



Board of Trustees

Audit Committee Meeting

May 19, 2022

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 - September 2, 2021
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Board of Trustees Audit Committee Meeting

May 19, 2022

8:15-9:25 a.m.

Ted Ferry Civic Center
888 Venetia Ave, Ketchikan, AK

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/audit-committee>

Event Password: APFCAudit

Teleconference Option

*If you are unable to join in-person or via webinar, please contact us at
(907) 796-1501 to receive a teleconference number*

AGENDA

Thursday, May 19, 2022

- 8:15 a.m. CALL TO ORDER
- ROLL CALL (Action)
- APPROVAL OF AGENDA (Action)
- APPROVAL OF MINUTES (Action)
- Audit Committee Minutes – September 2, 2021
- SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION
- 8:20 a.m. FY22 KPMG AUDIT PLAN AND RISK ASSESSMENT (Information)
Melissa Beedle, Engagement Manager, KPMG
Beth Stuart, Engagement Partner, KPMG
- 8:45 a.m. FY22 YEAR-TO-DATE FINANCIAL STATEMENT REVIEW (Information)
Valerie Mertz, Chief Financial Officer
Jacki Mallinger, Senior Portfolio Accountant
- 9:10 a.m. AUDIT COMMITTEE SELF-ASSESSMENT (Information)
Steve Rieger, Committee Chair
Valerie Mertz, Chief Financial Officer
- OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS
- 9:25 a.m. ADJOURNMENT

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

ALASKA PERMANENT FUND CORPORATION

**AUDIT COMMITTEE MEETING
WEBEX/TELECONFERENCE**

September 2, 2021

8:30 a.m.

Originating at:

Atwood Building

550 West 7th

Anchorage, Alaska 99501

SUMMARY MINUTES

Trustees Present:

Corri Feige, Chair

Steve Rieger

Ethan Schutt

William Moran

Craig Richards

Lucinda Mahoney

APFC Staff Present:

Angela Rodell, CEO

Val Mertz, CFO

Chris Poag, General Counsel

Jennifer Thorsteinson

Jacki Mallinger

Paulyn Swanson

Nellie Metcalfe

Sarah Race

Scott Balovich

Larissa M. Goecker

Other Participants:

Mike Hayhurst, KPMG

Melissa Beedle, KPMG

PROCEEDINGS

CALL TO ORDER

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

MS. THORSTEINSON stated there was a quorum. She added that Trustees Richards and Rieger were also present.

APPROVAL OF AGENDA

CHAIR FEIGE moved to the approval of the agenda and asked for a motion.

MOTION: A motion to approve the agenda was made by TRUSTEE SCHUTT; seconded by TRUSTEE MORAN.

There being no objection, the MOTION was APPROVED.

APPROVAL OF MINUTES

CHAIR FEIGE moved to approval of the minutes of May 18, 2021.

MOTION: A motion to approve the minutes of May 18, 2021, was made by TRUSTEE MORAN; seconded by TRUSTEE SCHUTT.

There being no objection, the MOTION was APPROVED.

SCHEDULED APPEARANCES.

CHAIR FEIGE moved to scheduled appearances.

MS. THORSTEINSON did not see anyone online.

CHAIR FEIGE then moved to the Audit Report.

AUDIT REPORT

CHAIR FEIGE stated that Mike Hayhurst and Melissa Beedle were online.

MR. HAYHURST began his presentation and stated that, as it related to the status of the audit outstanding matters, the audit is substantially complete. He continued that KPMG was in a position and expected to issue the opinion for the financial statement tomorrow. He noted that no corrected misstatements were identified during the audit, and no matters to communicate as far as financial statement presentation. The disclosures continue to be robust, in accordance with GAAP, and are transparent. There were no matters to communicate on the non-GAAP policies and practices. As reported last year and carried forward into the current year, there is a non-GAAP policy around recording the private equities on a lag basis, which is very consistent year over year. In the current year, it is a clean opinion, indicating the belief that the financials are materially correct, in accordance with GAAP. He added that in discussion with management, no matters of significant findings or issues were identified. The management representation letter, including the summary of uncorrected misstatements, will be distributed under a separate cover for significant written communication. He explained the uncorrected audit misstatement related to the non-GAAP policy for recording the private equity funds on a lag analysis. He noted significant accounting policies and practices and the guidance on the classification of the Fund balance.

CHAIR FEIGE asked about the frequency of receiving capital statements from the external fund managers.

MR. HAYHURST replied that they come in quarterly.

CHAIR FEIGE asked for any questions. There being none, she called a break.

(Break.)

CHAIR FEIGE called the meeting back to order and moved to the first of the executive sessions.

TRUSTEE RICHARDS stated that he reviewed the materials and did not see what was confidential. He asked for clarity.

MS. MERTZ replied that one of the requirements in the charter for the Audit Committee was to monitor the integrity of the financial reporting process and the internal controls that surround the framework that goes into the financial reporting process. She added that the committee is tasked with selecting the auditor, and maintaining an open communication relationship with them. The executive session is intended to give the committee an opportunity to speak with KPMG without staff in the room for the opportunity to speak freely.

CHAIR FEIGE asked for a motion.

MOTION: In accordance with the Alaska Open Meetings Act, for the Audit Committee of the Board of Trustees to 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's staff. This topic is appropriate for executive session because the immediate knowledge of details discussed may negatively impact the value of the Permanent Fund and may be harmful to the reputation or character of the APFC's staff was made by TRUSTEE SCHUTT; seconded by TRUSTEE MORAN.

After the roll-call vote, the MOTION was APPROVED. (Trustee Schutt, yes; Trustee Moran, yes; Chair Feige, yes.)

(Executive session from 8:24 a.m. until 8:51 a.m.)

CHAIR FEIGE called the meeting back on the record in regular session. While in executive session, the trustees considered only the matters mentioned in the motion and took no action. She moved to the detailed review of the fiscal year '21 year-end financial statements, and recognized Valerie Mertz.

MS. MERTZ began with some high-level highlights for FY21 and then went through the financial statements. She stated that the numbers seen would be unprecedented in recent history. The new high set was 29.73 percent. Reflective of that return there was an accounting net income of \$19.4 billion, also a record high for the Fund. She wrapped up FY21 and stated that it was a super strong year for financial results. She thanked her finance team for the work they did in preparing this presentation over a short period of time.

CHAIR FEIGE called a break.

(Break.)

CHAIR FEIGE called the meeting back to order and moved to the scheduled second executive session on business continuity and disaster recovery. She recognized CEO Rodell.

CEO RODELL stated that one of the questions at the last Audit Committee meeting was a briefing for trustees on both security and business continuity. Staff had worked incredibly hard to get a comprehensive BCDR plan, and because a lot of the information could affect the Fund and the value of the Fund, this information had to be provided in executive session.

CHAIR FEIGE asked for a motion.

MOTION: In accordance with Alaska's Open Meetings Act, that the Audit Committee of the Board of Trustees convene in executive session to receive an update on APFC's Business Continuity Disaster Recovery Plan. The topic is appropriate for an executive session because the immediate knowledge of this information could thwart the efficacy of this plan, and, in turn, negatively impact the value of the Permanent Fund was made by TRUSTEE MORAN; seconded by TRUSTEE SCHUTT.

After the roll-call vote, the MOTION was APPROVED. (Trustee Schutt, yes; Trustee Moran, yes; Chair Feige, yes.)

CEO RODELL stated that staff can stay in to the extent they are all familiar with this information.

(Executive Session from 9:40 a.m. until 10:43 a.m.)

CHAIR FEIGE called the meeting back into regular session. She noted for the record, that while in executive session the trustees considered only the matters mentioned in the motion and took no action. She stated that next on the agenda is another executive session on regulatory compliance.

CEO RODELL stated, for the record, that there are a lot of things being done internally to make sure we are in compliance with various federal, state, board requirements, and she wanted to walk through what it looks like internally. She continued that this is confidential information, which is why the executive session was requested.

MOTION: In accordance with Alaska's Open Meetings Act, it is moved that the Audit Committee of the Board of Trustees convene in executive session for the purpose of reviewing APFC's investment policy compliance reports. This topic is appropriate for executive session because the immediate knowledge of details discussed could negatively impact the value of the Permanent Fund was made by TRUSTEE SCHUTT; seconded by TRUSTEE MORAN.

After the roll-call vote, the MOTION was APPROVED. (Trustee Schutt, yes; Trustee Moran, yes; Chair Feige, yes.)

(Executive session from 10:45 a.m. until 11:16 a.m.)

CHAIR FEIGE called the meeting back into regular session. She noted that while in the Executive Session, the trustees considered only the matters mentioned in the motion and took no action. She continued to other matters.

OTHER MATTERS

CEO RODELL stated she did not have anything for the committee, but reminded the committee that this will be taken up at the general meeting for action, like adopting the annual report and the audited financials.

CHAIR FEIGE asked for any future agenda items to be put forward, and then moved to Trustee Comments.

TRUSTEE COMMENTS

TRUSTEE RICHARDS stated, as was discussed in executive session, some of the report is public and probably could be provided in a public manner. Second, the regulatory compliance report, even the confidential version, can be shared with the trustees. He added that it was a great report, but he was not clear as to why it was an Audit Committee function.

TRUSTEE SCHUTT stated no comments.

TRUSTEE MORAN stated no comments.

TRUSTEE RIEGER stated no comments.

CHAIR FEIGE stated that Trustee Mahoney had joined the meeting.

TRUSTEE MAHONEY apologized for being late.

CHAIR FEIGE thanked Ms. Rodell and staff for the preparation of all the reports and being in Anchorage and dealing with everything in preparation for the meeting. She asked for a motion to adjourn.

MOTION: A motion to adjourn the meeting was made by TRUSTEE MORAN; seconded by TRUSTEE SCHUTT.

There being no objection, the MOTION was APPROVED.

(Audit & Risk Committee meeting adjourned at 11:19 a.m.)



Alaska Permanent Fund Corporation

Discussion with Those Charged with Governance

Audit plan and strategy for the year ending June 30, 2022

May 19, 2022



Executive summary



New team members



Beth Stuart

Lead Audit Engagement Partner

907-244-8372

emstuart@kpmg.com

Beth is an audit partner and serves as the managing partner of KPMG's Anchorage office. She brings over 25 years of experience in providing audit and accounting services.

Cybersecurity considerations

Factors and forces elevating cybersecurity risks:

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

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
- Clarify responsibilities for data governance across the enterprise
- Reassess how the board—through its committee structure—assigns and coordinates oversight responsibility for cybersecurity and data governance frameworks, including data privacy, ethics, and hygiene

Audit considerations:

- 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

Summary: Audit approach required communications and other matters

		Response
Planning & risk assessment	Role and identity of engagement partner	The lead audit engagement partner is: Beth Stuart
	Significant findings or issues discussed with management	No matters to report.
	Scope of audit	Our audit of the financial statements of The Permanent Fund (the Fund) as of and for the year ended June 30, 2022, 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.
	Materiality in the context of an audit	See slide 5
	Our timeline	See slide 6
	Risk assessment: Significant risks	See slide 7
	Involvement of others	See slide 8
	Independence	See slide 9
	Responsibilities	See slide 10
	Inquiries	See slide 11

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.

Our timeline

Mar 1 – June 30

July 1 – September 30

Planning and risk assessment

- Planning and initial risk assessment procedures, including:
 - Involvement of others
 - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the Fund and its environment
- Inquire of those charged with governance, management and others within the Fund about risks of material misstatement
- Coordinate with Specialists
- Evaluate design and implementation (D&I) of entity level controls and process level controls for certain processes
- Perform process walkthroughs and identification of process risk points for certain processes

Interim

- Ongoing risk assessment procedures, including:
 - Identification and assessment of risks of misstatements and planned audit response for remaining processes
- Communicate audit plan
- Identify IT applications and environments
- Evaluate D&I of process level controls for remaining processes
- Perform interim substantive procedures

Year-end

- Complete control testing for remaining process level, general IT, and entity-level controls, where applicable
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Obtain written representations from management
- Present audit results to those charged with governance and perform required communications

September 2: Issue audit reports on financial statements.

Risk assessment

Significant risks

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.

Susceptibility to:

Error

Fraud

Yes

Other risks identified

Relevant factors affecting our risk assessment and planned response

Valuation of private market investments

- Complexity of private market investment valuations
- Size of the private market investment portfolio
- Timing of the valuation received

Valuation of real estate investments

- Complexity of real estate valuations
- Size of the directly owned real estate portfolio
- Timing of valuations received

Involvement of others

Audit of financial statements	Extent of planned involvement
Service Organization: Bank of New York Mellon	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - Provide guidance on risks related to private market investments, including current economic environment - Assist in portfolio risk assessment and scoping of private market and real estate investments - Review third party appraisals for selected real estate investments

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 directors, officers, owners of 10% or more of the Company's equity securities or ownership interests, 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 Company or its directors, officers, from having certain types of business relationships with KPMG or KPMG professionals.

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.

Inquiries

The following inquiries are in accordance with AU-C 260

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?

New auditor reporting standards

SAS 134*, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, aligns the content of the auditors' report under US GAAS with the equivalent ISAs.

The revised auditors report will:

- Present the opinion section first, followed by the basis for opinion section.
- Include a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities relating to the audit.
- Expand the statement of management's responsibility to include assessing the entity's ability to continue as a going concern.
- Expand the description of auditor responsibilities to include exercising and maintaining professional judgment throughout the audit, concluding on whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and communicating with those charged with governance regarding, among other matters:
 - The planned scope and timing of the audit,
 - Significant audit findings, and
 - Certain internal control-related matters that are identified during the audit
- When engaged by the entity, key audit matters are communicated within the auditors' report.

SAS 137*, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, amends the definition of an annual report and clarifies the auditor's responsibilities for other information included in the annual report, including when auditors reporting is required. The revised auditors report will:

- Include a separate 'Other Information' section when the annual report is available before the date of our auditors' report.

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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ALASKA PERMANENT
FUND CORPORATION

FY22 Year-to-Date Financial Statement Review

May 19, 2022
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Key Takeaways as of March 31st

- Accounting net income: \$2.3b
- Statutory net income: \$4.5b
- Mineral revenues deposited to corpus: \$305m
- POMV transfers to General Fund: \$1.9b
- Total return 4.95%

Total Assets (millions)

Assets		FY22 as of 3/31	FY21 as of 6/30
	Cash	\$4,621.6	\$5,828.4
	Receivables	1,150.6	787.7
	Investments	<u>79,041.3</u>	<u>77,931.8</u>
	Total assets	\$84,813.5	\$84,547.9

Investments (millions)

Investments at fair value		FY22 as of 3/31	FY21 as of 6/30
	Marketable debt securities	\$15,063.4	\$16,438.4
	Preferred and common stock	30,287.2	30,471.8
	Real estate	7,028.5	5,662.7
	Absolute return	5,236.8	5,170.6
	Private credit	2,442.9	2,257.1
	Private equity	16,112.6	15,294.4
	Infrastructure	<u>2,869.9</u>	<u>2,636.8</u>
	Total investments	\$79,041.3	\$77,931.8

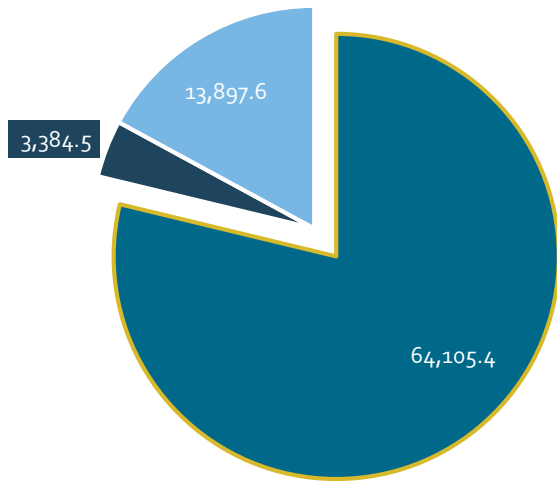
Liabilities (millions)

Liabilities		FY22 as of 3/31	FY21 as of 6/30
	Accounts payable	\$2,276.7	\$2,601.0
	Income distributable	<u>1,149.3</u>	<u>50.1</u>
	Total liabilities	\$3,426.0	\$2,651.1

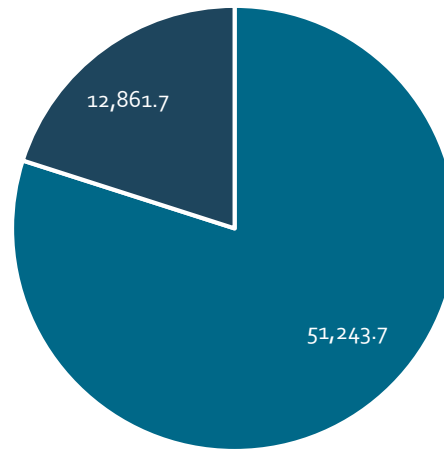
Fund Balances (millions)

Fund balances		FY22 as of 3/31	FY21 as of 6/30
	Nonspendable	\$64,105.4	\$60,748.4
	Committed	3,384.5	7,069.3
	Assigned	<u>13,897.6</u>	<u>14,079.1</u>
	Total fund balances	<u>\$81,387.5</u>	<u>\$81,896.8</u>
	Total liabilities and fund balances	\$84,813.5	\$84,547.9

Nonspendable

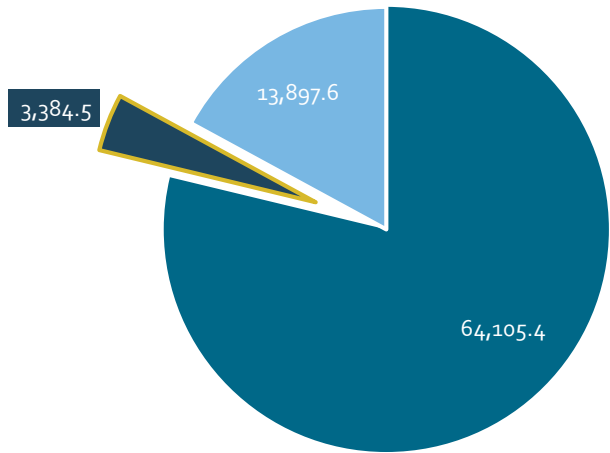


■ Nonspendable ■ Committed ■ Assigned

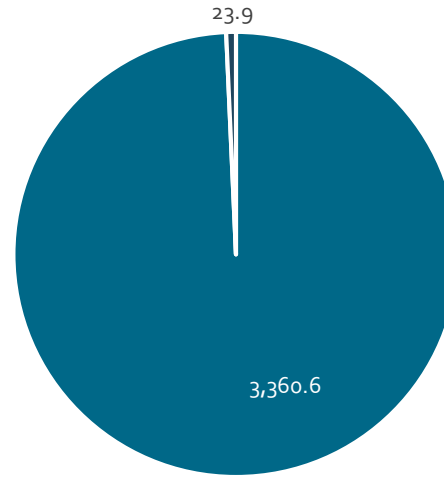


■ Deposits ■ Unrealized Appreciation

Committed



■ Nonspendable ■ Committed ■ Assigned

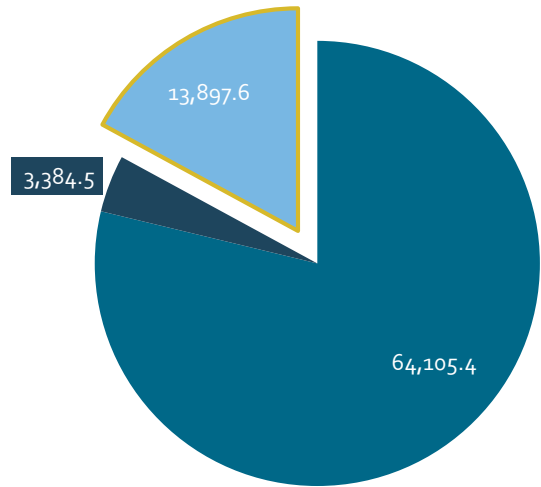


■ General Fund ■ ACIF

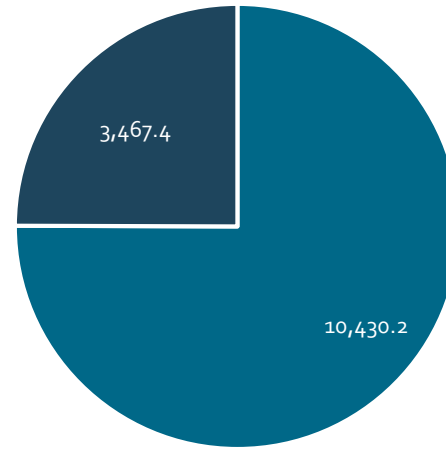
General Fund Transfer Calculation

ALASKA PERMANENT FUND GENERAL FUND COMMITMENT FISCAL YEAR ENDING JUNE 30, 2022 (millions)			
FISCAL YEAR	GAAP MARKET VALUE	STATE vs AMERADA HESS	APFC MARKET VALUE
2017	59,785	424	59,361
2018	64,894	424	64,470
2019	66,300	424	65,876
2020	65,302	424	64,878
2021	81,897	424	81,472
Average market value			67,211
PERCENTAGE from AS 37.13.14o(b)			5.00%
Amount available for appropriation per AS 37.13.14o(b)			3,360.6

Assigned



■ Nonspendable ■ Committed ■ Assigned



■ Realized Earnings ■ Unrealized Appreciation

Revenues (millions)

Revenues		FY22 as of 3/31	FY21 as of 3/31	FY21 as of 6/30
	Interest	\$340.8	\$323.4	\$436.5
	Dividends	471.0	380.1	558.1
	Real estate and other income	<u>411.1</u>	<u>349.0</u>	<u>530.2</u>
	Total interest, dividends & other income	\$1,222.9	1,052.5	\$1,524.8
	Total increase in fair value of investments	<u>1,151.9</u>	<u>12,989.7</u>	<u>18,066.4</u>
	Total revenues	\$2,374.8	\$14,042.2	\$19,591.2

Net Change in Investments Value (millions)

Net increase (decrease) in fair value	FY22 as of 3/31	FY21 as of 3/31	FY21 as of 6/30
Marketable debt securities	\$(1,272.7)	\$(122.5)	\$174.4
Preferred and common stock	(519.6)	9,450.1	11,200.7
Real estate	736.6	(2.7)	157.8
Absolute return	176.8	553.1	686.0
Private credit	115.2	118.6	278.4
Private equity	1,605.0	3,446.7	5,823.1
Infrastructure	348.5	247.8	463.6
Derivatives & currency	<u>(37.9)</u>	<u>(701.4)</u>	<u>(717.6)</u>
Total net increase	\$1,151.9	\$12,989.7	\$18,066.4

Expenditures (millions)

Expenditures		FY22 as of 3/31	FY21 as of 3/31	FY21 as of 6/30
	Operating expenditures	\$(110.8)	\$(131.0)	\$(166.2)
	Other legislative appropriations	<u>(9.3)</u>	<u>(8.4)</u>	<u>(8.4)</u>
	Total expenditures	<u>\$(120.1)</u>	<u>\$(139.4)</u>	<u>\$(174.6)</u>
	Excess of revenues over expenditures	\$2,254.7	\$13,902.8	\$19,416.6

Statutory Net Income (millions)

	FY22 as of 3/31	FY21 as of 3/31	FY21 as of 6/30
Accounting (GAAP) net income	\$2,254.7	\$13,902.8	\$19,416.6
Unrealized (gains) losses	2,288.7	(8,597.8)	(11,404.1)
ACIF realized income	<u>(23.9)</u>	<u>(33.3)</u>	<u>(50.1)</u>
Statutory net income	\$4,519.5	\$5,271.7	\$7,962.4

Changes in Fund Balances (millions)

Other financing sources (uses)		FY22 as of 3/31	FY21 as of 3/31	FY21 as of 6/30
	Transfers in	\$305.3	\$207.1	\$319.6
	Transfers out	<u>(3,069.3)</u>	<u>(3,091.5)</u>	<u>(3,141.6)</u>
	Net change in fund balances	\$(509.3)	\$11,018.4	\$16,594.6
Fund balances	Beginning of period	\$81,896.8	\$65,302.2	\$65,302.2
	End of period	\$81,387.5	\$76,320.6	\$81,896.8



Questions?

SUBJECT: FY22 Year-to-Date Financial Update ACTION: _____

DATE: May 19, 2022 INFORMATION: X

KEY TAKEAWAYS:

- Total return year-to-date through March 31 of 4.95%, -0.95% for the third quarter
- Accounting net income year-to-date of \$2.3 billion, with a total of \$1.9 billion in losses incurred in January and February
- Realized (statutory) net income year-to-date of \$4.5 billion, ahead of the median forecast and slightly below the level at the same time in the prior year
- Net asset value as of March 31st of \$81.4 billion, a decrease of \$500 million from \$81.9 billion at the end of the prior year
- \$250 million transferred to the General Fund during the third quarter of the year in accordance with SB26; \$100 million in January and \$150 million in February
- \$93 million of mineral deposits transferred in during the quarter ended March 31st
- Committed Earnings Reserve balance of \$3.4 billion for FY23 General Fund transfers (\$3.36 billion) and the transfer to ACIF (\$24 million)

Financial results for the third quarter were reflective of the volatility experienced in the public markets. The fixed income portfolio experienced a loss in value in all three months for a total decline of \$1.1 billion. Public equities lost a total of \$1.8 billion in January and February, recovering \$344 million in the final month of the quarter. Less notable movements were recorded in the other asset classes. Overall, the fund recorded unrealized losses of \$2 billion between the end of December and the end of March. This brought year-to-date total fund return down to 4.95% from 5.95% as of December 31.

Net assets decreased by \$1 billion during the third quarter, dropping to \$500 million less than the ending value for FY21. This is the result of net loss of \$1.1 billion and \$93 million received in mineral royalty deposits. Corporate operating expenses and other appropriations for the third quarter totaled \$52 million.

Two transfers to the General Fund were made during the third quarter of FY22 totaling \$250 million, bringing the total transfers for the year to \$1.9 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.



**Financial Report
March 31, 2022**

Fiscal Year 2022 Net Assets

Balances through March 31, 2022

(in millions)

Total assets	\$ 84,813.5
Less liabilities	(3,426.0)
Net assets	<u>81,387.5</u>
Fund Balances:	
Non-spendable	
Permanent Fund corpus—contributions and appropriations	51,243.7
Not in spendable form—unrealized appreciation on invested assets	12,861.7
Total non-spendable fund balance	<u>64,105.4</u>
Committed	
General Fund Commitment	3,360.6
Current FY AK Capital Income Fund	23.9
Committed fund balance	<u>3,384.5</u>
Assigned for future appropriations	
Realized earnings	10,430.2
Unrealized appreciation on invested assets	3,467.4
Total assigned fund balance	<u>13,897.6</u>
Total fund balances	<u>\$ 81,387.5</u>

Fiscal Year 2022 Income

For the nine months ending March 31, 2022

(in millions)

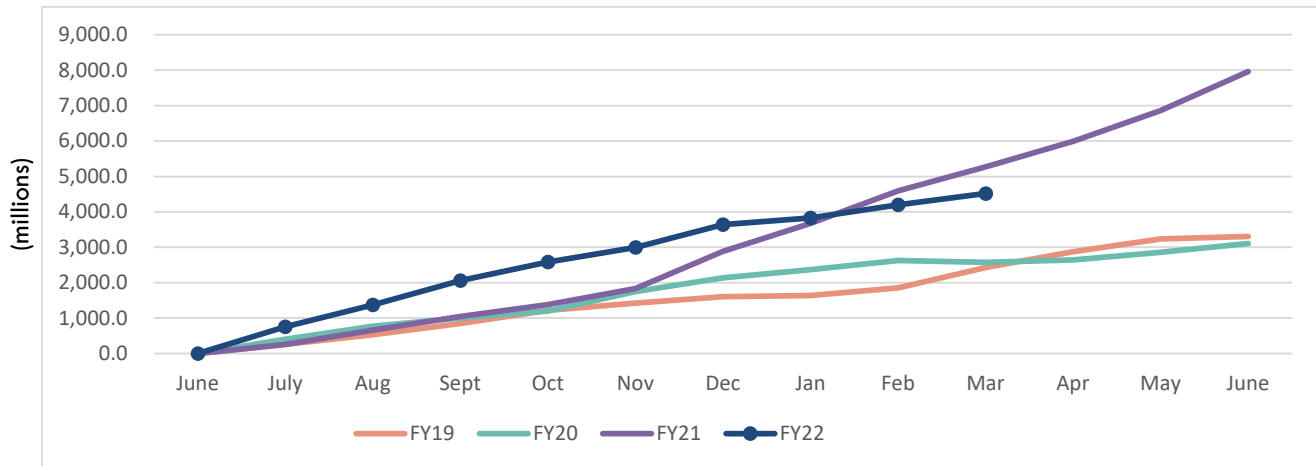
Statutory (Realized) Net Income

Interest, dividends, real estate, and other income	\$ 1,222.9
Realized gains on the sale of invested assets	3,440.6
Less operating expenses/legislative appropriations	(120.1)
Less Alaska Capital Income Fund committed realized earnings	(23.9)
Statutory net income	<u>4,519.5</u>

GAAP (Accounting) Net Income

Statutory net income	4,519.5
Unrealized loss on invested assets	(2,288.7)
Alaska Capital Income Fund committed realized earnings	23.9
Accounting net income	<u>\$ 2,254.7</u>

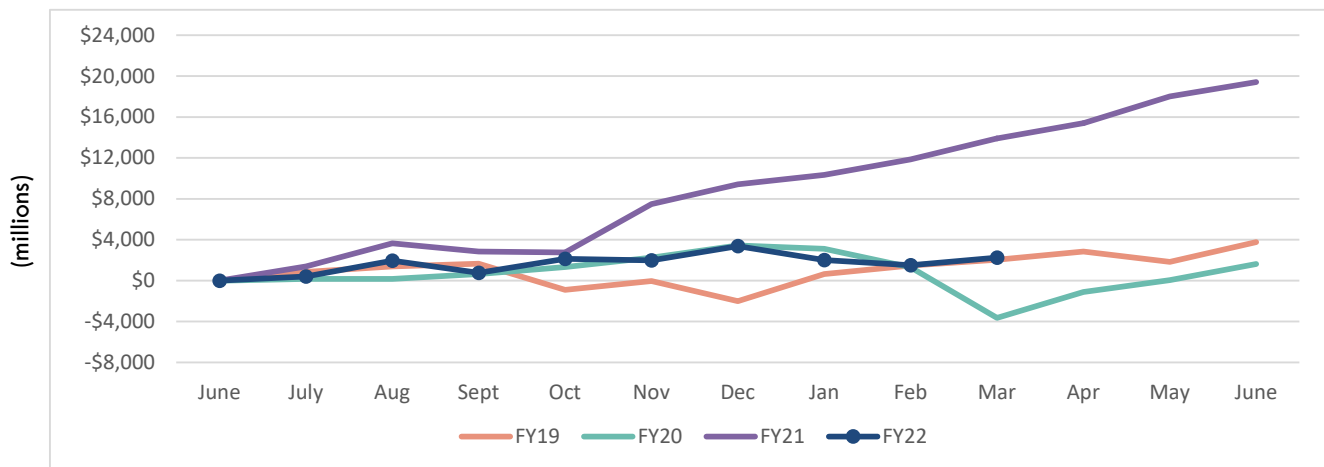
Statutory Net Income, Fiscal Years 2019 - 2022



- 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.

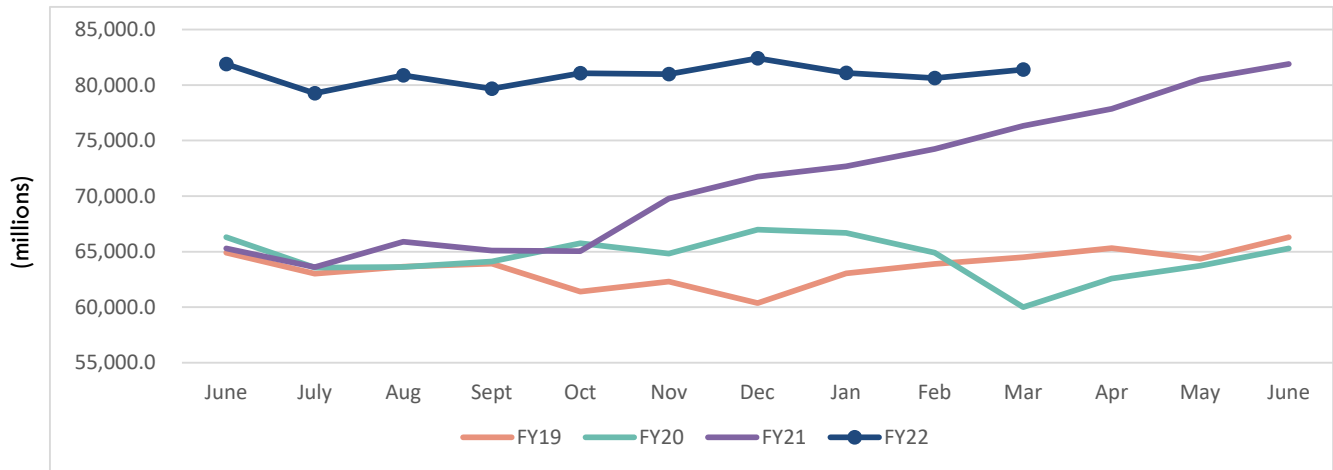
- FY19 statutory net income was \$3,305.1 million.
- FY20 statutory net income was \$3,106.0 million.
- FY21 statutory net income was \$7,962.4 million.
- FY22 statutory net income through March 31st was \$4,519.5 million.

GAAP Accounting Net Income, Fiscal Years 2019 - 2022



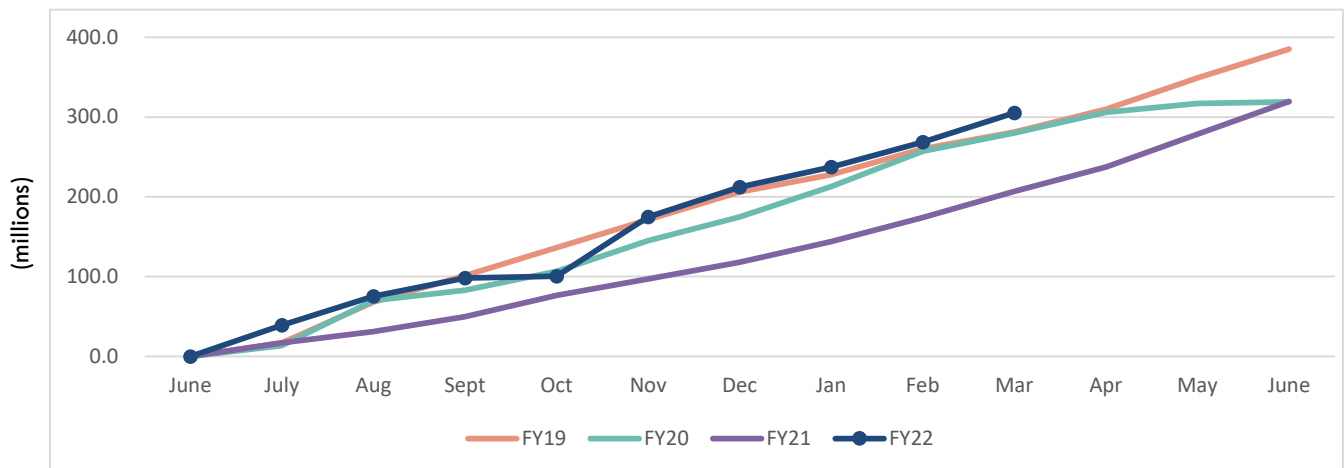
- Accounting net income is the same as statutory net income, except it includes unrealized gains and losses.
- Accounting net income for FY19 was \$3,765.8 million.
- Accounting net income for FY20 was \$1,636.5 million.
- Accounting net income for FY21 was \$19,416.6 million.
- Accounting net income for FY22 through March 31st was \$2,254.7 million.

Market Value of Fund Net Assets, Fiscal Years 2019 - 2022



- 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 June 2020 were \$65.3 billion, a decrease of \$1.0 billion over the FY19 ending balance.
- FY21 net assets as of June 2021 were \$81.9 billion, an increase of \$16.6 billion from the FY20 ending balance.
- FY22 net assets as of March 2021 were \$81.4 billion, a decrease of \$0.5 billion from the FY21 ending balance.

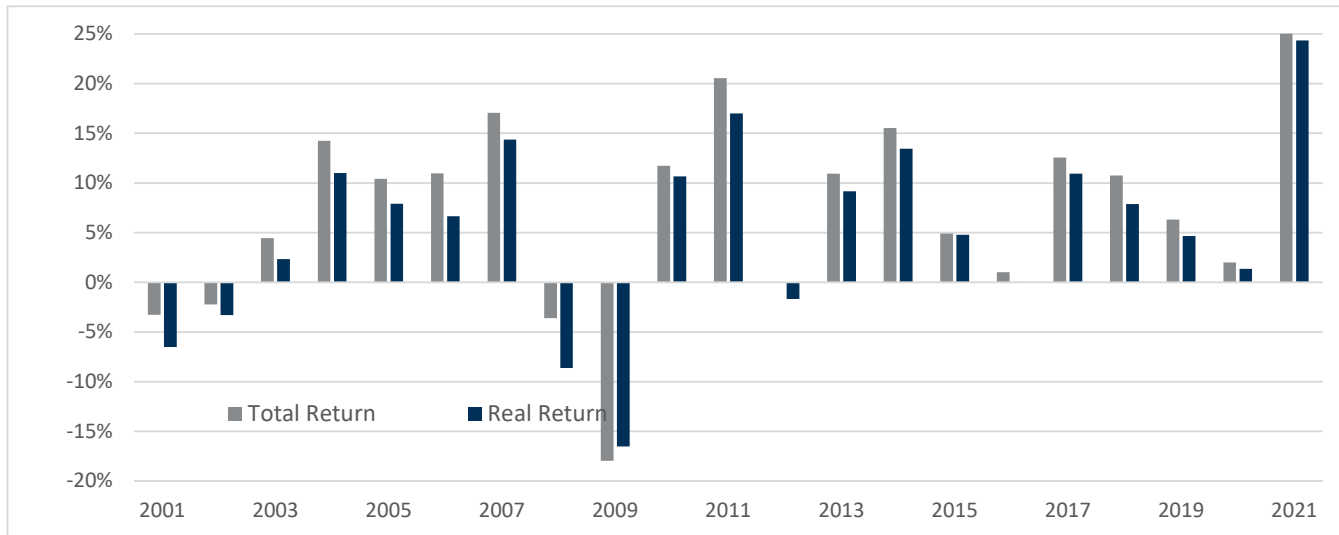
Dedicated Mineral Revenues, Fiscal Years 2019 - 2022



- FY19 mineral revenue was \$385.2 million.
- FY20 mineral revenue was \$319.0 million.
- FY21 mineral revenue was \$319.6 million.
- FY22 mineral revenue as of March 31st was \$305.3 million.

Alaska Permanent Fund Historical Returns, Fiscal Years 2001 - 2021

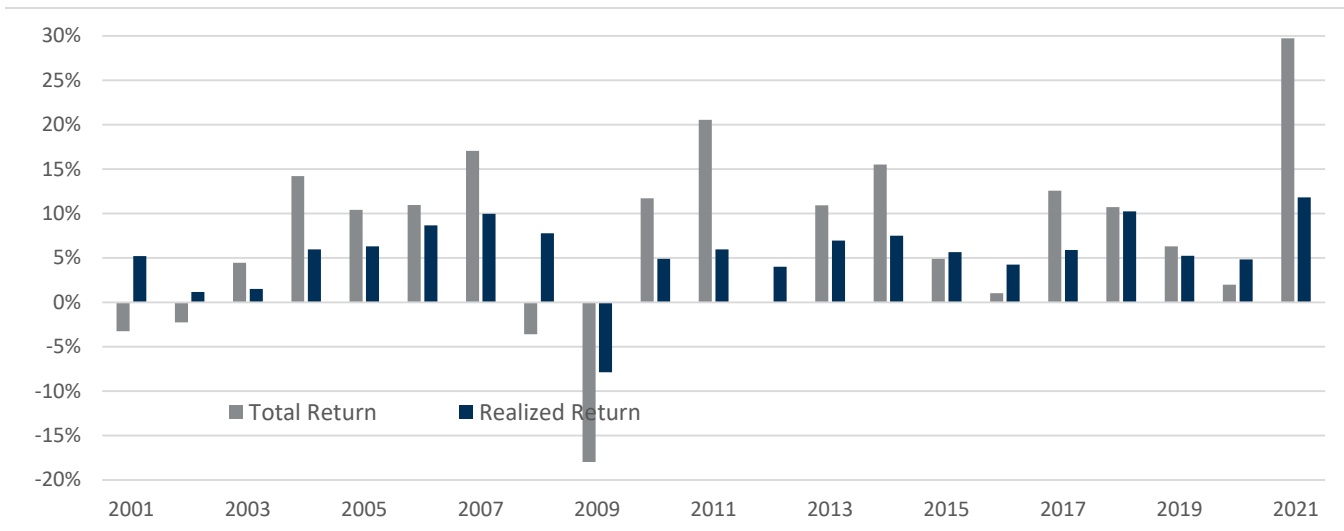
Total return minus inflation equals real return



- Total return annualized over 37 years is 9.20%
- Real return annualized over 37 years is 6.59%

Alaska Permanent Fund Historical Returns, Fiscal Years 2001 - 2021

Total return minus unrealized gains/losses equals realized return



- Total return annualized over 37 years is 9.20%
- Realized return annualized over 37 years is 7.55%

**Audit Committee of the Board of Trustees
2022 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.

	Rieger	Moran	Feige	Staff Notes
<u>General Questions</u> (some may not apply):				
1. Is the level of independence of the audit committee acceptable?	YES	YES	YES	
2. Has the audit committee developed a continuing education program to enhance its members' understanding of relevant auditing, accounting, regulatory, and industry issues?	Not that I am aware of	NO	NO, NOT IN A STRUCTURED MANNER. INFORMATION IS MADE AVAILABLE BY KPMG AND SHARED. THIS SHOULD BE	
3. Are new audit committee members provided with an orientation program to educate them on the company and their responsibilities?	YES	YES	YES, REFRESHERS WOULD BE WELCOMED, ESPECIALLY AS REGULATIONS CHANGE.	
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)?	Don't Know	YES	YES	
5. Does the audit committee dedicate appropriate time and resources to execute its responsibilities?	YES	YES	YES	
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	YES	YES	
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	YES	YES, GENERALLY A PART OF THE AUDIT DISCUSSION WITH KPMG.	
8. Does the audit committee review the management recommendation letters written by the auditor to ensure that all significant matters raised are addressed?	YES	YES	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?	Don't Know	YES	YES, AT LEAST A WEEK OF LEAD TIME IS PREFERRED	
10. Is there appropriate consideration in the audit committee's discussions of the company's financial reporting risks and the related internal controls?	YES	YES	YES	
11. Is there active consideration of the audit plan and results of the independent audit?	YES	YES	YES	
12. Do executive sessions held with the independent auditor result in candid discussion of relevant issues?	YES	YES	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	?	YES	
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	YES	YES, WOULD ALSO BE GOOD TO SEND THIS TO MEMBERS EACH TIME THE COMMITTEE CHANGES MEMBERSHIP.	

**Audit Committee of the Board of Trustees
2022 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.

	Rieger	Moran	Feige	Staff Notes
<u>APFC Charter Specific Questions:</u>				
15. Has the audit committee reviewed the adequacy of the charter within the last three years?	Don't Know	YES	YES, THREE YEARS AGO, I BELIEVE	CHARTER WAS REVIEWED IN SEPTEMBER, 2020
16. Have significant changes to accounting principles been discussed?	Don't Know	YES	NO, NONE PROPOSED	THERE HAVEN'T BEEN ANY RECENTLY. KPMG WOULD HIGHLIGHT AS PART OF AUDIT REVIEW.
17. Have any legal matters that could impact the Fund's financial statements been discussed with legal counsel?	YES	YES	NO, ONLY ON-GOING LITIGATION	
18. Has APFC financial and accounting personnel succession planning been reviewed?	Don't Know	YES	NO, NOT DURING MY TENURE	
19. Has the audit committee overseen the role of the external auditors from selection to termination?	Don't Know	YES	YES	
20. Has the independence and performance of the auditors been reviewed?	YES	YES	YES, AS A PART OF THE CONTRACTING PROCESS	
21. Has the appropriateness and quality of accounting principles applied to the financial statements, including estimates and disclosures, been discussed?	YES	YES	YES	



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 whistleblower 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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