

EY Center for Board Matters

## 2025 Q1 Audit committee update

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### PRESENTED BY THE EY AUDIT COMMITTEE FORUM

Audit committees are closely monitoring and discussing how companies should adapt to the evolving legislative and regulatory implications of the second Trump administration. Their Q1 discussions may be centered on tax policy, trade, mergers and acquisitions (M&A), regulatory changes and sustainability reporting.

Meanwhile, trade tensions, industrial sovereignty initiatives, tax policy and regional conflicts are causing companies and boards to reassess their global footprint, supply chains, ecosystem partners and addressable markets. Finally, audit committees should consider the risks and financial reporting implications stemming from

ongoing regional conflicts, disruptions in oil and gas supplies, financial market stress, trade interruptions and regional trade dynamics. This quarterly update provides key considerations for audit committees as they navigate these and other developments.

# Risk management

Boards and audit committees continue to face a challenging risk landscape driven by shifting political dynamics, economic volatility and regulatory shifts.

The outcome of the 2024 US election has significantly changed the public policy environment in Washington for the years ahead. Trump's second-term agenda is already proving to be expansive and has been underpinned by strong executive action early on. Companies are navigating an environment that includes assessing current conditions and responding to emerging regulatory shifts.

Accordingly, audit committees and boards are monitoring a range of policy issues and discussing how the new Washington environment will impact business risks. We've highlighted some of the top policy concerns and related risk considerations below:

- **Geopolitical rivalries are creating a volatile and uncertain outlook for the global operating environment.** These geopolitical dynamics will transform the trajectory of globalization in 2025 and beyond, influencing the markets from which organizations can source inputs and products, as well as where they can invest or sell. Some key actions that leading organizations are taking include: (a) using scenario analysis and tabletop exercises to explore which emerging markets are likely to provide the strongest commercial opportunities, (b) considering the scenarios for making decisions on market entry, expansion or exit; (c) identifying any strategic footprint shifts or operational changes that can be made today to increase resilience to different potential conflict scenarios in the future; and (d) rethinking research and development plans and investments to foster new skill sets and develop greater operational resilience.
- **Trade and supply chains are dominating boardroom conversations.** Trump's second-term trade agenda is being driven by "America First" posture and policy – prioritizing domestic investment and broadly expanding tariffs. While issues vary by company and sector, many audit committees are closely watching tariffs and regulatory shifts that could impact exports. In particular, evolving trade policies with China continue to be a key focus for many companies as China remains a critical market due to its economic scale and growth potential.



- **In response to the surge in trade restrictions and tariffs, leading companies are reassessing their global trade strategies and supply chain finance to mitigate risks from geopolitical tensions.** Those prioritizing diversification are exploring supply chain restructuring strategies (e.g., shifting portions of supply chain to certain countries; entering new or simplified supplier relationships) and possibly leveraging financial instruments to hedge against tariff impacts. Similarly, finance teams are also considering tariff impacts to product pricing strategies. In addition to finance and operating management, audit committees should inquire with internal audit, risk and compliance functions as to how compliance and internal controls are keeping pace amid evolving global trade rules and more complex supply chain relationships.

■ **Audit committees are focused on the tax outlook for 2025 and beyond, both in the US and globally.**

Whether or not the US will ultimately participate in the OECD Pillar 2 rules is still open to speculation with the Trump administration. While proposed tax legislation is working its way through Congress, currently there is no indication an adoption of the Pillar 2 rules is contemplated. Extending Tax Cut Jobs Act (TCJA) provisions that are set to expire in 2025 is the top priority of the administration. The second Trump administration's tax policy approach is likely to focus on preserving current rates or further reducing tax rates where possible, promoting onshoring and growing the US economy. In addition to modeling potential tax changes and undertaking scenario planning, companies are seeking ways to engage with government leaders and strengthen ties with Washington to stay ahead and prepare for potential tax law changes. Audit committees will likely want to ask tax directors for their point of view on draft legislation and the potential impacts on the entity.

■ **Technology, particularly artificial intelligence (AI), remains an important policy issue, and organizations are preparing for a complex AI regulatory landscape.**

Audit committees are evaluating the current administration's technology policy and how it may depart from former President Joe Biden's approach. Governments will be seeking to innovate and scale domestic AI ecosystems, with the goal of boosting self-reliance in AI while de-risking related supply chains from geopolitical rivals. Additionally, some audit committees are concerned about the potential risk of some states adopting AI-related regulations, which may contribute to an inefficient regulatory patchwork. Accordingly, audit committees are striving to understand how companies are monitoring proposals for new laws and regulations governing data and AI, and how they are designed and implemented, in key markets. Additionally, audit committees and boards are making sure there are effective governance frameworks for AI, data and related intellectual property in place to verify compliance with relevant trade, investment and data usage regulations – while also satisfying contractual obligations that may be impacted by digital sovereignty regulations or other new stakeholder expectations.

■ **Keeping up with the changes and understanding the impacts of the changing regulatory environment will be important.**

Democratic and Republican presidents alike have increasingly relied on executive powers to make policy, causing pendulum swings in regulation. This trend is expected to continue with Trump's second term. Recent Supreme Court decisions limiting some regulatory authority will impact Trump's actions, and though we still expect a new set of regulatory priorities and a "lighter touch" regulatory environment overall, the impact could be uneven depending on the industry. These dynamics elevate the risk of policy reversals and surprises. Additionally, we are seeing some states "fill the void," which creates potential new regulatory requirements at the state level, which entities will need to monitor (e.g., California's climate disclosure requirements). Boards should verify that their policy monitoring and government relations teams have sufficient resources to be effective in this more uncertain political and policy environment.



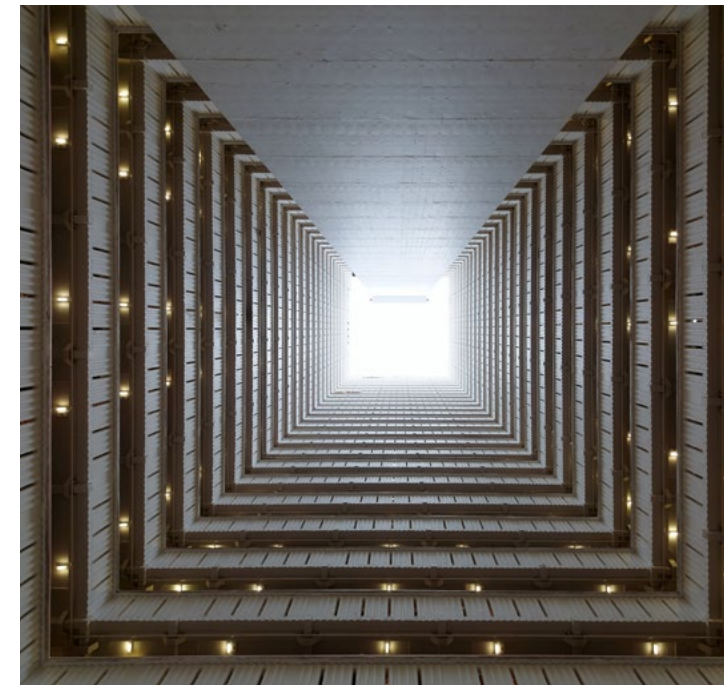


■ **Trump's second term is likely to mirror his first term on climate and environmental policy – seeking to reverse Biden's energy initiatives and focus on increasing domestic energy production from more traditional fuel sources.**

His light-touch regulatory posture has begun to impact the climate, energy and environmental space. Additionally, inconsistent sustainability regulations – such as potential environmental, social and governance reporting rollbacks in the EU and fragmented global carbon pricing – may create uncertainty and hinder cross-border interoperability. Regulatory backtracking on sustainability measures, such as carbon taxes, may offer temporary fiscal relief but would also heighten regulatory unpredictability. Audit committees and boards should closely monitor climate policy changes in 2025, especially regarding phaseout timelines for polluting technologies, as these developments can significantly affect financial projections and investment plans around clean technologies. More broadly, boards may want to understand how companies are integrating climate competitiveness into their long-term strategies.

■ **There will be a greater focus on workforce resilience and talent strategies in 2025.** On labor, immigration, diversity and inclusion, and other workforce issues, Trump has begun to take steps to halt or undo many of the Biden administration's rulemakings and policies and reshape the federal workforce. With the administration's focus on tightening access to employment visa programs and ending the Deferred Action for Childhood Arrivals (DACA) program, organizations may need to adjust their talent acquisition and retention strategies. Demographic shifts (such as aging populations) may significantly impact human capital, with talent shortages in certain markets driving up labor costs and limiting access to skilled workers. Shifts in immigration policies may also constrain cross-border labor mobility, disrupting global operations and impacting supply chains. Companies in strategic sectors may also face greater talent compliance requirements requiring naturalized personnel when staffing initiatives with national security implications. Boards and audit committees may want to inquire whether management teams have plans to address potential labor shortages, slower processing times and increased uncertainty, and whether it has the necessary workforce to meet business needs. Lastly, some companies are re-evaluating and/or refreshing diversity, equity and inclusion (DEI) programs and related policies, especially those companies reliant on federal government contracts to identify and address potential gaps, challenges and related risks.

Audit committees should consider discussing with management how these risks may impact financial reporting and related controls and disclosures. Additional conversations around scenario planning and risk mitigation plans may be prudent along with stress-testing assumptions surrounding these key risks.



# What we're hearing from investors: investor views on risks and other growing areas of focus in 2025

The EY Center for Board Matters recently spoke to governance specialists from institutional investors representing US\$55 trillion in assets under management to better understand investor priorities. Based on our conversations with investor stewardship leaders, here are the key areas of investor focus and developments we are watching heading into proxy season 2025:

- More investors want companies to adapt to rapid changes in technology, optimize capital strategy and navigate the new political environment.
  - Around half of investors told us they want companies to focus on innovation and evolving technologies in 2025, a significant increase from 29% last year. Investors' interests include how companies are keeping pace with changing expectations related to customer and employee experience, and the returns companies are seeing on AI investments, both in terms of financial gains and workforce implications.
  - Most investors told us they want to understand how companies manage a variety of AI-related risks, including those related to data privacy, misinformation, customer trust, human rights (e.g., inbuilt biases and discrimination, employee monitoring), energy and water consumption, and compliance.
  - In another notable increase, nearly half (47%) of investors want companies to prioritize capital allocation this year, up from 31% in 2024. Some cited expectations for increased deal-making activity this year and said they want to see discipline in those decisions. Many expressed interest in how companies are investing in business model transitions and innovation, including those related to disruptive technologies and the energy transition, that will drive long-term growth. Some will seek to understand companies' confidence levels around key business targets, and how and when capital will be allocated to reach those milestones.
- This year also saw a big jump in the percentage of investors ranking political risk in the top three areas of company focus (38%, up from 25% last year). Investors, in our conversations, touched on a variety of themes, ranging from how companies are building supply chain resilience in the face of volatile geopolitical risks to the consistency of companies' political and lobbying activities with their stated climate goals.
- Despite the upcoming changes in the US policy and regulatory environment, investors still consider material risks and opportunities that have an environmental or social dimension as critical to their portfolio companies' long-term performance. Investors said they want to understand the durability of company business models as natural resource scarcities and the risks from climate change and nature loss intensify. They also want to know how companies are seizing business opportunities related to the energy transition and aligning capital accordingly.
- Despite dropping down the agenda since 2024, talent is another engagement topic that is still on investors' minds. Investors are interested in how companies are managing and investing in the workforce as a source of innovation and value creation, and what metrics companies are using to measure the success of human capital strategies.



- Our conversations this year also highlighted that investors show a surge of attention this year on board quality and effectiveness and how boards are governing AI.
- AI oversight has rapidly become a key priority for investors in just two years, with 36% citing the topic as an engagement priority in 2025, up from 19% last year. Investors want to know how boards are governing AI, including how they are cultivating the acumen needed to effectively oversee management's strategy and inform risk oversight and capital allocation. Where AI is fundamental to a company's strategy (e.g., AI developers), many investors said they expect to see some level of AI expertise in the boardroom. Otherwise, they are generally more focused on how boards are accessing external expertise and upskilling through ongoing training and education.
- Nearly all investors said they are agnostic about where AI oversight resides in a board's committee structure; however, they do want to know how oversight of technology is structured and the board's rationale behind that approach. For boards with technology committees (13% of S&P 500 companies), investors are interested in the related skills of directors serving on that committee, as well as how the board is ensuring engagement by all directors on technology-related matters, to avoid oversight becoming siloed. For boards without technology or risk committees (78% of S&P 500 companies), some investors did raise concerns about the audit committee being overloaded.



# Accounting and disclosures

Macroeconomic uncertainty may be elevated in the near-term. Accordingly, audit committees will continue to evaluate evolving impacts of the uncertain economic environment and other shifts in the business landscape on their financial reporting processes.

Below is a summary of some of the latest developments in financial reporting:

- Companies may need to evaluate the impacts of US tariffs and retaliatory tariffs on the financial statements for the current and upcoming reporting periods.** Audit committees may want to understand how tariffs will impact the business (e.g., impairment of assets, fair value measurements, valuation of inventory, expected credit losses, onerous contracts, accounting for levies) and their related impacts to the control environment and financial statements. Companies may need to consider how tariff measures may impact areas such as future projections and going concern assumptions.
- Reminders on additional income tax disclosures:** The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures, to enhance the transparency and decision-usefulness of income tax disclosures. Starting in calendar year 2025, public business entities will need to disclose in their rate reconciliation table additional categories of information about federal (national), state and foreign income taxes

and provide more details about the reconciling items in some categories if the items meet a quantitative threshold under the amended guidance in ASC 740, *Income Taxes*.

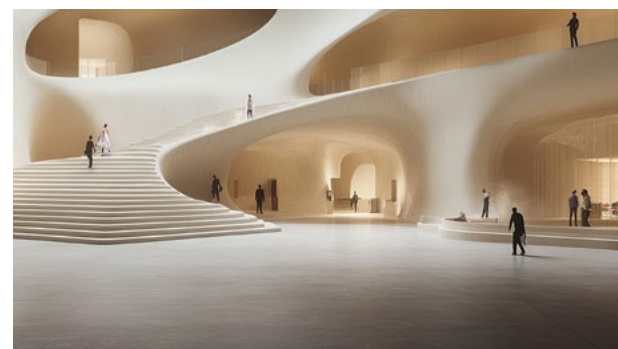
Additionally, entities are required to annually disclose income taxes paid (net of refunds received) disaggregated by federal (national), state and foreign taxes, and to disaggregate the information by jurisdiction based on a quantitative threshold. Entities will have to provide more disclosures than they did previously for the rate reconciliation and income taxes paid and should evaluate whether they need to modify their processes and controls or create new ones to collect the information needed to provide the new disclosures.

- FASB staff seeks input on future standard-setting agenda:** The FASB staff issued an Invitation to Comment (ITC) seeking stakeholder feedback on the FASB Board's future standard-setting agenda. The staff said this feedback is critical for making sure the FASB continues to allocate resources to standard-setting projects that fulfill its mission and address financial accounting and reporting topics that are of the highest priority to its stakeholders.

The staff is requesting feedback on improvements to financial accounting and reporting that are needed to provide investors with more useful financial statement information, reduce unnecessary cost and complexity,

and maintain and improve the Codification. The staff seeks input on the following areas: (1) combination of entities, (2) financial instruments, (3) intangibles, (4) other assets and liabilities, (5) retirement and other employee benefits, (6) income and expenses, (7) presentation and disclosure of financial reporting information and (8) current research agenda projects.

We encourage all stakeholders to carefully consider the issues and questions raised in the ITC and provide their perspectives to help inform the direction of the FASB's agenda. Thoughtful and actionable feedback, whether through comment letters or informal engagement, is essential to adopting high-quality standards to faithfully represent the economics of transactions, drive consistency and comparability, and provide relevant and timely financial information to investors.



# SEC rulemaking and other regulatory considerations

On his first day in office, President Donald Trump officially nominated Paul Atkins to be Chairman of the U.S. Securities and Exchange Commission (SEC) and designated Commissioner Mark Uyeda as Acting SEC Chairman. Expectations are that under Atkins' leadership, new SEC priorities will include capital formation, establishing a regulatory framework for digital assets, and innovation. Atkins was an SEC commissioner from 2002-2008 and his priorities included principles-based regulation, close consideration of regulatory costs and benefits and lower enforcement penalties for issuers to avoid harming shareholders. In recent years, Atkins has worked closely with the digital assets industry, including leading efforts to develop a best practices guide for digital assets issuances and trading platforms. Both Acting SEC Chairman Uyeda and SEC Commissioner Hester Peirce were counsel to Atkins while he was at the SEC and are expected to be aligned with him on many topics. Though Atkins's nomination hearing is pending, his confirmation is expected by late March or early April.

As Acting SEC Chairman, Uyeda has initiated the Commission's work on crypto assets by establishing a task force charged with creating a regulatory path for digital assets under Peirce's leadership. Additionally, the Commission staff issued [Staff Accounting Bulletin \(SAB\) 122, which repealed SAB 121](#). SAB 121 had required publicly traded firms that maintain custody of crypto assets to record them on their balance sheets as liabilities. In contrast, SAB 122 states that entities should determine whether to recognize a crypto asset as a liability using existing accounting standards. Peirce has [recommended](#) that the SEC's Division of Corporation Finance and Office of the Chief Accountant increase consultations with public companies, lawyers and accountants to address regulatory questions. Further, the SEC also [announced](#) the establishment of the Cyber and Emerging Technologies Unit (CETU), which replaces the Crypto Assets and Cyber Unit. The CETU will be "combatting cyber-related misconduct and protect[ing] retail investors from bad actors in the emerging technologies space."

Additionally, in February 2025, Acting SEC Chairman Uyeda said he [directed](#) Commission staff to ask the US Court of Appeals for the Eighth Circuit to not schedule for argument the case on the SEC's climate-related disclosure rules<sup>1</sup>. Uyeda said this would allow the Commission to determine the appropriate next steps, considering the recent change in the Commission's composition and the recent presidential memorandum regarding a regulatory freeze. The disclosure rules, which would require registrants to include certain climate-related information in their registration statements and annual reports, were voluntarily stayed by the Commission in April 2024 pending the court's judicial review of the consolidated challenges to the rules.

<sup>1</sup>See also [SEC.gov | Remarks at the Florida Bar's 41st Annual Federal Securities Institute and M&A Conference](#) for recent comments made by Uyeda regarding the SEC's role in fostering innovation, job creation, and economic growth and views on regulations.



## PCAOB developments

The Public Company Accounting Oversight Board (PCAOB) filed a notice with the SEC to withdraw for approval its new requirements on public reporting of standardized firm and engagement metrics and its amendments related to audit firm reporting. The amendments would have required PCAOB-registered public accounting firms that audit one or more issuers that qualify as an accelerated filer or a large accelerated filer to publicly report specified metrics related to their audits and their audit practices. Additional reporting of audit firm financial, governance and network information also would have been required.

Late in 2024, the PCAOB announced that it was taking time to further engage with stakeholders on the Noncompliance with Laws and Regulations (NOCLAR) proposal, with next steps left undefined. The NOCLAR proposal had been widely criticized by issuers and auditors due to its perceived overexpansion of auditor responsibilities, among other concerns. Accompanying this announcement, the staff published a [spotlight report](#) about existing auditor responsibilities for detection, evaluation and communication of illegal acts.

The PCAOB staff also published [insights](#) from its recent culture initiative, highlighting that firms have room to improve in enhancing a culture of accountability that promotes audit quality.

Another staff [report](#) discussed the PCAOB's 2025 inspection priorities. It states that inspection teams will engage with audit committee chairs on selected audits, addressing topics like internal control over financial reporting (ICFR), CAMs, and audit scope and staff.

Additional resources:

- [SEC in Focus](#), January 2025
- [Americas board priorities 2025](#), January 2025
- [2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments compendium](#), December 2024



# Questions for the audit committee to consider

In discussions with management, compliance personnel and internal and external auditors, audit committees should consider the following in addition to standard inquiries:

## Risk management-related inquiries:

- How strong are the organization's capabilities to be highly informed about the internal and external environment, and risks, events and opportunities that may influence or compromise enterprise resilience?
- How effective is the board's oversight of emerging risks and other evolving external risks such as geopolitical developments, uncertain economic conditions and climate risk? Does it have the information, expertise and professional skepticism it needs to challenge management in these areas? How will new tariffs and 'America First' trade policies impact the organization's supply chain and cost structure?
- What risk mitigation plans are in place to navigate geopolitical risks and maintain market presence in regions targeted by tariffs?
- What steps is the organization taking to adapt its supply chain footprint and operating model in response to possible geopolitical disruptions?
- With expected regulatory adjustments and a 'lighter touch' regulatory environment, how will the organization continue to enhance compliance and leverage new opportunities for innovation and growth?
- How will the organization approach DEI issues and hiring and training in the shifting legal and policy landscape? How will the company continue to build a diverse, industry-leading workforce amidst the changing landscape?
- Does management use horizon scanning to monitor for new and emerging regulatory changes?
- What is management's governance process over evaluating the applicability and impact of regulatory changes?
- Does management use technology solutions to evaluate the changes in regulations and the impacts on obligations, policies and controls?
- Does the organization perform stress tests to confirm that its financial reserves can absorb distress in the economy? Does the organization have confidence in the financial strength of its counterparties?
- Does the organization deploy future scenario planning to inform its long-term planning process to enable rapid adaptation during changing circumstances?
- How is the board equipping itself to oversee the AI space if most directors may not have relevant experience? How effectively is the company communicating the board's ongoing training and education around AI and emerging technologies, including how it is accessing external specialists? Do disclosures make clear where oversight of AI resides in the board's committee structure?
- What laws, regulations and contractual agreements affect the company's use of GenAI and how does the company ensure compliance? How does the company assess and monitor compliance, especially concerning potential biases in GenAI technologies that could lead to noncompliance?
- How has management considered GenAI technologies in its fraud risk assessment? Has the company identified new incentives, opportunities or pressures to commit fraud it ties to the deployment of GenAI technologies?
- How does management consider data privacy risks when selecting or developing GenAI technologies? Does the company use a public instance of GenAI technologies that tracks and saves inputs and data that are accessible by third parties or a private instance where inputs and data are tracked and saved only by the company?
- How does the company consider cybersecurity risks when selecting or developing GenAI technologies? Has the company performed a cybersecurity risk assessment to evaluate threats and safeguards?
- Does the organization have a clear and comprehensive understanding of the relationships and interdependencies between the company's critical business services, third parties including suppliers, business processes and supporting technology?

- How aligned is the company in meeting its recovery time objective (RTO) and does it have alternative business strategies to manage any gaps in the RTO?
- Has the board participated with management in one of its cyber breach simulations in the last year? How rigorous was the testing? What changes were implemented by the organization as a result?
- Has the company leveraged a third-party assessment to validate that its cyber risk management program is meeting its objectives? If so, is the board having direct dialogue with the third party related to the scope of work and findings?
- Is the organization equipped to respond to any crisis scenario and operate/deliver services at the minimum acceptable levels? Does the organization test/flex its resilience against a range of operational and strategic scenarios? How has the company identified environmental and social factors that are material to the business? Has it conducted a recent sustainability materiality assessment and disclosed the results?
- What changes (if any) does the organization anticipate on its corporate sustainability commitments and program given the potential changes in climate and environmental policies?
- Have there been any meaningful changes to the company's key policies, any material exceptions granted or any unusual allowances to any compliance provisions?

### **Accounting, disclosures and other financial reporting-related inquiries:**

- Are there any nonrecurring events and/or circumstances that have transpired in the past quarter? If so, what are the related financial reporting and disclosure implications?
- How are the imposed US tariffs expected to impact the financial statements for the current and upcoming reporting periods?
- How are we ensuring that our financial statement disclosures adequately reflect the risks and uncertainties associated with the tariffs? What specific measures have been taken to assess the impact of tariffs on going concerns assumptions and related disclosures?
- What steps are we taking to evaluate the impacts of tariffs on financial statements for future periods (for example, impairment of assets, fair value measurements, valuation of inventory, expected credit losses, onerous contracts, accounting for levies)?
- How is the company's preparing to adopt ASU 2023-09, Improvements to Income Tax Disclosures, and ASU 2024-03, Disaggregation of Income Statement Expenses? What additional processes and controls will be necessary to comply with these new disclosure requirements?
- Are the company's nonfinancial disclosures fit for purpose given current investor stewardship priorities, investing trends and related investor data needs?
- Does the company have robust internal controls and procedures in place to identify cybersecurity risks and incidents promptly and communicate them to the parties responsible for oversight and disclosure? How does the company assess the materiality of cybersecurity incidents and what is the protocol for determining when to disclose such incidents?
- How is the organization proactively assessing the opportunity to enhance stakeholder communications, including corporate reporting to address changes in operations and strategies as well as changing stakeholder expectations? How would a potential reduction in the corporate tax rate to 15% for domestic corporations impact the company's financial planning and investment strategies? Are there specific areas where we anticipate significant benefits or challenges?
- Has management evaluated the impact, if any, of increased tariffs on the pricing of intercompany transactions and the related party transfer pricing rules for tax purposes?
- With the potential extension of the Tax Cuts and Jobs Act (TCJA), how is the organization preparing to leverage the extended provisions to optimize its tax position? Are there any specific provisions that are particularly beneficial or concerning to our business?



- What strategies is the organization considering to take advantage of potential tax incentives for onshoring and domestic production? How does the organization plan to balance these incentives with its current global operations?
- How is management progressing with its analysis of the impact of the OECD Pillar 2 global minimum tax model? In particular, what impact do the rules have on the estimated annual effective tax rate (ETR) for 2025 and is management monitoring proposed tax legislation for potential impact on the projected ETR in those countries that have yet to adopt the Pillar 2 rules?
- Have there been any material changes to internal controls over financial reporting or disclosure controls and procedures to address the changing operating environment?
- How is the company evaluating any initiatives (e.g., cost-saving initiatives) that may impact resources and/or processes that are important to internal controls over financial reporting or disclosure controls and procedures?

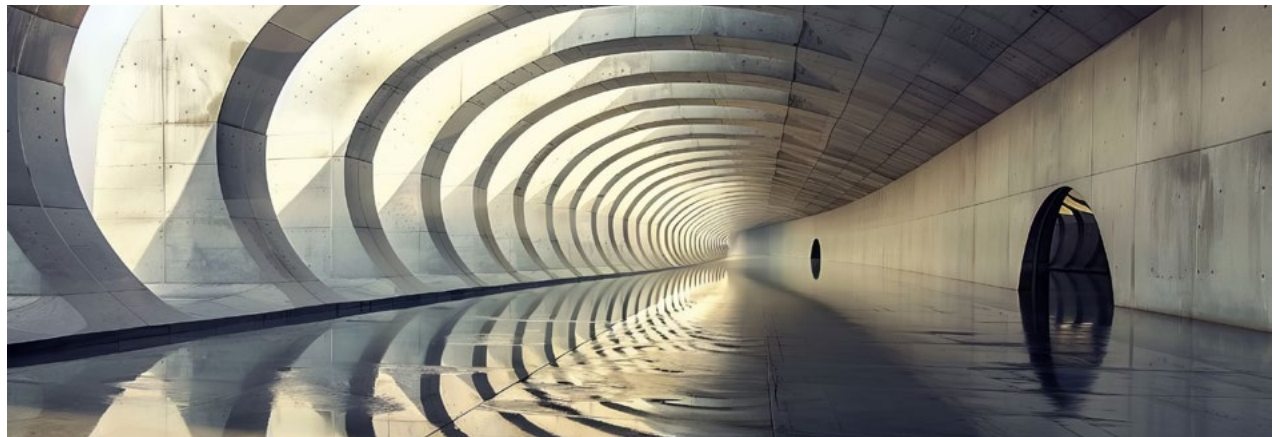
### **Inquiries to auditors:**

#### **■ External auditors:**


- Does the engagement team expect significant changes in hours or staffing mix from previous audits? Why or why not?
- Did the engagement team notice any red flags arising from management responses? How has the engagement team considered changes to the incentive, opportunity and rationalization of the fraud triangle?
- What plans does the auditor have to assess the company's accounting for Pillar 2 taxes and testing relevant internal controls this quarter?

#### **■ Internal auditors:**

- If the company is subject to Pillar 2, what processes and controls will it need to capture the data necessary to calculate the taxes under the new regime? Has the company begun internal testing of those processes and controls?
- What action(s) has internal audit taking to align with the Global Internal Audit Standards?







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