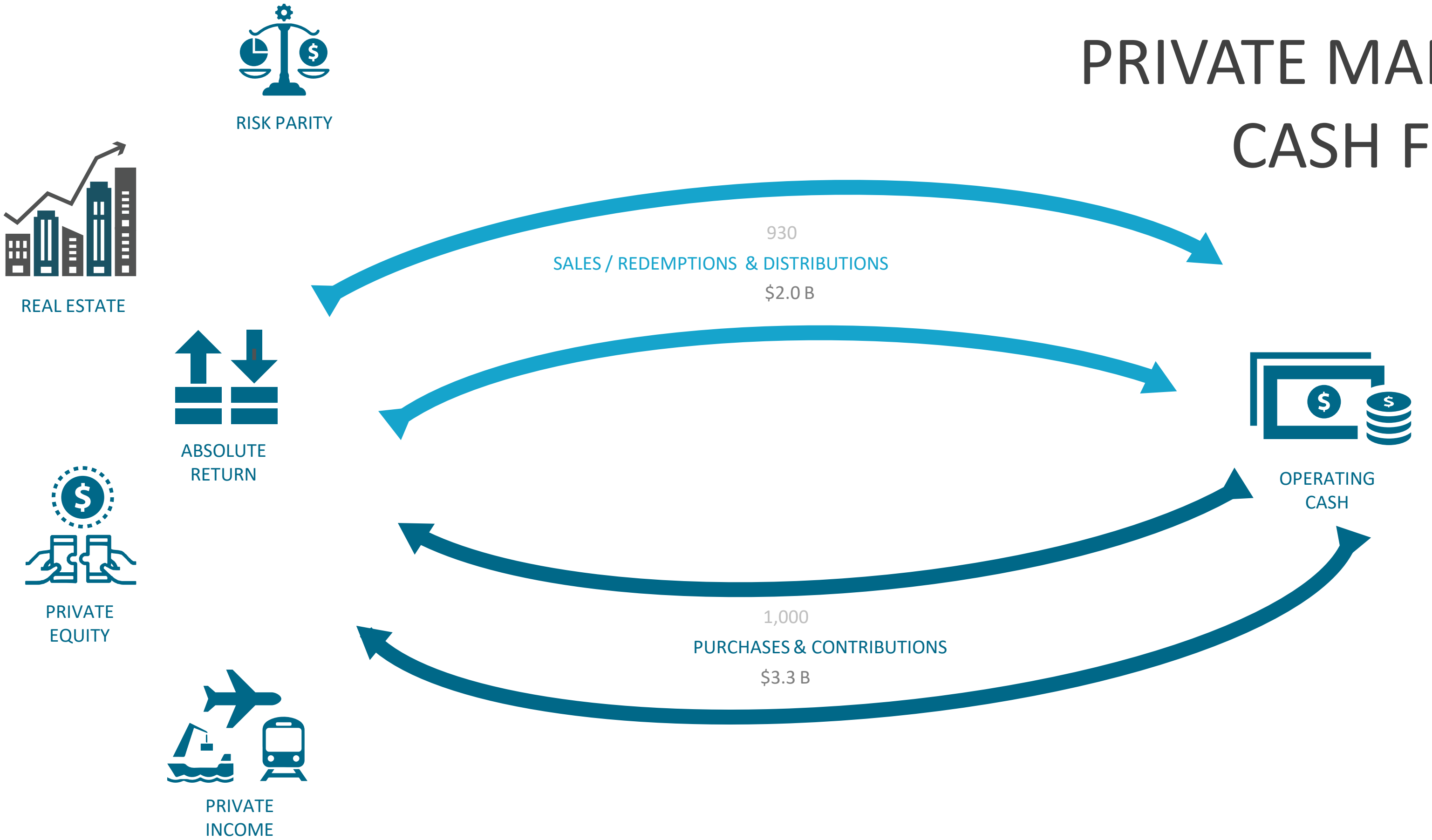
(millions)

Other financing sources (uses)	FY23 as of 3/31	FY22 as of 6/30
Transfers in	$645.1	$548.9
Transfers out	(3,360.6)	(3,093.3)
Net change in fund balances	$43.7	$(5,559.6)
Beginning of period	$76,337.2	$81,896.8
End of period	$76,380.9	$76,337.2

Components of Change (millions)

Accounting Net Income	$2.76 billion
Mineral Deposits	$0.65 billion
POMV Transfer	$3.36 billion
Net Change	**$0.44 billion**

PRIVATE MARKETS CASH FLOWS



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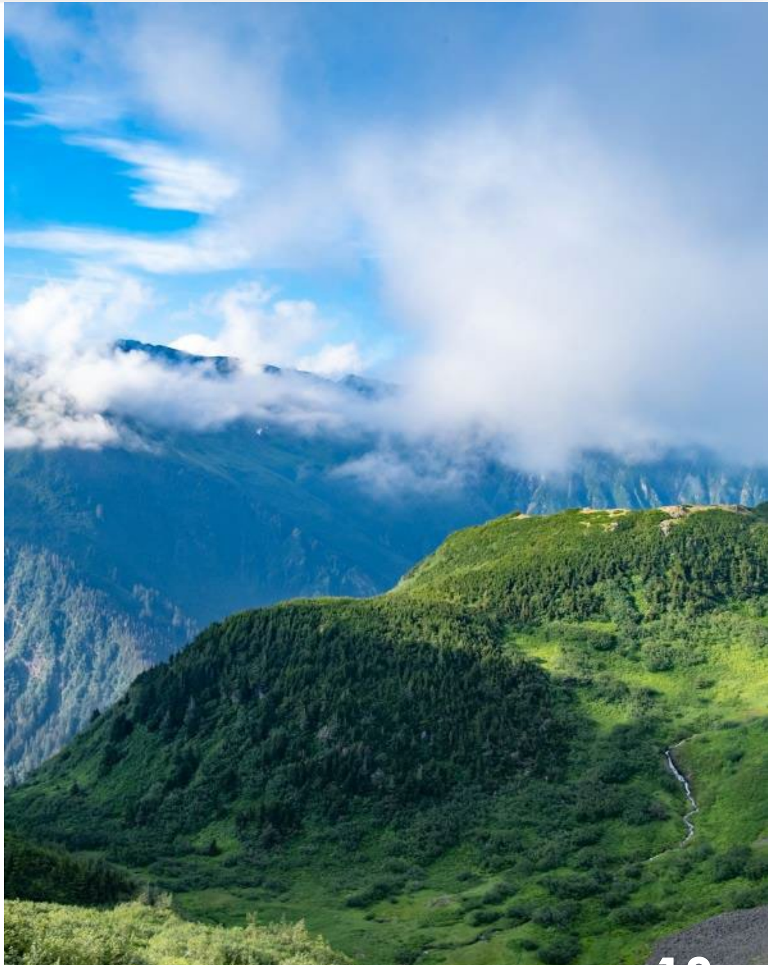
Risk Mitigation

- Internal communication
- Communication with partners
- Development of “watch list”
- Confirmation from GP before wire authorization
- Ongoing work to revise bank instructions




Questions?

SUBJECT: FY23 Year-to-Date Financial Update ACTION: ____________

DATE: May 17, 2023 INFORMATION: ____X____

KEY TAKEAWAYS:

- Total return year-to-date through March 31 of 3.12%, 2.59% for the third quarter
- Accounting net income year-to-date of $2.8 billion, $1.8 billion in the third quarter
- Realized (statutory) net income year-to-date of $1.6 billion, significantly below Callan's low forecast and nearly $3 billion below the level at the same time in the prior year
- Net asset value as of March 31st of $76.4 billion, marking a recovery to the level at the end of the prior year
- $1.3 billion transferred to the General Fund in March in accordance with SB26
- $150 million of mineral deposits transferred in during the quarter ended March 31st
- Committed Earnings Reserve balance of $7.7 billion for FY24 General Fund transfers ($3.53 billion), FY23 inflation proofing ($4.17 billion), and the transfer to ACIF ($9 million)

Financial results for the third quarter were reflective of the volatility experienced in the public markets. The fixed income and public equity portfolios experienced a combined increase in value of $2.4 billion in January only to lose $1.3 billion in February. Markets were fairly flat during March. Less notable movements were recorded in the other asset classes. Overall, the fund recorded unrealized gains of $1.2 billion between the end of December and the end of March. This brought year-to-date total fund return up to 3.12% from 0.55% as of December 31.

Net assets increased by $1.9 billion during the third quarter, bringing net asset value back to the ending value for FY22. This is the result of net income of $1.8 billion and $150 million received in mineral royalty deposits. Corporate operating expenses and other appropriations for the third quarter totaled $69 million.

One transfer to the General Fund were made during the third quarter of FY23 totaling $1.3 billion, bringing the total transfers for the year to $3.0 billion. Staff is in communication with the cash managers at the Department of Revenue to ensure that amounts designated for the General Fund remain invested in the Fund as long as possible, while being available to meet the liquidity needs of the State.

ALASKA PERMANENT FUND CORPORATION

Financial Report
March 31, 2023

Fiscal Year 2023 Net Assets

Balances through March 31, 2023 *(in millions)*

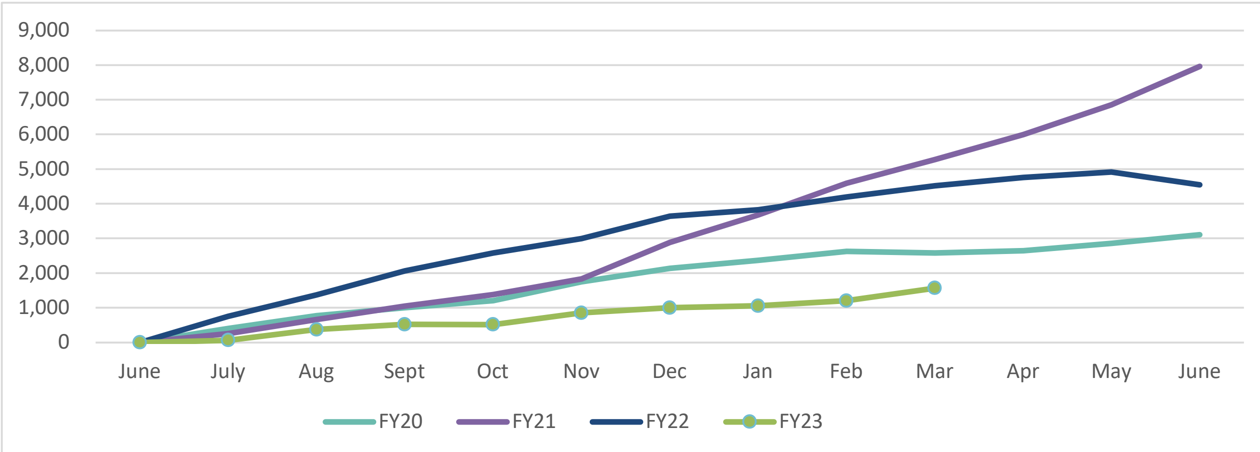
Total assets	$ 77,644.2
Less liabilities	(1,263.3)
Net assets	76,380.9
Fund Balances:	
Non-spendable	
Permanent Fund corpus—contributions and appropriations	52,132.4
Not in spendable form—unrealized appreciation on invested assets	9,925.7
Total non-spendable fund balance	62,058.1
Committed	
General Fund Commitment	3,526.1
Current FY inflation proofing	4,170.6
Current FY AK Capital Income Fund	9.0
Committed fund balance	7,705.7
Assigned for future appropriations	
Realized earnings	4,326.3
Unrealized appreciation on invested assets	2,290.8
Total assigned fund balance	6,617.1
Total fund balances	$ 76,380.9

Fiscal Year 2023 Income

For the nine months ending March 31, 2023 *(in millions)*

Statutory (Realized) Net Income	
Interest, dividends, real estate, and other income	$ 1,150.6
Realized gains on the sale of invested assets	556.8
Less operating expenses/legislative appropriations	(130.0)
Less Alaska Capital Income Fund committed realized earnings	(9.0)
Statutory net income	1,568.4
GAAP (Accounting) Net Income	
Statutory net income	1,568.4
Unrealized gain on invested assets	1,181.8
Alaska Capital Income Fund committed realized earnings	9.0
Accounting net income	$ 2,759.2

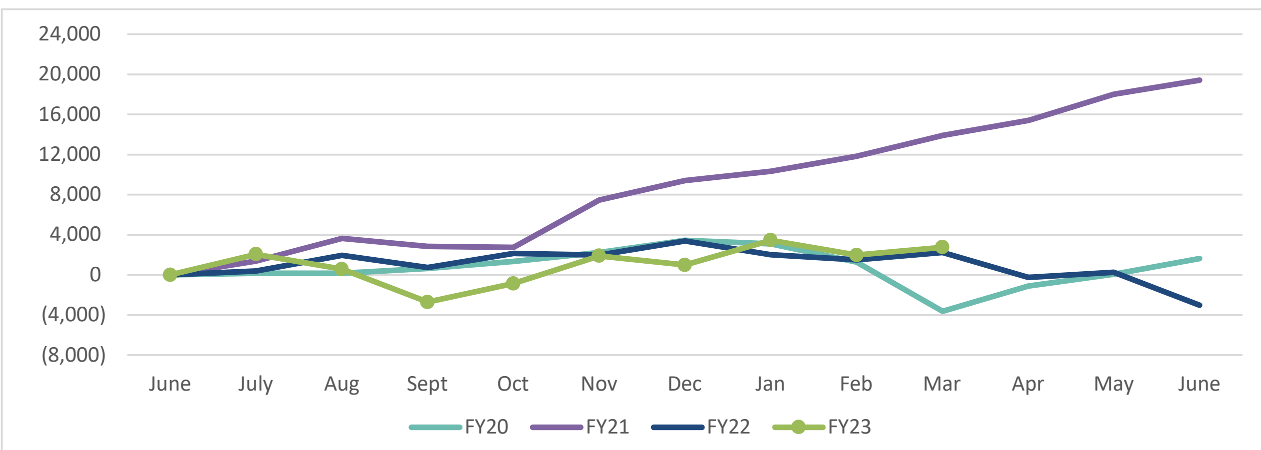
Statutory Net Income, Fiscal Years 2020 - 2023



• Comprised of receipts from interest on fixed income, real estate rentals, stock dividends, and all realized gains and losses on the sales of invested assets, less AK Capital Income Fund committed amounts and operating expenses.

• FY20 statutory net income was $3,106.0 million.
• FY21 statutory net income was $7,962.4 million.
• FY22 statutory net income was $4,543.6 million.
• FY23 statutory net income is $1,568.4 million to date.

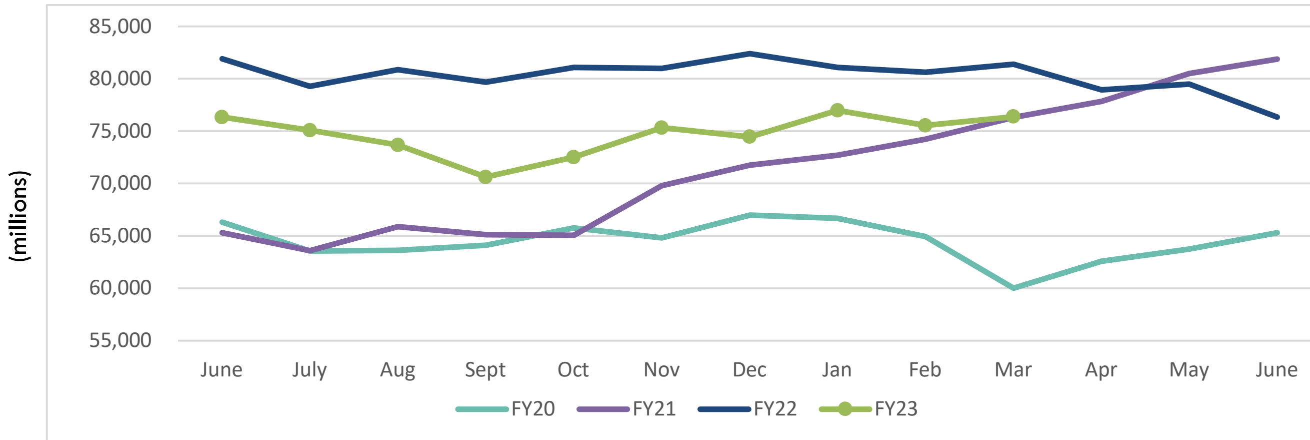
GAAP Accounting Net Income, Fiscal Years 2020 - 2023



• Accounting net income is the same as statutory net income, except it includes unrealized gains and losses.

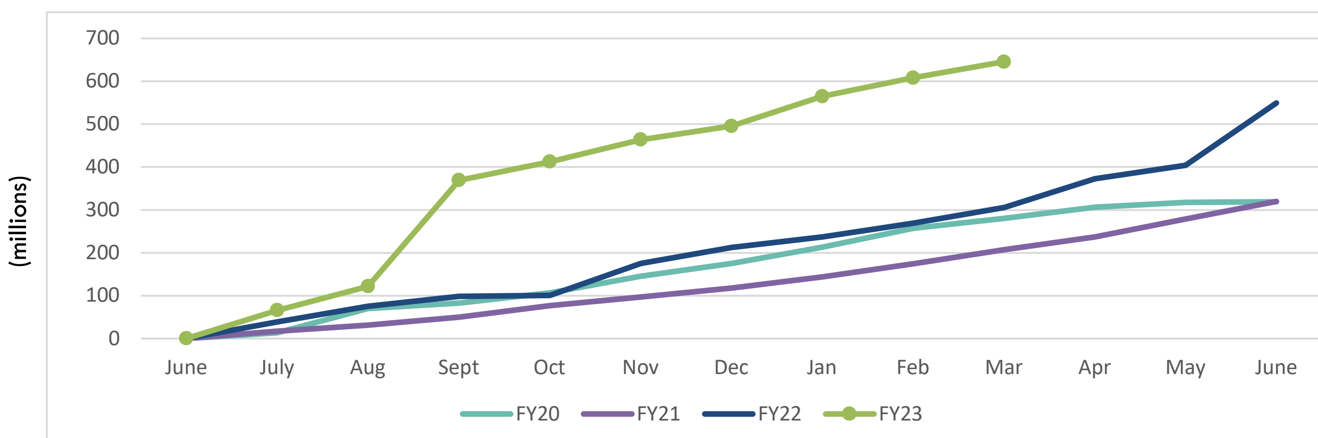
• Accounting net income for FY20 was $1,636.5 million.
• Accounting net income for FY21 was $19,416.6 million.
• Accounting net loss for FY22 was $3,015.2 million.
• Accounting net income for FY23 is $2,759.2 million to date.

Market Value of Fund Net Assets, Fiscal Years 2020 - 2023



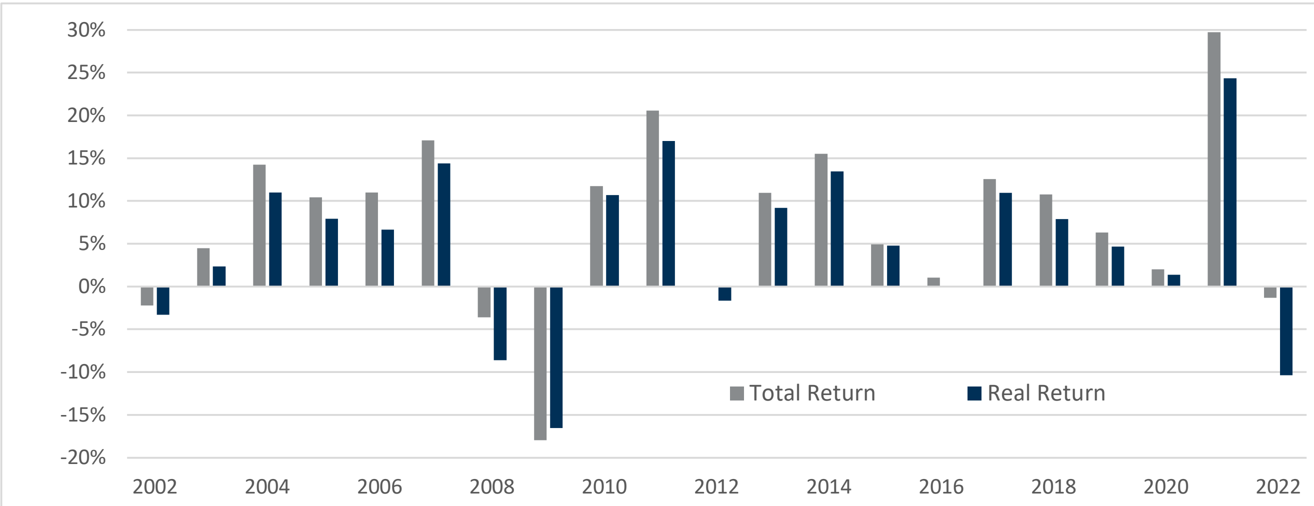
- FY20 net assets as of June 2020 were $65.3 billion, a decrease of $1 billion over the FY19 ending balance.
- FY21 net assets as of June 2021 were $81.9 billion, an increase of $16.6 billion over the FY20 ending balance.
- FY22 net assets as of June 2022 were $76.3 billion, a decrease of $5.6 billion from the FY21 ending balance.
- FY23 net assets as of March 2023 were $76.4 billion, an increase of $0.1 billion from the FY22 ending balance.

Dedicated Mineral Revenues, Fiscal Years 2020 - 2023



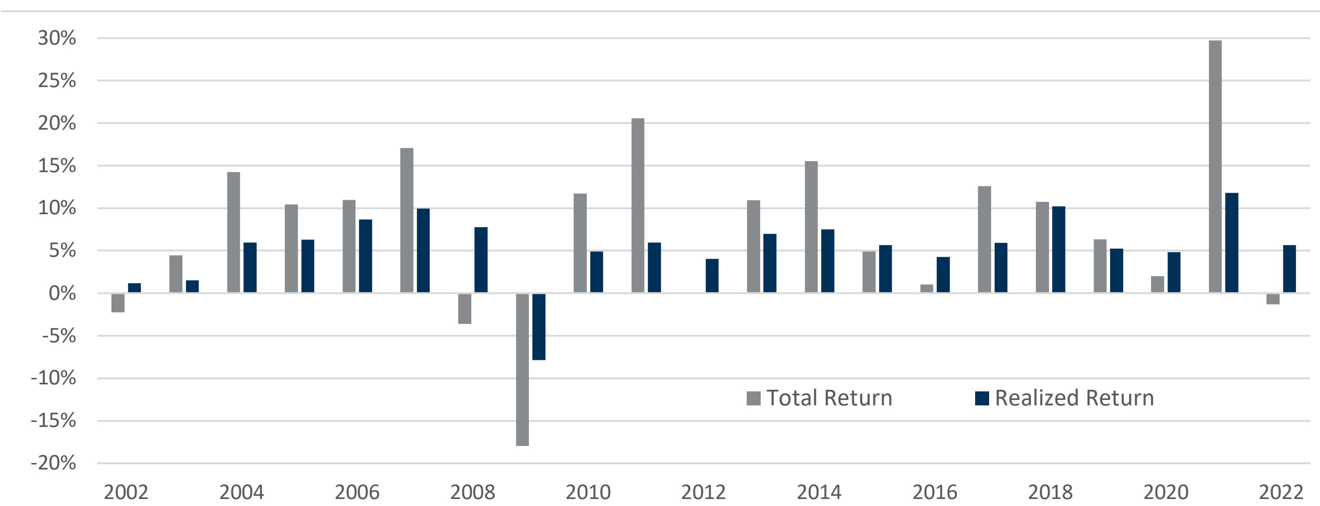
- FY20 mineral revenue was $319.0 million.
- FY21 mineral revenue was $319.6 million.
- FY22 mineral revenue was $548.9 million.
- FY23 mineral revenue is $645.1 million to date.

Alaska Permanent Fund Historical Returns, Fiscal Years 2002 - 2022
Total return minus inflation equals real return



- Total return annualized over 38 years is 8.91%
- Real return annualized over 38 years is 6.11%

Alaska Permanent Fund Historical Returns, Fiscal Years 2002 - 2022
Total return minus unrealized gains/losses equals realized return



- Total return annualized over 38 years is 8.91%
- Realized return annualized over 38 years is 7.5%

Audit Committee of the Board of Trustees
2023 Annual Self-assessment

Per the AICPA, the self-assessment should aid the audit committee in assessing its strengths and weaknesses and lay a foundation for future improvement.

	Crum	Schutt	Brune	Staff Notes
<u>General Questions</u> (some may not apply):				
1. Is the level of independence of the audit committee acceptable?	YES, based on watching previous meetings	YES, the committee is independent. Independence isn't an issue.		
2. Has the audit committee developed a continuing education program to enhance its members' understanding of relevant auditing, accounting, regulatory, and industry issues?	don't know	NO, we should consider an appropriate training for the committee.		
3. Are new audit committee members provided with an orientation program to educate them on the company and their responsibilities?	YES	NO, I think this is simply rolled into the new Trustee orientation, but I'm unaware of any specific training for the new audit committee members.		All new committee members are provided an orientation prior to their first committee meeting.
4. Does the audit committee consider the pressures on management that may impact the quality of financial reporting (e.g. earnings targets, resource limitations, and performance measures)?	YES, based on watching previous meetings	YES, I think the pressures on APFC leadership and staff are different than those implied by this question as it relates to publicly traded companies. In the context of what we are, we certainly consider the pressures on management.		
5. Does the audit committee dedicate appropriate time and resources to execute its responsibilities?	YES, based on watching previous meetings	YES		

APFC ALASKA PERMANENT FUND CORPORATION

Audit Committee of the Board of Trustees
2023 Annual Self-assessment

Per the AICPA, the self-assessment should aid the audit committee in assessing its strengths and weaknesses and lay a foundation for future improvement.

		Crum	Schutt	Brune	Staff Notes
6.	Does the audit committee help to establish the right "tone at the top" promoting organization-wide awareness of corporate ethics, quality financial reporting, and strong internal controls?	YES, based on watching previous meetings	YES, we could improve our communication here.		
7.	Does the audit committee make inquiries of the appropriate parties (external auditor, management, etc.) on the depth of experience and sufficiency of staff?	YES, based on watching previous meetings	YES		
8.	Does the audit committee review the management recommendation letters written by the auditor to ensure that all significant matters raised are addressed?	YES, based on watching previous meetings	YES		
9.	Are the audit committee's meeting packages complete and received with enough lead time? Do they include the right information to allow meaningful discussion?	YES, based on watching previous meetings	YES		
10.	Is there appropriate consideration in the audit committee's discussions of the company's financial reporting risks and the related internal controls?	YES, based on watching previous meetings	YES		
11.	Is there active consideration of the audit plan and results of the independent audit?	YES, based on watching previous meetings	NO, I think we could do a better job discussing the audit plan from scoping and planning through completion, early planning stage.		The audit plan is presented by KPMG at the May meeting and results are presented at the September meeting.
12.	Do executive sessions held with the independent auditor result in candid discussion of relevant issues?	YES, based on watching previous meetings	YES		
13.	Are adjustments to the financial statements that resulted from the audit process reviewed by the audit committee, regardless of whether they were recorded by management?	YES, based on watching previous meetings	YES. This is more hypothetical than actual in that there haven't really been major adjustments in my memory. But I'm confident that we would.		There have been no audit adjustments during my tenure as CFO.

Audit Committee of the Board of Trustees
2023 Annual Self-assessment

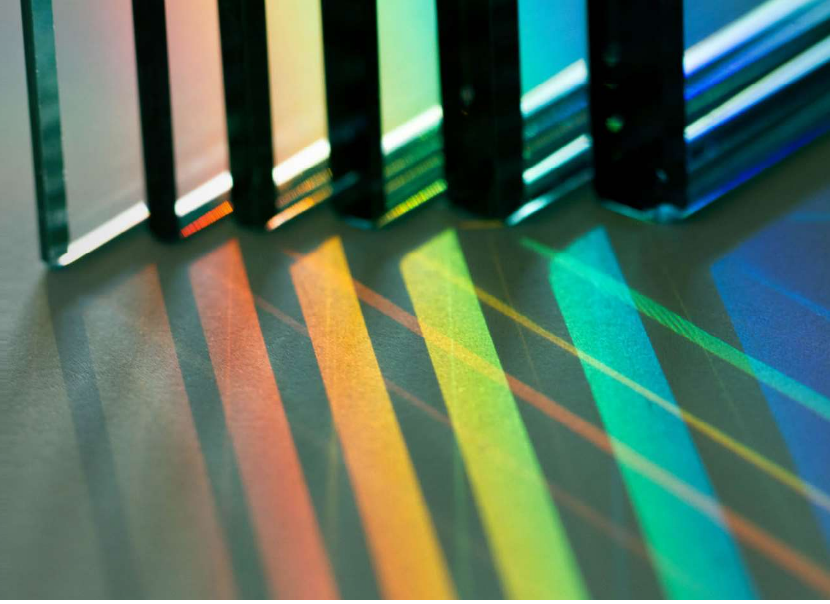
Per the AICPA, the self-assessment should aid the audit committee in assessing its strengths and weaknesses and lay a foundation for future improvement.

	Crum	Schutt	Brune	Staff Notes
14. Is the audit committee charter used as a document to guide the committee in its efforts, and to help guide the committee's agenda?	YES, based on watching previous meetings	YES, this is a general statement. We don't actively review the charter to construct the agenda. But since the function is so limited, it's not really particularly pertinent.		Meeting agendas are designed to fulfill the requirements in the charter (reviewing audit plan, results, financial review, self assessment)
APFC Charter Specific Questions:				
15. Has the audit committee reviewed the adequacy of the charter within the last three years?	don't know	not sure, I don't remember when we last reviewed the charter so I'm not sure.		The charter was last reviewed in September 2020 and is currently under review as required.
16. Have significant changes to accounting principles been discussed?	don't know	not sure, I don't remember.		There have not been any recently, but KPMG would highlight as part of their presentations if there were.
17. Have any legal matters that could impact the Fund's financial statements been discussed with legal counsel?	don't know	NO, We have not, but I'm not aware of anything that would have triggered this need.		General Counsel provides an update on all significant pending legal matters at the September meeting.
18. Has APFC financial and accounting personnel succession planning been reviewed?	don't know	NO, we have not reviewed this. We probably should.		Succession planning across the organization is currently under review.
19. Has the audit committee overseen the role of the external auditors from selection to termination?	don't know	YES		
20. Has the independence and performance of the auditors been reviewed?	don't know	YES		
21. Has the appropriateness and quality of accounting principles applied to the financial statements, including estimates and disclosures, been discussed?	YES, based on watching previous meetings	YES		

KPMG

On the 2022 audit committee agenda

KPMG Board Leadership Center



December 9, 2021

Emerging from two years of pandemic-driven crisis and disruption, we continue to see how important trust and transparency are—not only to the functioning of the capital markets, but also to customer relationships, brand reputation, and the health and well-being of employees. For shareholders—and, increasingly, from a broader stakeholder perspective—much of that trust and transparency is grounded in the quality of the company's financial reporting and disclosures and the story they tell. To that end, the audit committee's oversight role has perhaps never been more important or more challenging.

The crises of 2020–21 and disruptions they've triggered—from accelerating technology transformations to upending long-standing "norms" of the workplace, business models, and the economy—have added significant stress and strain to financial reporting processes and the risk and control environment. That pressure is likely to continue given the demands for more and better climate and environmental, social, and governance (ESG) reporting, increased cybersecurity risks and ransomware attacks, a fast-changing tax and regulatory landscape, and other factors impacting the global risk environment—including the direction of COVID-19.

Drawing on our research, insights, and interactions with audit committees and business leaders, we've highlighted eight issues to keep in mind as audit committees consider and carry out their 2022 agendas:

— **Stay focused on financial reporting and related internal control risks—job number one.**

— **Monitor the SEC's rulemaking activities on climate and other ESG disclosures and clarify the audit committee's related oversight responsibilities.**

— **Stay apprised of global tax developments and risks and recognize that tax has become an important element of ESG.**

— **Help sharpen the company's focus on ethics and compliance.**

— **Reinforce audit quality and set clear expectations for the external auditor.**

— **Understand how technology is impacting the finance organization's talent, efficiency, and value-add.**

— **Help ensure that internal audit is focused on the company's critical risks.**

— **Make the most of the audit committee's time together.**

Stay focused on financial reporting and related internal control risks—job number one.

It's clear from our conversations with audit committee members that overseeing major risks on the audit committee's agenda beyond the committee's core oversight responsibilities (financial reporting and related internal controls, and oversight of internal and external auditors) is increasingly difficult. Aside from any additional agenda items (such as climate and ESG risks), the risks that many audit committees have had on their plates for some time—cybersecurity and IT risks, supply chain and other operational risks, legal and regulatory compliance—have become more complex, as have the audit committee's core responsibilities. Reassess whether the committee has the time and expertise to oversee these other major risks. Do climate and other ESG issues and cybersecurity risks require more attention at the full-board level—or the focus of a separate board committee? The pros and cons of creating an additional committee should be weighed carefully; but considering whether a finance, technology, risk, sustainability, or other committee would improve the board's effectiveness—and whether the board has the resident skill sets to oversee these issues—can be a healthy part of the risk oversight discussion.

As the financial reporting, accounting, and disclosure impacts of COVID-19 continue to unfold in 2022, key areas of focus for the company's 2021 10-K and 2022 filings should include:

— *Forecasting and disclosures.* Due to the uncertain trajectory of COVID-19 and the economy—and the extensive use of forward-looking information in financial statements and SEC filings—COVID-related disclosures remain a top area of focus. At the same time, the strains on supply chains will make financial forecasting even more difficult. Among the key areas requiring audit committee attention: Disclosures regarding the current and potential effects of COVID-19 (e.g., risk factors, MD&A, liquidity, results of operations, and known trends and uncertainties); preparation of forward-looking cash-flow estimates; impairment of nonfinancial assets, including goodwill and other intangible assets; accounting for financial assets (fair value); going concern; and use of non-GAAP metrics. With companies making more tough calls, regulators are emphasizing the importance of well-reasoned judgments and transparency, including contemporaneous documentation to demonstrate that the company applied a rigorous process. Given the fluid nature of the long-term environment, disclosure of changes in judgments, estimates, and controls may be required more frequently.

— *Internal control over financial reporting and probing control deficiencies.* Internal controls will continue to be put to the test in the coming year. When control deficiencies are identified, it's important to probe beyond management's explanation for "why it's not a material weakness" and help provide a balanced evaluation of the deficiency's severity and cause. Is the audit committee—with management—regularly taking a fresh look at the company's control environment? Have controls kept pace with the company's operations, business model, and changing risk profile, including cybersecurity risks? Does management talk the talk and walk the walk?

Monitor the SEC's rulemaking activities on climate and other ESG disclosures and clarify the audit committee's related oversight responsibilities.

Companies are facing increasing demands—from investors, research and ratings firms, activists, employees, customers, and others—for more transparent and higher quality information about corporate sustainability efforts. How is the company addressing climate and other ESG risks and issues—from diversity, equity, and inclusion (DEI) efforts to the company's "purpose" and how it's considering the interests of stakeholders, including employees, suppliers, and the communities in which it operates?

Climate and other ESG disclosures are clearly a priority for the SEC: In March 2021, the Commission announced the creation of the Climate and ESG Task Force in the Division of Enforcement, focused on identifying any material gaps or misstatements in companies' disclosure of climate risks under existing disclosure requirements. The SEC also issued a request for public comment from investors and other market participants "[i]n light of demand for climate change information and questions about whether current disclosures adequately inform investors." And in September, the SEC provided a sample letter to companies offering takeaways for them to consider as they prepare their climate disclosures. The sample builds on the Commission's 2010 guidance that called for disclosure regarding the physical impact of climate change on companies' businesses, such as threats to hard assets; how environmental legislation and regulation could affect operations and strategies; and potential indirect consequences from regulation or ecofriendly trends. The SEC is expected to propose disclosure rules on climate change, human capital management (including diversity), and cybersecurity risk governance in early 2022. Monitoring the SEC's rulemaking activities in these areas should be an audit committee priority, together with a focus on how management is preparing to address these new mandates.

In this environment, we can expect increasing stakeholder demands for more detailed climate/ESG reporting. Audit committees should encourage management to reassess the scope and quality of the company's sustainability/ESG reports and disclosures—including benchmarking against peers, consideration of the methodologies and standards of various ESG raters—particularly those used by a company's investors, understanding the expectations of investors and other stakeholders, and considering the appropriateness of ESG reporting framework(s) for the company.

But it's important to note that the company's efforts should be about more than just ESG ratings. It is also about how climate and other ESG risks and opportunities are managed and their impacts on the creation of long-term value. Investors want to understand which climate and other ESG risks pose a threat to the company's strategy, operations, and financial condition, and are of strategic significance to the company. How is the company addressing climate and ESG as long-term strategic issues and embedding them into the company's core business activities (risk management, strategy, operations, incentives, and corporate culture) to drive long-term performance and value creation? Is there a clear commitment and strong leadership from the top as well as enterprise-wide buy-in? As one director commented, "Real transparency is not easy, and it's usually uncomfortable. But to make real progress and be accountable as a company today, you have to 'show your work.' What targets have you set and what are you doing to reach those targets?"

Oversight of a company's climate, ESG, and DEI activities is a formidable undertaking for any board and its committees. Audit committees typically have responsibility for oversight of the company's related disclosures, including the selection of a disclosure framework(s), consideration of where the disclosures should be made, management's disclosure controls and procedures, and any third-party assurance. The audit committee can also play an important catalyst role by helping to ensure that board and committee oversight responsibilities are clear and that communication and coordination among the board and its committees are effective. It is quickly becoming clear that ESG issues touch multiple board committees, and oversight responsibilities should be allocated accordingly.

Stay apprised of global tax developments and risks, and recognize that tax has become an important element of ESG.

Disruption and uncertainty describe the global tax environment today for corporations—particularly multinationals. On the domestic front, the Biden administration is proposing major tax changes that, among other things, would impose a minimum tax on the book income of large corporations, and increase the taxes on income earned outside the U.S. And globally, the OECD is leading efforts to achieve consensus among 140 countries, including the U.S., for global tax reforms to expand jurisdictions' right to tax sales and services to consumers in their markets. The OECD is also leading efforts among countries to establish a global minimum tax. In October, leaders of the G20 endorsed the OECD's reform efforts, including a global minimum corporate tax of 15%, with a view to have the rules in force in 2023. Many details remain to be agreed regarding the design of these rules, and uncertainty remains as to whether the political commitments achieved at the OECD can be converted to legally binding commitments through adoption into domestic law. In addition to the potential for large scale global tax reforms, the focus on tax policy as a driver of ESG objectives and tax contribution as a measure of sustainability continues to grow. Many companies are considering governance relating to tax practices, assessing approaches to tax transparency, and considering available incentives in furtherance of ESG goals.

Tax has also emerged as an important element of ESG, with stakeholders expecting companies to conduct their tax affairs in a sustainable manner, measured in terms of good tax governance and paying a "fair share." Many stakeholders view the public disclosure of a company's approach to tax, the amount of taxes paid, and where those taxes are paid as important elements of sustainable tax practice.

In this environment, it is important for audit committees to engage with the management in at least three areas:

- Understand the risks posed by the uncertainty and complexity of this evolving tax landscape, as it is likely to have a significant effect on the company in the coming years.
- Help articulate the company's tolerance for reputational risk associated with tax choices that are being made, and evaluate the extent to which the corporate governance framework and associated controls are in place to minimize this risk and or improve sustainability scores.
- Help determine the right approach to tax transparency, as there is no consensus as to what level of reporting constitutes "good tax transparency." Management teams will need to consider stakeholder expectations, relevant standards, regulators, and the tax transparency disclosures of their peers.

Help sharpen the company's focus on ethics and compliance.

The reputational costs of an ethics or compliance failure are higher than ever, particularly given the increased fraud risk due to employee financial hardship, pressures on management to meet financial targets, and increased vulnerability to cyberattacks. Fundamental to an effective compliance program is the right tone at the top and culture throughout the organization, including its commitment to its stated values, ethics, and legal/regulatory compliance. This is particularly true in a complex business environment, as companies move quickly to innovate and capitalize on opportunities in new markets, leverage new technologies and data, and engage with more vendors and third parties across complex supply chains.

Closely monitor the tone at the top and culture throughout the organization with a sharp focus on behaviors (not just results) and yellow flags. Is senior management sensitive to ongoing pressures on employees (both in the office and at home), employee health and safety, productivity, engagement and morale, and normalizing work-from-home arrangements? As we've learned from the events of 2020–2021, leadership and communications are key, and understanding, transparency, and empathy are more important than ever. Does the company's culture make it safe for people to do the right thing? Help ensure that the company's regulatory compliance and monitoring programs remain up to date, cover all vendors in the global supply chain, and clearly communicate the company's expectations for high ethical standards.

Focus on the effectiveness of the company's whistle-blower reporting channels and investigation processes. Does the audit committee see all whistle-blower complaints, obtain information on how such complaints are resolved and receive information that enables the committee to understand trends? What is the process to filter complaints that are ultimately reported to the audit committee? As a result of the radical transparency enabled by social media, the company's culture and values, commitment to integrity and legal compliance, and its brand reputation are on full display.

Reinforce audit quality and set clear expectations for the external auditor.

Audit quality is enhanced by a fully engaged audit committee that sets the tone and clear expectations for the external auditor and monitors auditor performance rigorously through frequent, quality communications and a robust performance assessment. (See the Center for Audit Quality's External Auditor Assessment Tool). As companies transition back to the office, and as various aspects of the 2021 audit may be conducted remotely, setting clear expectations and frequent quality communications with the external auditor is vital.

In setting expectations of the external auditor for 2022, consider the lessons learned from 2021—the first audit while working remotely. Audit committees will want to discuss with the auditor what aspects of the 2022 audit will be conducted remotely, and what aspects of the audit will be done differently in 2022. What worked well in 2021, and what are the opportunities for improved efficiency in 2022? What complexity does working remotely add to the audit? How have the company's financial reporting and related internal control risks changed? What are the auditor's plans to keep the 2022 audit and the 2022 interim reviews on track?

Set clear expectations for frequent, open, candid communications between the auditor and the audit committee—beyond what's required. The list of required communications is extensive and includes matters about the auditor's independence, as well as matters related to the planning and results of the audit. Taking the conversation beyond what's required can enhance the audit committee's oversight, particularly regarding the company's culture, tone at the top, and the quality of talent in the finance organization.

Audit committees should also probe the audit firm on its quality control systems that are intended to drive continuous improvement in audit quality—including the firm's implementation and use of new technologies. In discussions with the external auditor regarding the firm's internal quality control system, consider the results of PCAOB inspections and internal inspections and efforts to address deficiencies. Remember that audit quality is a team effort, requiring the commitment and engagement of everyone involved in the process—the auditor, audit committee, and management.

Understand how technology is impacting the finance organization's talent, efficiency, and value-add.

The acceleration of digital strategies and transformations that many companies are undertaking are impacting finance organizations and presenting important opportunities for finance to reinvent itself and add greater value to the business. As audit committees monitor and help guide finance's progress in this area, we suggest three areas of focus:

— Recognizing that much of finance's work involves data gathering, what are the organization's plans to leverage robotics and cloud technologies to automate as many manual activities as possible, reduce costs, and improve efficiencies? What risks are associated with such technology and how are they being addressed and mitigated?

— Understand how the finance function is using data analytics and artificial intelligence to develop sharper predictive insights and better deployment of capital. The finance function is well-positioned to guide the company's data and analytics agenda and to consider the implications of new transaction-related technologies, from blockchain to cryptocurrencies. As historical analysis becomes fully automated, the organization's analytics capabilities should evolve to include predictive analytics, an important opportunity to add real value.

— As the finance function combines strong analytics and strategic capabilities with traditional financial reporting, accounting, and auditing skills, its talent and skill-set requirements must change accordingly. Is finance attracting, developing, and retaining the talent and skills necessary to match its evolving needs? This remains challenging in the current labor-constrained environment. In this environment, it is essential that the audit committee devote adequate time to understand finance's transformation strategy.

Help ensure that internal audit is focused on the company's critical risks.

Is the internal audit plan risk-based and flexible—and does it adjust to changing business and risk conditions? This is an increasingly common question that audit committees are (or should be) asking the chief audit executive. While a global pandemic was perhaps not on internal audit's list of likely risk events heading into 2020, audit committee members we recently surveyed said, by and large, that their internal auditor pivoted effectively—to reviewing management's updated risk assessments as well as management's remediation plans and controls for those risks.

Going forward, the audit committee should work with the chief audit executive and chief risk officer to help identify the critical risks—such as tone at the top and culture, legal/regulatory compliance, incentive structures, cybersecurity and data privacy, ESG risks, and global supply chain and outsourcing risks—that pose the greatest threat to the company's reputation, strategy, and operations, and to help ensure that internal audit is focused on these key risks and related controls. Ask again whether the audit plan is risk-based, flexible, and can adjust to changing business and risk conditions. What's changed in the operating environment? What are the risks posed by the company's digital transformation and by the company's extended organization—sourcing, outsourcing, sales, and distribution channels? Is the company sensitive to early warning signs regarding safety, product quality, and compliance? What role should internal audit play in auditing the culture of the company?

Set clear expectations and help ensure that internal audit has the resources, skills, and expertise to succeed—and help the chief audit executive think through the impact of digital technologies on internal audit.

Make the most of the audit committee's time together.

Effectiveness requires efficiency. As we noted at the outset, keeping the audit committee's agenda focused on financial reporting and related internal control risk is essential to the committee's effectiveness; but meeting the workload challenge requires efficiency as well. Streamline committee meetings by insisting on quality pre-meeting materials (and expect pre-read materials to have been read), making use of consent agendas, and reaching a level of comfort with management and auditors so that financial reporting and compliance activities can be "process routine" (freeing up time for more substantive issues facing the business). Other key questions to pose periodically:

— Does the audit committee leverage the array of resources and perspectives necessary to support the committee's work?

— Does the committee spread the workload by allocating oversight duties to each audit committee member, rather than relying on the audit committee chair to shoulder most of the work? Does the committee have the expertise to oversee all of the issues delegated to it?

— Is sufficient time spent with management and the auditors outside of the boardroom—to get a fuller picture of the issues?

Also take a hard, honest look at the committee's composition, independence, and leadership. Is there a need for a fresh set of eyes, or deeper (or different) skill sets?

About the KPMG Board Leadership Center
The KPMG Board Leadership Center (BLC) champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC—which includes the KPMG Audit Committee Institute and close collaboration with other leading director organizations—promotes continuous education and improvement of public and private company governance. BLC engages with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and ESG to data governance, audit quality, proxy trends, and more. Learn more at kpmg.com/us/blc.

About the KPMG Audit Committee Institute (ACI)
As part of the KPMG Board Leadership Center, the ACI provides audit committee and board members with practical insights, resources, and peer-exchange opportunities focused on strengthening oversight of financial reporting and audit quality, and the array of challenges facing boards and businesses today—from risk management and emerging technologies to strategy, talent, and global compliance. Learn more about ACI at **kpmg.com/us/aci.**

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