Board of Trustees

Audit Committee Meeting

May 19, 2020

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1. Agenda

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

Audit Committee Meeting
May 19, 2020

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AGENDA

Tuesday, May 19, 2020

1:30 p.m.	CALL TO ORDER
	ROLL CALL (Action)
	APPROVAL OF AGENDA (Action)
	APPROVAL OF MINUTES (Action) Audit Committee Meeting – September 05, 2019
	SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION
1:35 p.m.	FY 20 AUDIT PREVIEW AND RISK ASSESSMENT REVIEW (Information) Mike Hayhurst, Engagement Partner, KPMG
2:00 p.m.	FY20 YEAR-TO-DATE FINANCIAL STATEMENT REVIEW (Information) Valerie Mertz, Chief Financial Officer
2:30 p.m.	AUDIT COMMITTEE SELF-ASSESSMENT (Information) Marty Rutherford, Committee Chair Valerie Mertz, Chief Financial Officer
	OTHER MATTERS / FUTURE AGENDA ITEMS
2:45 p.m.	*ADJOURNMENT*

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

2. Approval of Minutes

SUBJECT: Approval of Minutes ACTION: __X__

DATE: May 19, 2020 INFORMATION:

BACKGROUND:

Staff reviewed the following Board of Trustees meeting summary minutes, draft copies are attached for your approval.

- September 05, 2019 Audit Meeting

RECOMMENDATION:

Approval of the summary minutes of the Board of Trustees committee meeting listed above.

ALASKA PERMANENT FUND CORPORATION

AUDIT COMMITTEE MEETING
September 5, 2019
10:15 a.m.

Location of Meeting:
Michael J. Burns Building
David Rose Board Room
801 W. 10th Street
Juneau, Alaska 99801

SUMMARY MINUTES

Trustees Present:
Marty Rutherford, Chair
Craig Richards
Carl Brady
William G. Moran
Bruce Tangeman
Corri A. Feige

Staff Present:
Angela Rodell, CEO
Valerie Mertz, CFO
Chris Poag, General Counsel
Maggie Meiners
Paulyn Swanson
Katie Smith
Sarah Race
Chad Brown
John Seagren

Invited Participants and Others Present:
Beth Stuart, KPMG
Melissa Beedle, KPMG

PROCEEDINGS

CALL TO ORDER
CHAIR RUTHERFORD called the meeting to order and asked for roll call.

ROLL CALL
TRUSTEES FEIGE, MORAN, BRADY, RICHARDS, and RUTHERFORD were present, forming a quorum.

CHAIR RICHARDS moved to approval of the agenda.

> **MOTION:** A motion to approve the agenda was made by TRUSTEE RICHARDS; seconded by TRUSTEE TANGEMAN.
>
> *There being no objection, the MOTION was APPROVED.*
>
> **MOTION:** A motion to approve the minutes from May 21, 2019, was made by TRUSTEE MORAN; seconded by VICE CHAIR BRADY.
>
> *There being no objection, the MOTION was APPROVED.*

CHAIR RUTHERFORD asked for any scheduled appearances or public online that would like to speak to the committee.

MS. MEINERS replied not at this time.

CHAIR RUTHERFORD moved to the audit report, and recognized Beth Stuart and Melissa Beedle.

MS. STUART stated pleasure at bringing the results of a substantially complete audit of the June 2019 financial statements of the Permanent Fund. She added that it is expected that the audit report will be issued tomorrow. She explained that the audit followed both Government Auditing Standards, as well as Generally Accepted Auditing Standards. The Government Auditing Standards is a layer of auditing standards on top of the Generally Accepted Auditing Standards. She continued that there have not been any changes to the risk assessment or to the planned audit approach from what was discussed with the committee earlier in the summer. She added that the most significant accounting policy for the Corporation for the last few years has been the fund balance classification, which has been made more interesting by the state of appropriations and timing of special sessions. She stated that the most significant estimates in the audit areas in the financial statements related to the valuation of both private investments, as well as real estate. There were no changes in accounting principles. The uncorrected misstatement related to the lag in reporting and was not included in the packet. There is one reclassification from the current document to the financial statements, moving the temporary impairment from the public markets to real estate. She continued that there were no omissions identified in the financial statement disclosures.

CHAIR RUTHERFORD asked what if there were some idiosyncrasies.

MS. STUART replied that management would be talked with to suggest that modifications be made to the description in the annual report. If it could not be resolved with staff, then it would come to the Audit Committee to state that there is a disagreement with management on descriptions. She continued that there were no illegal acts or fraud identified during the course of the audit, or noncompliance with laws and regulations. There were no issues about the Fund's ability to continue to operate. She explained that there was a nonGAAP policy: the Fund has a policy that needs the books closed at the end of July in order to complete the audit and issue the annual report by the statutory deadline. She explained that it was often referred to as the lag in reporting, and that policy has been consistently applied for years.

MS. MERTZ walked through the financial statements and pointed out that the middle section under fund balances has two amounts being set aside out of earnings reserve for their intended purpose based on the legislation that was passed before the end of last year.

MR. POAG explained that the statutory obligation for inflation-proofing still exists; but that appropriation is subject to appropriation by the Legislature. Their decision to appropriate or not will decide on whether they plan to provide meaning to their intent language.

CEO RODELL noted that the Governor makes a recommendation in his proposed budget on whether or not he will include an amount for inflation-proofing, and it will start before the Legislative discussion.

MS. STUART noted that there were no changes identified in the process that management used, no deficiencies in the process, or any exceptions to what was reported in the general ledger. She moved to the real estate, and stated that there were no misstatements in the ending value of the real estate properties. She continued that there was nothing of concern relating to management override of controls identified. She stated that there are three levels of controlled deficiency: a material weakness, which is the worst controlled deficiency; significant deficiency; and the third category of deficiency which is along the lines of a recommendation. She added that internal controls around trades and wire transfers are done as well as around the process for establishing new vendors, changing wire transfer instructions, and making wire transfers, because that is the operational way that money would get out of the custodianship within the Fund.

MS. MERTZ talked about what the Bank of New York does on some of the two-factor and the system controls in their recording and wire transfers. She emphasized that it is a very restricted platform that the bank has control over in wiring money.

MS. STUART stated that their professional fees are consistent with what is included in the contract that was entered into five years ago. The last slide talked about keeping efforts to improve the audit quality and ongoing audit quality improvements, including the improvements in technology and implementation of new technologies during the audit process. She added that KMPG's Board Leadership Center is hosting a webcast next week on emerging technologies and how companies are using technologies in their operations, which is a training opportunity that all may be interested in. She extended appreciation to Ms. Mertz and her team, and CEO Rodell and staff. Everyone was very cooperative and set some accelerated deadlines and goals internally for the project this year. It moved right along, and KPMG will be ready to issue the report tomorrow.

CHAIR RUTHERFORD agreed that KPMG and the staff have been well supported, and all have done an excellent job yet again, to make the deadline, which is not easy given all the complexities, the delays, and the confusions. She thanked all, and recognized Valerie Mertz.

MS. MERTZ stated that the books are closed for FY19, and the audit will be complete tomorrow. She continued that it is time to look back and see how it all went. She added that

John Seagren, the controller is here, and he is the one responsible for getting to the finish line on all of this. She explained that he generates the monthly and year-end financial statements and is the point-person for the audit. She continued that the financial statements include the balance sheet, the statement of activities, and then the footnotes. All three should be taken together when assessing the financial health and the results for the year for the Fund. She added that there are draft reports of all three that will not be considered final until the audit is finalized. The changes that were discussed will be incorporated into the final version. She moved to the receivables which she broke down in the footnotes. She stated that there is a lot of information with more detail in the footnotes on all of the asset classes; with a detailed breakdown about the types of things that go into each of the lines. She then moved on to the liabilities section of the balance sheet. Similar to accounts receivable, the bulk of the balance in accounts payable is related to securities trading. She stated that these are securities that were purchased, but the trades have not settled, and the money has not been sent out yet. The income distributable to the State of Alaska, the bulk of this balance represents the realized earnings that are required by statute to transfer to the Alaska capital income fund related to the balance of the Amerada Hess royalty settlements that are residing in principal. She added that that happens after the end of the year when the books are closed and we know what the rate is. The last component of the balance sheet is Fund balance; and the last component of Fund balance is the amount available for appropriation.

MR. SEAGREN stated that the private equity portfolio is having more stock distributions, more impairment and the like, just because things are maturing.

MS. MERTZ moved to the expenditures section which includes the operating expenditures for the Corporation. These are all of the expenses related to managing the fund, salaries, travel, legal, investment, management fees, systems, which was $132.6 million for FY19. The other items recorded in the expenditures area are appropriations to other state agencies from corporate receipts, and they are amounts that are funded by the Fund. These are transfers to the Departments of Natural Resources, Revenue, and Law. These are amounts used to fund programs that support either the collection of mineral royalties or the payment of dividends, specifically. That was $8.8 million for FY19. She moved to the accounting net income of $3.8 billion, down from $5.5 during FY18. She talked about the changes in fund balance other than revenues and expenses that impact the total value of the Fund. For fiscal '19, that included the mineral royalty deposits of $385 million. She moved to transfers out. The bulk of the amount is the POMV General Fund transfer, in addition to the transfer to the ACIF.

CHAIR RUTHERFORD asked for any questions. There being none, she moved to the audit RFP discussion.

MS. MERTZ stated that the current contract with KPMG expires June 30, which will not get through the next audit cycle. There is a need to think about what the process will be to get a contract in place before the audit process for fiscal '20 is started. She continued that the Audit Committee is tasked with making recommendations to the Full Board regarding hiring and firing and monitoring the external auditor. The Board is tasked with appointing the auditor. In the past, the Audit Committee delegated to staff the responsibility to conduct the RFP process and make a recommendation to the Board for the selection of the auditor. She asked for feedback on the level of participation they would like to have in the process. The last time around staff conducted the RFP process and reviewed the main components of the RFP at the December board meeting before the RFP was issued. The Board was apprised of the requirements and we reported the results of that process at the February Full Board meeting. She stated that she would welcome participation in helping develop the RFP or sitting on the Evaluation Committee. This involved a time commitment which was not huge the last time around. She shared a draft timeline. She continued that the procurement rules require that the details of the responses to the RFP are kept confidential except to the Evaluation Committee until the notice of intent to award is issued after the evaluation process. This means that any board members that do not sit on the committee will not be apprised of the details of the responses. She talked about the process and about the value in rotation of auditors, consultants, custodian banks and the like. She stated that there is value in switching, but there is also value in the fact that Beth has been affiliated with the Permanent Fund in some way since 1993, and has tremendous institutional knowledge and history. She is also rotating out either this year or next year.

CEO RODELL stated the need to recognize the benefits and limitations of the procurement process. There are points and cost adjustments made if the company is an Alaska bidder, and KPMG is an Alaska bidder with offices in Alaska. She continued that they get a boost up because they bid out of the Anchorage office. She added that KPMG is a very highly qualified Alaska-based bidder in this RFP process.

MS. MERTZ stated that the current contract was three years with two one-year extensions, and we are in the second of the one-year extensions.

CHAIR RUTHERFORD stated that it would be useful for the Board to have the RFP, the criteria, and the rating sheet to see how the various applicants were weighted last time. She also asked for an opinion about an operational audit from the committee. She continued that it could be very disruptive to change the auditors, and she would like to know whether it would make much of a difference in terms of actual products.

MS. MERTZ stated that the opportunity for added value in switching is in the softer stuff, the recommendations to management about improvements and processes and controls, coming in with a fresh set of eyes for that.

CHAIR RUTHERFORD thanked all and asked for anything else from the Board. There being nothing, she adjourned the meeting.

(Audit Committee adjourned at 12:31 p.m.)

3. FY20 Audit Plan & Strategy

KPMG

Alaska Permanent Fund Corporation
Audit plan and strategy

Financial statements for the year ending June 30, 2020

May 19, 2020

Introduction

To the Audit Committee of the Alaska Permanent Fund Corporation

We are pleased to have the opportunity to meet with you on May 19, 2020 to discuss our audit of the financial statements of the Alaska Permanent Fund (the Fund) as of and for the year ending June 30, 2020.

The audit of the financial statements, prepared in accordance with U.S. GAAP and GAGAS, will be conducted in accordance with auditing standards generally accepted in the United States of America and government auditing standards.

We plan to issue an auditors' report on the financial statements of the Fund and on the schedule of investments managed by the Alaska Permanent Fund Corporation for the Alaska Mental Health Trust Authority. Other planned audit deliverables include material written communications between KPMG and management, and required communications between KPMG and the Audit Committee.

The terms of our engagement, including the objective and scope of our, our responsibilities and the responsibilities of management, are recorded in the contract executed on March 31, 2020.

This document, which outlines our risk assessment and planned audit strategy, is being provided to you in advance of the meeting to allow you sufficient time to consider the key matters and enhance the quality of our discussions.

We believe the contents of this document should provide a good platform for our discussions when we do meet. We will be pleased to elaborate further on matters covered in this document at the meeting.

Content

Client Service Team

Executive Team

Michael Hayhurst
Lead Audit Engagement Partner

Karissa Marker
Engagement Quality Control Review Partner

Melissa Beedle
Lead Audit Senior Manager

Cortney Thompson
Audit In-Charge Associate

Subject Matter Professionals

Bradley Wood
Real Estate Valuation

Charlie Jacco
IT Security

Hamel Patel
Alternative Investment Valuation

David Neuenhaus
Sovereign Wealth Funds

Agnal Kagoo
Investment Management

Jeff Markert
Governmental Accounting Standards

Audit approach required communications and other matters summary

Communication topic	Response
Scope of audit	Our audit of the financial statements of Alaska Permanent Fund as of and for the year ended June 30, 2020, will be performed in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards. 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.
Risk assessment – Significant risks	In addition to management override of controls, the following significant risks have been identified. — Valuation of alternative investments Refer to slide 6 for further detail and our response.
Risk assessment – Other matters	In addition to the above significant risks, significant other matters identified as part of our audit include: - Valuation of directly owned real estate Refer to slide 6 for further detail and our response.
Materiality	Refer to slide 7 for additional considerations related to the determination of materiality.
Involvement of others	Refer to slide 8 for the extent of planned involvement of others, including — Service organizations — KPMG specialists

Audit approach required communications and other matters summary (continued)

Communication topic	Response
Planned deliverables and timeline	Refer to slide 9 for an overview of our planned deliverables and timeline.
Independence	Refer to slides 10-12 for detail pertaining to independence communications.
Audit quality & transparency	Refer to slide 13 for information about our Audit Quality and Transparency Reports.

Required inquiries

The following inquiries are required in accordance with AU-C 260:

Audit Committee inquiries	— Is the Audit Committee aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws and regulations? — What are the Audit Committee's views about fraud risks in the Fund? — Does the Audit Committee have knowledge of fraud, alleged fraud, or suspected fraud affecting the Fund? — Who is the appropriate person (Audit Committee chair or full committee) for communication of audit matters during the audit? — How are responsibilities allocated between management and the Audit Committee? — What are the Fund's objectives and strategies and related business risks that may result in material misstatements? — Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken? — Is the Audit Committee aware of any significant communications with regulators? — What are the Audit Committee's attitudes, awareness, and actions concerning (a) the Fund's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud? — Is the Audit Committee aware of any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters? — Have there been any actions taken based on previous communications with the auditor?

These inquiries will be discussed with the Audit Committee

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.	N	Y

Significant risks	Description of significant risk	Susceptibility to		Relevant factors affecting our risk assessment
		Error	Fraud	
Valuation of alternative investments	Market values for these funds are recorded based on monthly statements provided by the external investment managers. The market value recorded by the Fund is subject to significant estimation risk.	Y	N	APFC is considered to be a limited partner in the investments; fair values of the investments are not considered to have readily determinable fair values; as such, for these funds management uses the fair value capital account balances nearest to the balance sheet date provided to the Corporation by the gatekeeper (who receive their information from the general partners), adjusted for subsequent contributions and distributions. Normally these investments are on a 3-month lag. Given the estimation component in valuing the fair value and the size of the investment portfolio, there is a significant risk of error.

Other significant audit matters	Susceptibility to		Relevant factors affecting our risk assessment:
	Error	Fraud	
Valuation of real estate	Y	N	Due to the complexity of real estate valuations and the size of the directly owned real estate portfolio, the valuation of directly owned real estate is considered an other significant audit matter.

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:

Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.

Information is material if its misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of 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 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.

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.

Involvement of others

Audit of financial statements	Plan to involve?	Extent of planned involvement
Service Organization: Bank of New York Mellon	**Y**	- Obtain service auditor's report - Test user controls identified in the report
KPMG specialists involved in performance of audit procedures: - Risk Analytics Specialist (Alternative Investments) - Economic Valuation Specialist (Real Estate Investments) - Information Risk Management (IT)	**Y**	- Provide guidance on risks related alternative investments, including current 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 initial portfolio risk assessment and scoping of non-public portfolio. - Assist in gaining an understanding of IT systems and Cybersecurity processes to assess IT risks

Planned deliverables and timeline

Q4 FY20

- Obtain signed engagement letter from management/Audit Committee
- Identify key members of the engagement team
- Determine materiality
- Plan audit approach for upcoming year-end audit
- Obtain an understanding of the Fund and its environment
- Perform analytical procedures
- Inquire of the Audit Committee, management, and others within the Fund about risks of material misstatement
- Conduct a discussion among engagement team members regarding the risks of material misstatement
- Review board minutes
- Evaluate experts
- Determine involvement of specialists
- Evaluate design and implementation of entity-level controls
- Perform process walkthroughs and identification of process risk points for certain processes
- Evaluate design and implementation of process level controls for certain processes
- Identify risks of misstatement for certain processes
- Assess risks of material misstatement and plan audit response for certain processes
- Communicate audit plan
- Identify and understand service organizations
- Identify applicable IT applications and environments
- Perform interim substantive procedures for the Fund

Q1 FY21

- Perform remaining substantive audit procedures
- Complete control testing for remaining process level, general IT, and entity-level controls
- Review financial statement disclosures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Obtain written representations from management
- Present audit results to the Audit Committee and perform required communications
- Issue audit reports on financial statements

KPMG independence quality controls

KPMG maintains a comprehensive system of quality controls designed to maintain our independence and to comply with regulatory and professional requirements.

— Submission of all worldwide engagements through Sentinel, a KPMG independence and conflict checking system (includes services for/relationships with the audit client, its affiliates, and its affiliated persons)

— Tracking partner rotation requirements using PRS (Partner Rotation System), the firm's automated partner rotation tracking system

— Automated investment tracking system used by all KPMG member firms (KICS)

— Training and awareness programs, including a required annual independence training deployed globally

— Annual independence confirmation required for all existing partners and employees and for all new individuals who subsequently join the firm

— Independence Confirmation Work Paper required to be completed by audit engagement teams which addresses a variety of independence matters and requires review by the Engagement Quality Control Reviewing partner

— Compliance testing programs

— Formal disciplinary policy and process

Independence of mind and appearance

- Independence consists of independence of mind and in appearance. Independence in appearance is the avoidance of circumstances that would cause a reasonable and informed third party who has knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of the firm or members of the audit engagement team is compromised.
- Close personal relationships between firm personnel and audit client personnel can impact the appearance of independence or an auditor’s independence of mind.
- KPMG has issued reminders and conducted training regarding KPMG’s existing policies that require interactions between firm personnel and audit client personnel (including client entertainment) be directly related to a business purpose, reasonable, and infrequent (i.e., generally no more than four times a year). Additionally, firm policies prohibit the receipt or granting of any gift with a value in excess of $100 between firm and audit client personnel.

Shared responsibilities – Independence

In order for us to fulfill our professional responsibility to maintain and monitor independence in relation to the Fund, timely information is required from Fund management regarding the following:

- The Fund's affiliates – This includes entities that are part of the financial statements and other entities that meet the definition of an affiliate under AICPA independence rules (e.g., sister companies under control of a common parent company where both the audit client and sister company are material to the controlling company, entities included in an investment company complex, etc.)
- The Fund's officers and trustees,
- Information regarding any pending transactions which may result in new affiliates, officers, and trustees.

Payment of fees – Audit and all other professional services

Professional standards require that fees for any previously rendered professional service provided more than one year prior to the date of the current year audit report have been paid.

Enhancing audit quality and transparency

We are providing as supplemental information the following documents:

- **Audit Quality Report**
- **Transparency Report**
- **NYSE Supplement to Transparency Report**
- **EU Supplement to Transparency Report**
- **Audit quality actions overview and status of latest PCAOB inspections**

The firm's internal quality control documents and related presentation are available on the Board Leadership Center website at
https://portal.us.kworld.kpmg.com/scripts/index.aspx/audit/pages/AuditACReqComms

Responsibilities

Management responsibilities – Financial statements	— Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by us are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
Management responsibilities – ICFR	— Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
Management responsibilities – Other	— To provide us with: 1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters; 2) additional information that we may request from management for the purpose of the audit; and 3) unrestricted access to persons within the Company from whom we determine it necessary to obtain audit evidence — Identifying and ensuring that the Company complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations — Providing us with a letter confirming certain representations made during the audit, that includes but is not limited to management's: 1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Company's financial reporting 2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Audit Committee responsibilities	— Oversight of the financial reporting process and internal control over financial reporting (ICFR) — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud

The financial statement audit does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

Management and the Audit Committee responsibilities	— Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that the Company's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the Company's financial statements.
KPMG – Audit objectives	— Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	— Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement — Performing an audit of financial statements includes consideration of 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 Company's ICFR
KPMG responsibilities – Other information in documents containing financial statements	— The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information — Our responsibility is to make appropriate arrangements with management or the Audit Committee to obtain information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts — Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement — Communicate any procedures performed relating to the other information and the results of those procedures

Responsibilities (continued)

KPMG responsibilities – Communications

- Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Audit Committee in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Audit Committee
- Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the Fund's internal control
- Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy
- Communicating to the Audit Committee circumstances, if any, that affect the form and content of the auditors' report
- Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal
- Communicating to the Audit Committee if we conclude 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
- When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the Fund, or by additional requirements applicable to the engagement
- Communicating if we have identified or suspect fraud involving: (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in our professional judgment, relevant to the responsibilities of the Audit Committee
- Communicating significant findings and issues arising during the audit in connection with the Fund's related parties
- Communicating conditions and events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time

Questions?

For additional information and Audit Committee resources, including upcoming events, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

KPMG

kpmg.com/socialmedia

4. Financial Report

APFC ALASKA PERMANENT FUND CORPORATION

FY20 Year-to-Date Financial Statement Review

May 19, 2020

Highlights as of March 31st

- Accounting net loss: $3.6b
- Statutory net income: $2.6b
- Mineral revenues deposited to corpus: $280m
- Inflation rate for FY20 1.81%, $757m
- FY20 POMV transfers to General Fund, $2.7b
- Total return -5.68%

Total Assets (millions)

Assets		FY20 as of 3/31	FY19
	Cash	$3,089.7	$4,585.9
	Receivables	815.8	673.6
	Investments	57,404.4	61,949.0
	Total Assets	$61,309.9	$67,208.5

Investments (millions)

Investments at Fair Value		FY20 as of 3/31	FY19
	Marketable debt securities	$11,398.2	$13,725.0
	Preferred and common stock	21,137.7	24,253.2
	Real estate	5,480.2	5,755.9
	Absolute return	4,695.8	4,327.5
	Private equity	9,468.4	8,770.2
	Infrastructure	3,320.8	3,300.9
	Private credit	1,903.3	1,816.3
	Total Investments	$57,404.4	$61,949.0

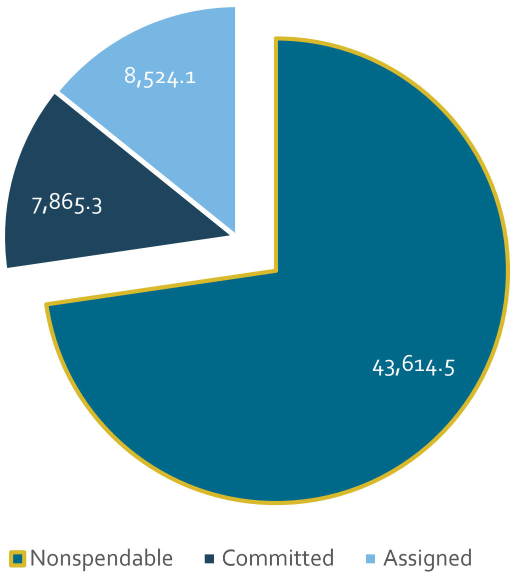
Liabilities (millions)

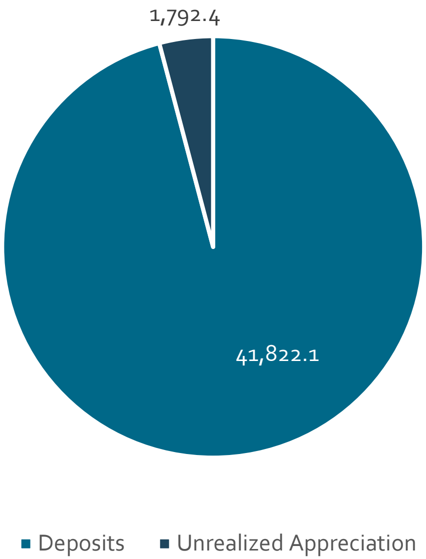
Liabilities		FY20 as of 3/31	FY19
	Accounts Payable	$1,022.9	$879.8
	Income Distributable	283.1	28.5
	Total Liabilities	$1,306.0	$908.3

Fund Balances (millions)

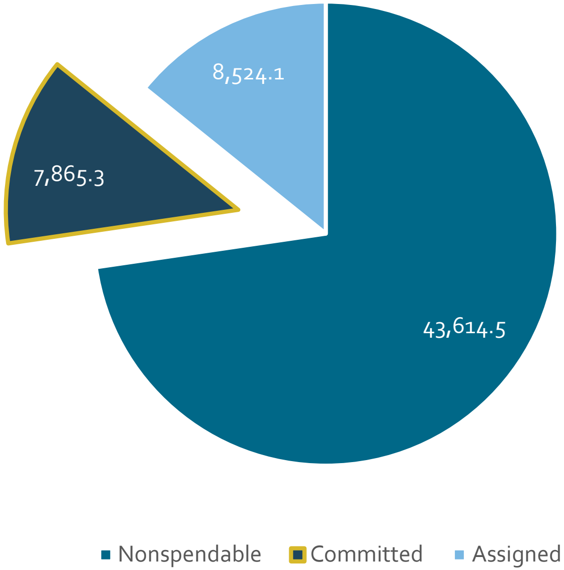
Fund balances		FY20 as of 3/31	FY19
	Nonspendable	$43,614.5	$47,819.6
	Committed	7,865.3	5,933.1
	Assigned	8,524.1	12,547.6
	Total fund balances	$60,003.9	$66,300.3
	Total liabilities and fund balances	$61,309.9	$67,208.5

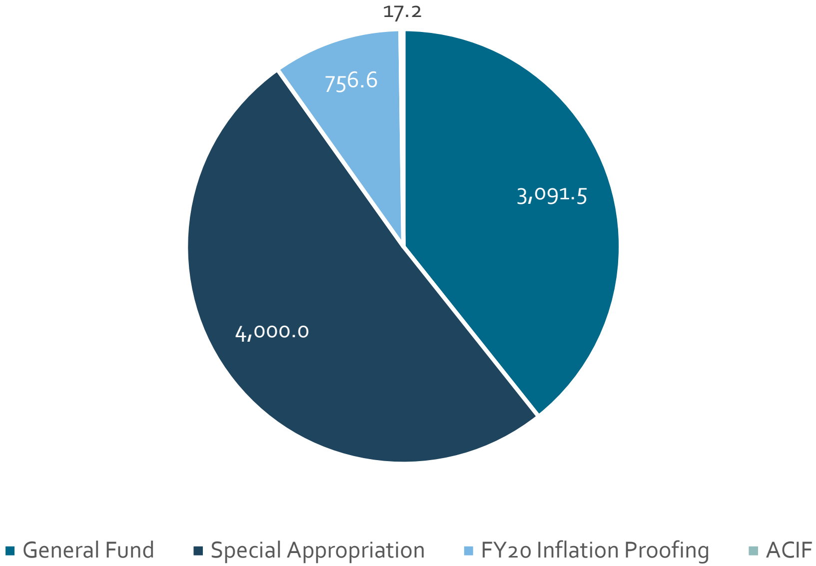
Nonspendable





Committed

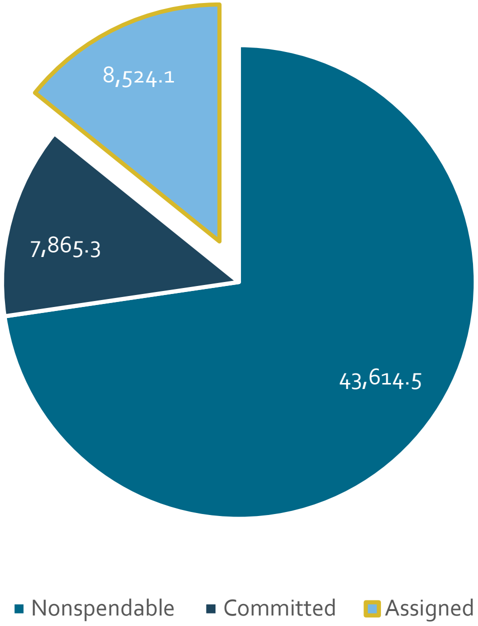

8,524.1
7,865.3
43,614.5
Nonspendable
Committed
Assigned

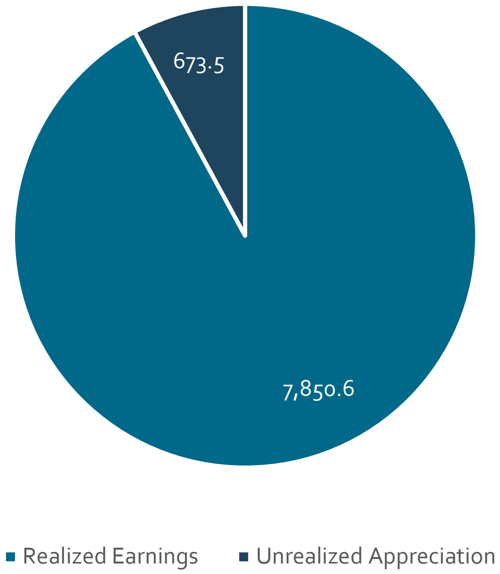

17.2
756.6
3,091.5
4,000.0
General Fund
Special Appropriation
FY20 Inflation Proofing
ACIF

General Fund Transfer Calculation

ALASKA PERMANENT FUND GENERAL FUND COMMITMENT FISCAL YEAR ENDING JUNE 30, 2020 (millions)			
FISCAL YEAR	GAAP MARKET VALUE	STATE vs AMERADA HESS	APFC MARKET VALUE
2015	52,800	424	52,376
2016	52,770	424	52,345
2017	59,785	424	59,361
2018	64,894	424	64,470
2019	66,300	424	65,876
		Average market value	58,886
		PERCENTAGE from AS 37.13.140(b)	5.25%
		Amount available for appropriation per AS 37.13.140(b)	3,091

Assigned


8,524.1
7,865.3
43,614.5
Nonspendable
Committed
Assigned


673.5
7,850.6
Realized Earnings
Unrealized Appreciation

Revenues (millions)

Revenues		FY20 ytd	FY19
	Interest	$385.0	$564.0
	Dividends	371.6	591.0
	Real estate and other income	274.4	399.7
	Total interest, dividends & other income	$1,031.0	$1,554.7
	Total increase (decrease) in fair value of investments	(4,578.4)	2,352.3
	Total Revenues	$(3,547.4)	$3,907.0

Net Change in Investments Value (millions)

Net increase (decrease) in fair value	FY20 ytd	FY19
Marketable debt securities	$(310.0)	$857.7
Preferred and common stock	(4,299.3)	393.5
Real estate	(384.0)	(202.9)
Absolute return	143.2	56.6
Private equity	528.6	1,232.4
Infrastructure	(112.2)	344.3
Private credit	48.9	41.0
Derivatives & Currency	(193.6)	(370.3)
Total net increase (decrease)	$(4,578.4)	$2,352.3

Expenditures (millions)

Expenditures		FY20 ytd	FY19
	Operating expenditures	$(88.1)	$(132.5)
	Other legislative appropriations	(7.8)	(8.8)
	Total expenditures	$(95.9)	$(141.3)
	Excess (deficiency) of revenues over expenditures	$(3,643.3)	$3,765.7

Statutory Net Income (millions)

	FY20 ytd	FY19
Accounting (GAAP) net income	$(3,643.3)	$3,765.7
Unrealized (gains) losses	6,237.6	(438.3)
ACIF realized income	$(16.9)	$(22.3)
Statutory net income	$2,577.4	$3,305.1

Changes in fund balances (millions)

Other financing sources (uses)		FY20 ytd	FY19
	Transfers in	$280.0	$385.2
	Transfers out	(2,933.1)	(2,744.9)
	Net change in fund balances	$(6,296.4)	$1,406.0
Fund balances	Beginning of period	$66,300.3	$64,894.3
	End of period	$60,003.9	$66,300.3


Questions?

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

SUBJECT: FY20 Year-to-Date Financial Update ACTION: ____________

DATE: May 20, 2020 INFORMATION: ______X_____

KEY TAKEAWAYS:

- Total return for the third quarter of FY20 of -10.49%, resulting in year-to-date total return of -5.68%
- Accounting net loss year-to-date of $3.6 billion, a loss of $7.1 billion for the third quarter
- Realized (statutory) net income year-to-date of $2.6 billion, $441 million for the third quarter
- Assets under management as of March 31st of $60.0 billion, a decrease of $6.3 billion for the year
- Year-to-date commitment for inflation proofing of $757 million
- $2.7 billion transferred to the General Fund year-to-date in accordance with SB26; $283 million remaining to be transferred
- $280 million of mineral deposits transferred in during the first three quarters of the fiscal year
- Committed Earnings Reserve balances of $3.1 billion for FY21 General Fund Transfers and $4 billion to principal

Financial results for the third quarter of FY20 reflected the extreme downturn in the markets as a result of the COVID-19 pandemic. Overall, the portfolio lost $7.3 billion in value between the end of December and the end of March. The largest losses by far were experienced in the public equity portfolio which lost more than $6.3 billion in value during the quarter. More modest losses were incurred in the fixed income plus, absolute return and asset allocation portfolios.

Net assets decreased by $6.3 billion year-to-date through March. This is a result of a net loss of $3,643 million and the recognition of the FY20 liability to the State of Alaska General Fund in the amount of $2,933 million offset by $280 million received in mineral royalty deposits. Corporate operating expenses and other appropriations year-to-date totaled $96 million.

Two transfers to the General Fund were made during the third quarter of FY20 totaling $550 million. This brings the total transfers year-to-date to $2.7 billion. Staff is in communication with the cash managers at the Department of Revenue to ensure that the remaining $283 million remains invested in the Fund as long as possible, while being available to meet the liquidity needs of the State.

APFC ALASKA PERMANENT FUND CORPORATION

Financial Report
March 31, 2020

Fiscal Year 2020 Net Assets

Balances through March 31, 2020 *(in millions)*

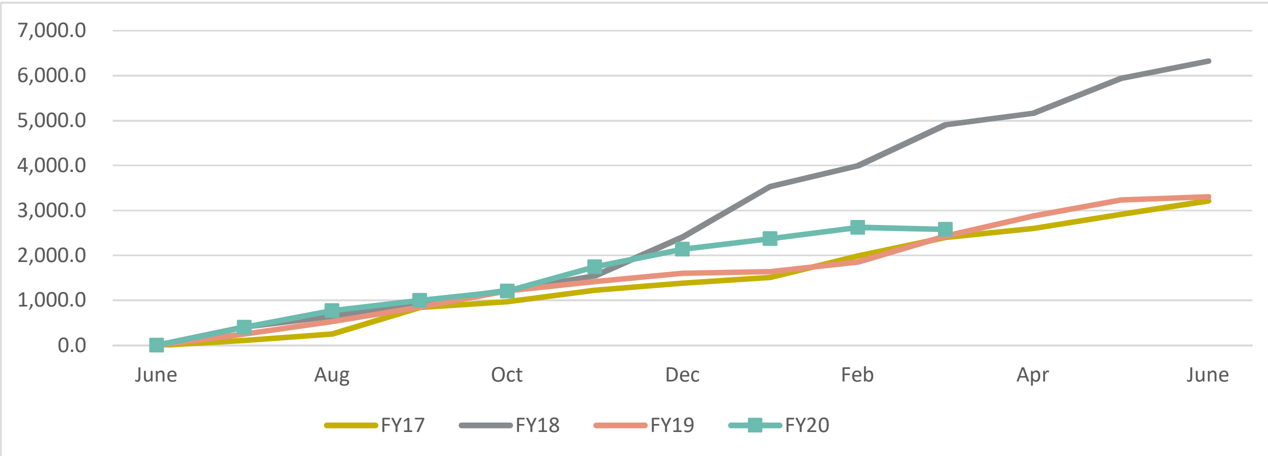
Total assets	$	61,309.9
Less liabilities		(1,306.0)
Net assets		60,003.9
Fund Balances:		
Non-spendable		
Permanent Fund corpus—contributions and appropriations		41,822.1
Not in spendable form—unrealized appreciation on invested assets		1,792.4
Total non-spendable fund balance		43,614.5
Committed		
General Fund Commitment		3,091.5
Commitment to Principal		4,000.0
Current FY inflation proofing		756.6
Current FY AK Capital Income Fund		17.2
Committed fund balance		7,865.3
Assigned for future appropriations		
Realized earnings		7,850.6
Unrealized appreciation on invested assets		673.5
Total assigned fund balance		8,524.1
Total fund balances	$	60,003.9

Fiscal Year 2020 Income

For the nine months ending March 31, 2020 *(in millions)*

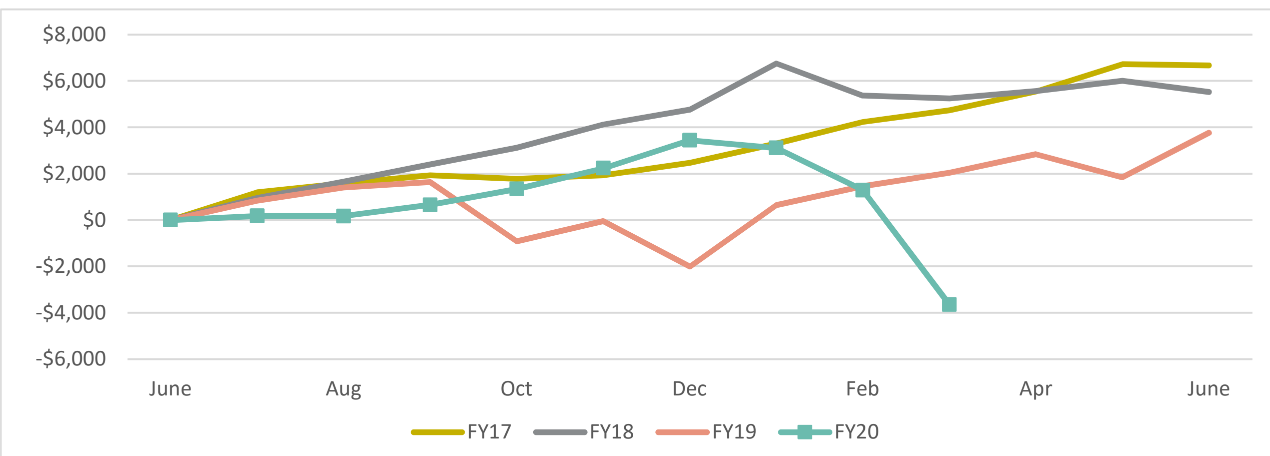
Statutory (Realized) Net Income		
Interest, dividends, real estate, and other income	$	1,031.0
Realized gains on the sale of invested assets		1,659.2
Less operating expenses/legislative appropriations		(95.9)
Less Alaska Capital Income Fund committed realized earnings		(16.9)
Statutory net income		2,577.4
GAAP (Accounting) Net Income		
Statutory net income		2,577.4
Unrealized loss on invested assets		(6,237.6)
Alaska Capital Income Fund committed realized earnings		16.9
Accounting net income	$	(3,643.3)

Statutory Net Income, Fiscal Years 2017 - 2020



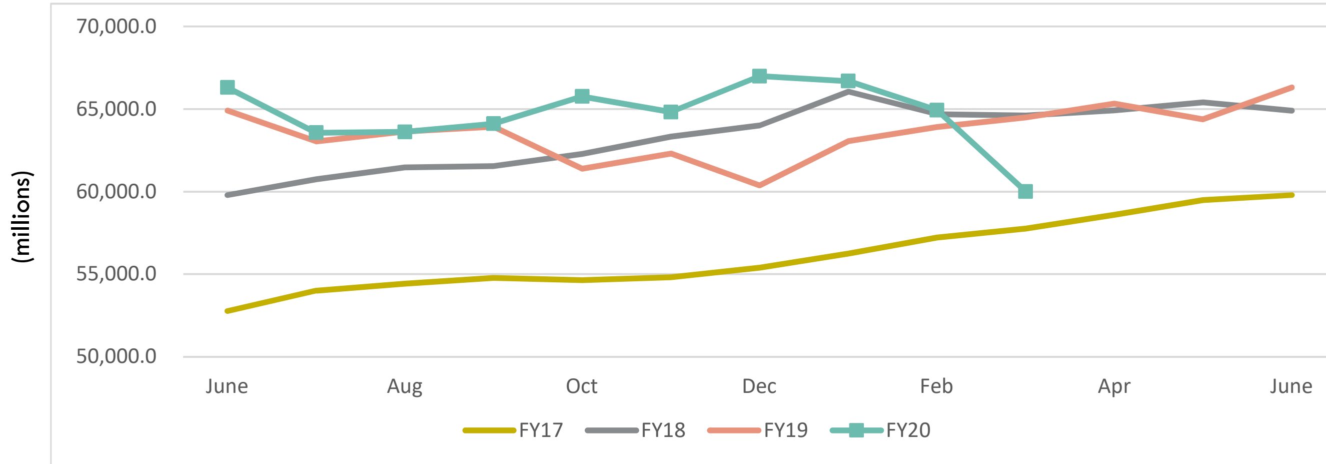
- Comprised of receipts from interest on fixed income, real estate rentals, stock dividends, and all realized gains and losses on the sales of invested assets, less AK Capital Income Fund committed amounts and operating expenses.
- FY17 statutory net income was $3,214.2 million.
- FY18 statutory net income was $6,324.4 million.
- FY19 statutory net income was $3,305.1 million.
- FY20 statutory net income through March 31st was $2,577.4 million.

GAAP Accounting Net Income (Loss), Fiscal Years 2017 - 2020



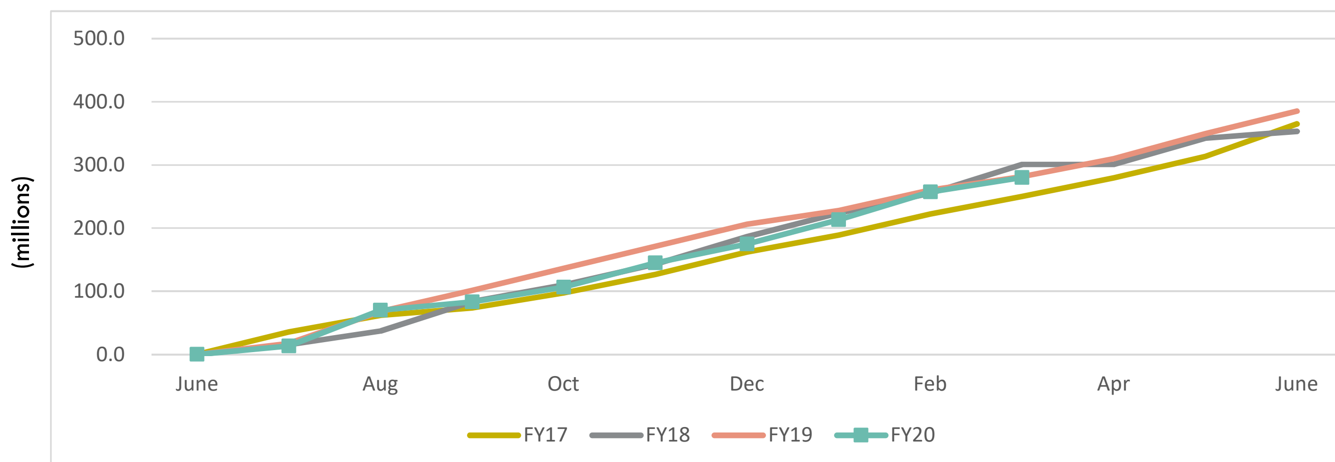
- Accounting net income is the same as statutory net income, except it includes unrealized gains and losses.
- Accounting net income for FY17 was $6,675.6 million.
- Accounting net income for FY18 was $5,525.5 million.
- Accounting net income for FY19 was $3,765.8 million.
- Accounting net loss through March 31st was $3,643.3 million.

Market Value of Fund Net Assets, Fiscal Years 2017 - 2020



- FY17 net assets as of June 2017 were $59.8 billion, basically unchanged from the FY16 ending balance.
- FY18 net assets as of June 2018 were $64.9 billion, an increase of $5.1 billion over the FY17 ending balance.
- FY19 net assets as of June 2019 were $66.3 billion, an increase of $1.4 billion over the FY18 ending balance.
- FY20 net assets as of March 31, 2020 were $60.0 billion, a decrease of $6.3 billion from the FY19 ending balance.

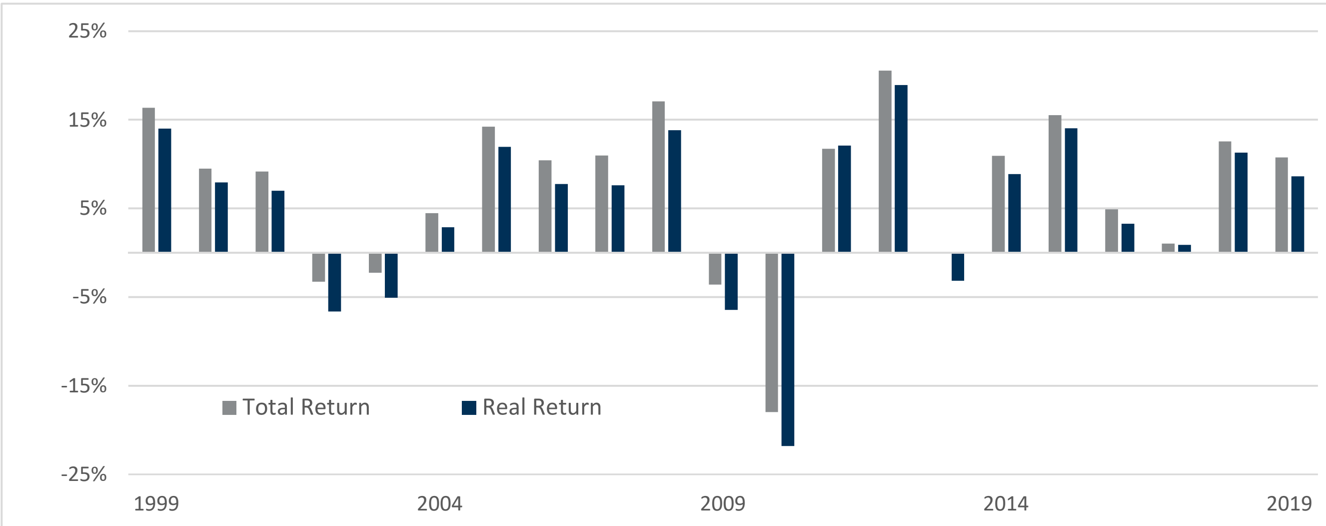
Dedicated Mineral Revenues, Fiscal Years 2017 - 2020



- FY17 mineral revenue was $364.9 million.
- FY18 mineral revenue was $353.1 million.
- FY19 mineral revenue was $385.2 million.
- FY20 mineral revenue as of March 31, 2020 was $280 million.

Alaska Permanent Fund Historical Returns, Fiscal Years 1999 - 2019

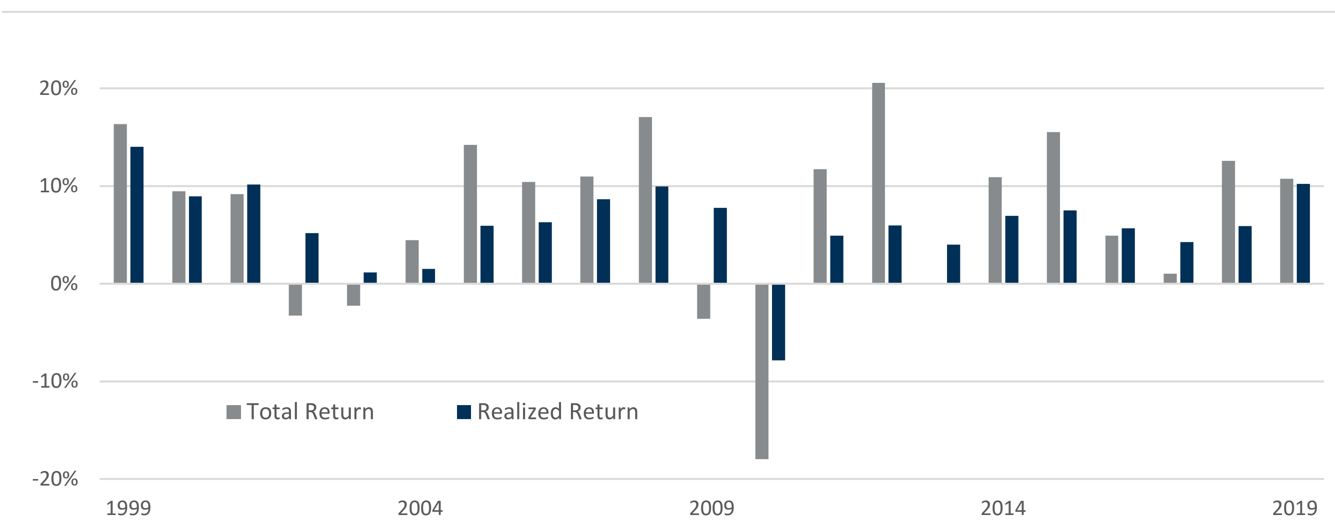
Total return minus inflation equals real return



- Total return annualized over 35 years is 8.75%
- Real return annualized over 35 years is 6.52%

Alaska Permanent Fund Historical Returns, Fiscal Year 1999 - 2019

Total return minus unrealized gains/losses equals realized return



- Total return annualized over 35 years is 8.75%
- Realized return annualized over 35 years is 9.90%

5. Audit Committee Self-Assessment

Audit Committee of the Board of Trustees
2020 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.

General Questions (some may not apply):

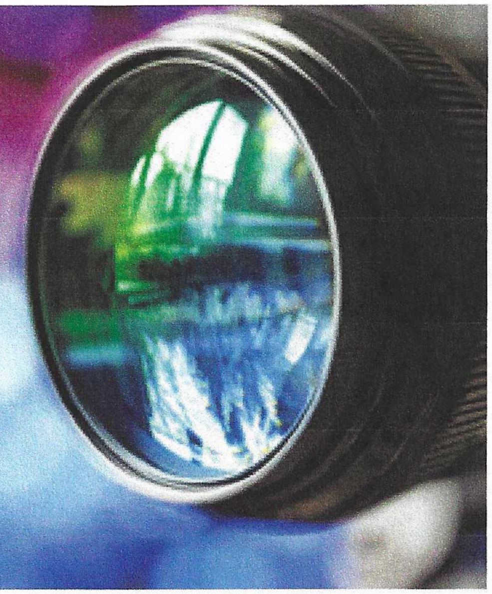
1.	Is the level of independence of the audit committee acceptable?
2.	Has the audit committee developed a continuing education program to enhance its members' understanding of relevant auditing, accounting, regulatory, and industry issues?
3.	Are new audit committee members provided with an orientation program to educate them on the company and their responsibilities?
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)?
5.	Does the audit committee dedicate appropriate time and resources to execute its responsibilities?
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?
7.	Does the audit committee make inquiries of the appropriate parties (external auditor, management, etc.) on the depth of experience and sufficiency of staff?
8.	Does the audit committee review the management recommendation letters written by the auditor to ensure that all significant matters raised are addressed?
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?
10.	Is there appropriate consideration in the audit committee's discussions of the company's financial reporting risks and the related internal controls?
11.	Is there active consideration of the audit plan and results of the independent audit?
12.	Do executive sessions held with the independent auditor result in candid discussion of relevant issues?
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?
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?

APFC Charter Specific Questions:

15.	Has the audit committee reviewed the adequacy of the charter within the last three years?
16.	Have significant changes to accounting principles been discussed?
17.	Have any legal matters that could impact the Fund's financial statements been discussed with legal counsel?
18.	Has APFC financial and accounting personnel succession planning been reviewed?
19.	Has the audit committee overseen the role of the external auditors from selection to termination?
20.	Has the independence and performance of the auditors been reviewed?
21.	Has the appropriateness and quality of accounting principles applied to the financial statements, including estimates and disclosures, been discussed?

6. Memo: On the Audit Committee Agenda

KPMG



On the 2020 audit committee agenda

Board Leadership Center

Prioritizing a heavy audit committee agenda is never easy, and 2020 will be particularly challenging. The audit committee is operating against a backdrop of global volatility and economic uncertainty—e.g., mounting trade tensions, resurging debt, a looming market correction, geopolitical tensions, technology and business model disruption, cyber risk, regulatory scrutiny, investor demands for transparency, and political gridlock in the U.S., U.K., and elsewhere.

Drawing on insights from our latest survey work and interactions with audit committee members and business leaders, we've flagged seven issues that audit committees should keep in mind as they consider and carry out their 2020 agendas:

- Maintain (or regain) control of the committee's agenda.
- Reinforce audit quality and set clear expectations for the external auditor.
- Closely monitor management's progress on implementing FASB's new credit loss standard.
- Redouble your focus on the company's ethics, compliance, and whistle-blower programs.
- Understand how technology is impacting the finance organization's talent, efficiency, and value-add.
- Reassess the scope and quality of environmental, social, and governance (ESG)/sustainability reports and disclosures.
- Help ensure internal audit's eyes and ears are focused on key risks beyond financial reporting.

Maintain (or regain) control of the committee's agenda.

This number one priority from last year holds true for 2020. Nearly half of the 1,300 audit committee members responding to our 2019 global audit committee survey said it is "increasingly difficult" to oversee the major risks on the audit committee's agenda in addition to its core oversight responsibilities (financial reporting and related internal controls, and oversight of internal and external auditors). Aside from any *new* agenda items, the risks that many audit committees have had on their plates for some time—financial risks; cybersecurity and information technology risks; ESG risks; third-party, supply chain, and other operational risks; legal and regulatory compliance—have become more complex. Reassess whether the committee has the expertise and time to oversee the risks it has been assigned. Do cyber risk and data governance require greater attention from the full board—or perhaps a dedicated committee? Keeping the audit committee's agenda focused—and its eye on the ball—will require discipline and vigilance in 2020.

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* released in April 2019.) Pay close attention to the PCAOB's quality control initiatives, as the PCAOB staff has announced that it is developing a concept release for the Board's consideration and may seek amendments to the PCAOB's quality control standards. Probe the audit firm on its quality control systems that are intended to drive sustainable, improved audit quality—including the firm's implementation and use of new technologies. A September 2019 speech by PCAOB board member Duane M. DesParte (*Improving Audit Quality through a Renewed Focus on Quality Control*) highlighted key elements of a firm's quality control (QC) system to include "areas of firm governance and structure, QC system risk assessment and monitoring, continuous improvement, and transparency." In discussions with the external auditor regarding the firm's internal quality control system, consider the results of PCAOB 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.

Closely monitor management's progress on implementing FASB's new credit loss standard.

The effective date of the standard—January 1, 2020, for calendar-year public companies—is imminent, and implementation efforts should be nearing conclusion. Both financial services and nonfinancial services companies will be affected, as a variety of financial instruments are within the scope of the new standard. Given the magnitude of the implementation effort for many companies, we recommend two broad areas of focus for audit committees. First, understand how management has determined the transition impact of adoption—which must be disclosed in the company's 2019 Form 10-K as a Staff Accounting Bulletin (SAB) 74 transition disclosure—and what the external auditor has done to evaluate the transition impact. What are the external auditor's recommendations regarding the adequacy of the SAB 74 disclosure? Second, discuss with management and understand the company's readiness to operate and report under the standard in 2020. Topics for discussion with management include the impact on internal control over financial reporting; new disclosure requirements regarding assumptions, models, and methods for estimating the allowance for credit losses; and the impact on disclosure controls and procedures. Obtain the views of the external auditor regarding the company's readiness, as the auditor is in a unique position to provide insights on the company's reporting processes and internal controls.

In November, the FASB issued an ASU to delay implementation of the credit loss standard for SEC filers eligible to be smaller reporting companies, public companies that are not SEC filers, and private companies, including not-for-profit entities and employee benefit plans. Those benefiting from the delay will be required to adopt the standard in 2023. Eligible companies should take advantage of this time to learn from the implementation issues encountered by larger SEC filers, confirm the preparedness of their technologies and systems (or develop new solutions) to comply with the new accounting and reporting requirements, and solidify their business processes and controls over implementation and subsequent accounting.

Redouble your focus on the company's ethics, compliance, and whistle-blower programs.

The reputational costs of an ethics or compliance failure are higher than ever. Fundamental to an effective compliance program is the right tone at the top and culture throughout the organization, which supports the company's strategy, 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 longer and increasingly complex supply chains. Coupled with the challenging global regulatory environment—the array of new data privacy, environmental, healthcare, financial services, and consumer protection regulations, as well as FCPA and the UK Bribery Act—compliance risks and vulnerabilities will require vigilance. Closely monitor the tone at the top and culture throughout the organization with a sharp focus on behaviors (not just results) and yellow flags. 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 are 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 through a #MeToo lens. Does the audit committee see all whistle-blower complaints? If not, 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 brand reputation are on full display.

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

Major technology changes impacting finance organizations present 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. First, recognizing that as much as 60 to 80 percent 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? Second, how will finance use 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 crypto-currencies. As historical analysis becomes fully automated, the organization's analytics capabilities should evolve to include predictive analytics, an important opportunity to add real value. Third, 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? In this environment, it is essential that the audit committee devote adequate time to understand finance's transformation strategy.

Reassess the scope and quality of ESG/ sustainability reports and disclosures.

Nearly all S&P 500 companies provide some form of ESG or sustainability reports today, but there are growing concerns by a range of stakeholders—investors, employees, customers, regulators, and activists—regarding the quality, comparability, reliability, and usefulness of these reports. ESG reporting has been of growing importance to institutional investors for many years, with investors demanding more information and seeking engagement with companies on core ESG issues and their impact on the company. Employee and consumer activism regarding ESG issues is in its early stages—but is growing—particularly among millennials. And, of course, we continue to see a large number of shareholder ESG proposals—particularly on the "E" and the "S" issues.

The Business Roundtable Statement on the Purpose of a Corporation (to benefit all stakeholders—customers, employees, suppliers, communities, and shareholders) will likely increase expectations for companies to articulate in ESG or sustainability reports how they are meeting their commitments to these stakeholders, including metrics. Given the increasing stakeholder demands for more transparent, higher-quality ESG reporting—and concerns about the lack of comparability of ESG data—the audit committee can serve as a catalyst, recommending that the board encourage management to reassess the scope and quality of the company's ESG reports and disclosures. This may be a significant undertaking and would likely include benchmarking against peers, consideration of the methodologies and standards of various firms that rate companies on ESG practices, understanding the expectations of investors and other stakeholders, and reviewing various ESG reporting frameworks for possible use by the company. To bring the right focus and attention, a board committee, such as the audit or governance committee (depending on bandwidth and expertise), should oversee the effort. Management's disclosure committee should be part of these discussions to help ensure that the company has the necessary infrastructure—including disclosure controls and procedures—to support its ESG reporting.

Help ensure internal audit's eyes and ears are focused on key risks beyond financial reporting.

In recent years, a number of highly publicized corporate crises have damaged company reputations, due in part to failure to manage key 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. The audit committee should work with the chief audit executive and chief risk officer to help identify the 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. Is the audit plan risk-based and flexible—and does it 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? Are we 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.

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG's Audit Committee Institute, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/us/blc.

Contact us

kpmg.com/blc

T: 1-800-808-5764

E: us-kpmgmktblc@kpmg.com

About the Audit Committee Institute

As part of the Board Leadership Center, KPMG's Audit Committee Institute focuses on oversight of financial reporting and audit quality and other issues of interest to audit committee members, including risk oversight, internal controls, and compliance. Learn more at kpmg.com/us/aci.

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