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EY Center for Board Matters

2026 audit committee priorities: navigating complexity and change



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Navigating uncertainty and seizing opportunities for transformation in the year ahead

As organizations approach 2026, audit committees are facing a mixed and nuanced economic backdrop coupled with a rapidly evolving landscape shaped by legislative, regulatory and geopolitical shifts. These changes are influencing critical areas such as tax, trade, supply chains, technology, climate and workforce strategy.

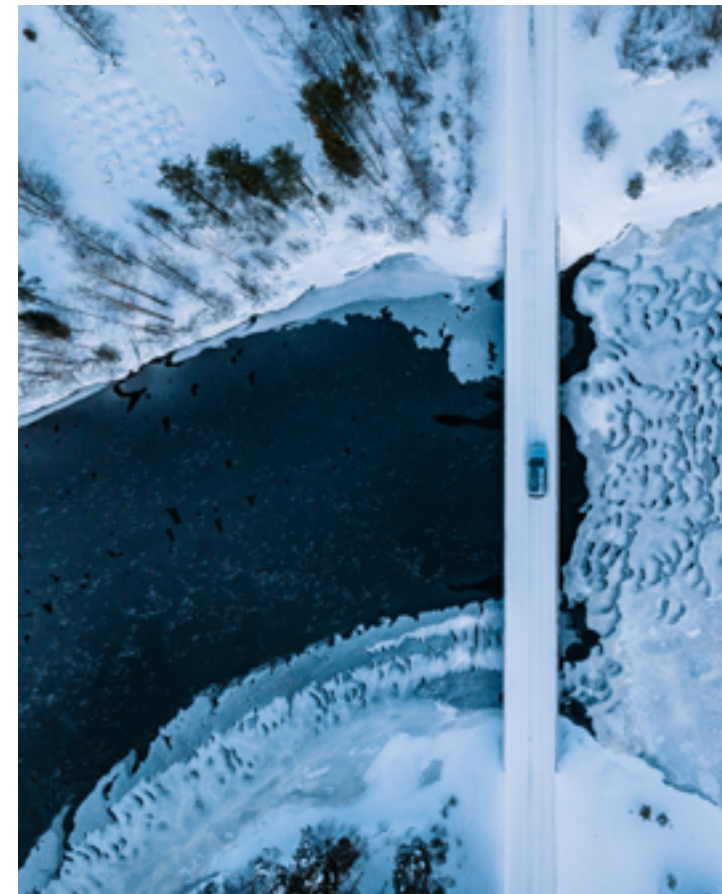
Audit committees are proactively adapting to these developments, working closely with management to confirm that their organizations are resilient and prepared for both anticipated and unexpected challenges.

Risk management and regulatory oversight remain central to the audit committee agenda. The convergence of cyber risk, artificial intelligence disruption and economic volatility is driving boards to rethink legacy approaches and integrate risk and strategy more deeply. Audit committees are expected to move beyond static risk updates, adopting portfolio-driven views and scenario analysis to address interconnected and nonlinear risks. This includes reassessing cyber incident response plans, monitoring regulatory changes, and making sure robust controls and processes are in place to manage emerging threats and compliance requirements.

In addition, audit committees are closely tracking developments in financial reporting, tax policy and sustainability disclosures. The evolving regulatory environment – marked by new Securities and Exchange Commission (SEC) leadership and rulemaking and shifting global tax regimes – demands heightened vigilance and agility. Audit committees also continue to prioritize audit committee effectiveness and seek ways to enhance their own practices. This includes investing in ongoing education (including in topics such as cybersecurity, AI and regulatory changes). By promoting strong governance and continuous learning, audit committees can help their organizations navigate uncertainty and seize opportunities for transformation in the year ahead.

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1 Risk management

The year ahead is yet another filled with uncertainty across many dimensions of the environment in which companies do business. The rapid convergence of cyber risk, AI disruption, and economic volatility continues to weigh on board agendas.

Organizations are operating in a “NAVI” world in which risks are increasingly:

- **Nonlinear**, triggering sudden tipping points that can catch companies by surprise
- **Accelerated**, demanding increased speed of response
- **Volatile**, with frequent changes in direction that test companies’ agility
- **Interconnected**, setting off multiple Nth-order downstream impacts and risks

Since 2020, the frequency of NAVI-related terms in companies’ public disclosures has increased by 50% and remains high. Organizations are facing a growing array of risks that not only occur more frequently but also tend to be interconnected, often giving rise to new, significant challenges.

For example, geopolitical conflicts – such as wars and sanctions – can disrupt oil and gas supply chains, resulting in price volatility and energy shortages. These

disruptions drive up energy costs, creating affordability issues for both households and businesses. Additionally, as AI adoption accelerates, the rising cost of energy makes data center operations and AI model training more expensive, potentially slowing innovation and broader implementation.

Given the pace of change and the existential threats to companies, boards and audit committees are rethinking and questioning legacy approaches in organizations, such as risk management frameworks that approach risk in a linear way. In a NAVI environment, risk and strategy need to be integrated as never before.

One indicator of the large gap between standard risk management practices and the challenges of the NAVI risk climate is that it is still rare for even the world’s largest companies to have a chief risk officer (CRO)

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in the C-suite. EY analysis of the Fortune Global 500 companies reveals that just one in five companies (21%) has a CRO. Moreover, these numbers are skewed by financial services firms, 80% of which have CROs, largely because of their unique risk management regulations. Among non-financial sector entities, only 12% of the world's largest companies have CROs.

Leading boards are also challenging management teams to evolve risk management programs. One key practice is going beyond static updates at set intervals on risks to a portfolio-driven view that considers “what-if” scenarios. Boards are following the what-if question with “what can”: What can we leverage to be more prepared? Audit committees are also seeking more periodic updates directly from risk owners on the status and effectiveness of risk mitigation plans. Additionally, audit committees may want to delve deeper into this and other ERM practices and processes to make sure that risks are managed effectively across the organization, with a focus on building more resiliency while retaining the ability to make strategic pivots in 2026.

Top risks and expectations for 2026

Despite the backdrop of trade and tariff tensions and broader geopolitical and economic uncertainty, real GDP growth has proven resilient. The Fed has signaled further rate cuts, which may ease financing conditions. While there are mixed signals regarding the outlook, a recent EY CEO survey¹ indicates that more than half of CEOs (52%) plan to increase investments to accelerate transformation, with a focus on reshaping business models, entering new markets and leveraging emerging technologies to create sustainable competitive advantages. These investments signal optimism stemming from a combination of stronger confidence in companies' earnings and profitability and the adaptability that businesses have shown in navigating global challenges.

With elevated policy uncertainty and market volatility creating headwinds, organizations will continue to be laser-focused on financial performance.

The top five risks to achieving financial targets over the next 12 months are expected to be:

1. Technology disruption and AI integration risks
2. Labor costs and talent availability constraints
3. Innovation capacity and infrastructure limitations
4. Geopolitical tensions (e.g., conflicts, political instability)
5. Supply chain fragility and logistics constraints

In response to the changes in the global economic environment and these top risks, many companies are adjusting operating models – building local and regional capabilities closer to customers, communities and talent to enable faster adaptation to diverging government rules and shifting markets.

Leading companies are rewiring supply chains for speed, resilience and the ability to serve customers more efficiently, with lower costs and fewer policy restraints. For businesses that find full localization impractical, cost-prohibitive or unnecessary, those organizations are instead adopting a hybrid approach that balances global scale with regional agility. Nearly 75% of CEOs are either in the process of localizing or have localized some part of their production within the country of sale. Given many governments are enacting policies to bolster



¹ https://www.ey.com/en_us/ceo/ceo-outlook-global-report

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their economies' digital sovereignty, there may be a regulatory compliance aspect to these decisions as well.

We're also seeing an emerging "in US, for US" strategy with more companies focused on building more robust US-based operations not only as a hedge against external shocks, but in response to growing political and consumer expectations around strengthening domestic industries and creating jobs. While job creation is a visible benefit, the strategy is fundamentally about economic resilience (e.g., reducing dependency on foreign supply chains of critical goods), national security (e.g., requiring sensitive technologies such as AI to be produced domestically to prevent intellectual property leakage), innovation (e.g., building local ecosystems for R&D to accelerate innovation), and long-term competitiveness. CEOs are continuing to adapt to the US administration's priorities, with many placing US investment and job creation at the center of discussions on trade, regulatory and other policy matters. US-focused localization is increasingly seen as a way to balance efficiency with security.

To be effective in this environment, boards and audit committees may want to verify that organizations:

- Conduct regular portfolio resilience reviews to identify underperforming or non-core assets
- Double down on areas aligned with shifting customer demand and emerging technologies
- Reallocate capital swiftly to high-growth opportunities, even if it means divesting legacy assets

- Formulate region-specific strategies that account for cultural preferences and regulatory requirements, while establishing dedicated frameworks or specialized teams to evaluate and address geopolitical risks and opportunities
- Elevate ERM and consider adopting a control tower approach to increase visibility across the entire risk portfolio (top down and bottom up) by integrating different levels of risks via a taxonomy and analyzing the risks and their drivers
- Identify areas of risk concentration and integrate data externally and internally across the various lines of defense
- Use scenario analysis and war gaming to see around corners and prepare more effectively for connected risks that could constitute a big shock to the portfolio

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Internal audit areas of focus

In order to help internal auditors and their stakeholders, including audit committees, better understand the risk environment and prepare audit plans for the upcoming year, the Internal Audit Foundation recently issued its survey reports, collectively titled *2026 Risk in Focus: Hot Topics for Internal Auditors*. We've excerpted some notable highlights from these reports:²

- The areas of highest risk for organizations globally continue to be cybersecurity, digital disruption (including AI), business resilience, human capital and regulatory change.
- Geopolitical uncertainty saw the largest increase in risk ratings, especially in North America, where 45% of CAEs identified it as a top five risk. Rapid policy changes, tariffs and federal funding shifts – particularly under the Trump Administration – are driving this concern. Supply chain risk is also rising, with organizations seeking alternatives for critical materials, especially those sourced from China.
- Cybersecurity and digital disruption (notably generative AI) remain the top-rated risks in North America. Cybercriminals are leveraging AI for more sophisticated attacks, prompting organizations to form AI governance teams and expand internal audit use of AI for automation and efficiency.

- CAEs globally and in North America rank cybersecurity as the top area where internal audit will spend the most time and effort. Other top priority areas are business resilience, governance/ corporate reporting, regulatory change, and financial liquidity. These internal audit priorities were generally consistent across all geographic areas with small differences per region. Notably, business resilience is a higher priority in North America, reflecting increased geopolitical uncertainty.
- To address these top risks, key audit strategies and leading practices for Internal Audit functions include the following:
 - Update risk assessments and matrices, focusing on critical assets and risk concentrations in geographic regions and impacts to risk profile (e.g., compliance, privacy, sustainability, fraud).
 - Integrate geopolitical risk into audit activities, including business resilience, regulatory compliance, financial risk, market competition, and supply chain management (including third-party relationships).
 - Expand advisory services and participate in strategic planning with C-suite and department leaders.
 - Assess supply chain reliability, review contracts for regulatory impacts and consider new tariffs on supplier contracts.
 - Review and assure business continuity plans for both short- and long-term resilience.
 - Anticipate market disruptions, including those on global trade, and adjust audit priorities accordingly.

- Conduct risk scenario exercises to prepare for changing risks.
- Monitor government funding cuts and their impact on budgets, projects and third-party contractors.
- Track all AI use cases and provide timely and relevant assurance.
- Anticipate new threats by closely monitoring digital disruption and AI effects on cybersecurity and fraud.
- Implement independent validation processes to enable AI models to function as intended.
- Confirm that program leaders understand AI data sources and usage.
- Stay current on regulations requiring independent AI model validation so that AI models are working as intended, especially in financial services.
- Be bold in experimenting with AI usage to improve internal audit efficiency; share work programs and processes where appropriate.
- Advocate for strong governance in AI product selection and implementation.
- Upskill staff to leverage AI for greater audit effectiveness.

Internal Audit functions and audit committees may want to review this report to benchmark their own internal audit risk areas and planned audit efforts. Additionally, Internal Audit functions may add value by considering how they will keep boards and executive management abreast of technology, business, social, and political trends and developments.

² Adapted and sourced from the Internal Audit Foundation's *2026 Risk in Focus: Hot topics for internal auditors* (Global Summary and North America editions).

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In today's fast-changing and high stakes digital environment, boards are elevating their oversight of cybersecurity, AI and overall technology governance. Voluntary disclosures around AI and cyber are not just more common – they're also more robust, doubling in scope across several critical areas. Companies are putting the spotlight on their technology governance, signaling an increasing emphasis on cyber and AI oversight to stakeholders.

In our [Cyber and AI disclosures review](#) of the proxy statements and Form 10-K filings of Fortune 100 companies, we have seen steady and significant increases in the percentage of certain categories of cybersecurity and AI-related risk and oversight disclosures. We've highlighted below some notable developments:

- **AI is showing up in disclosures about board oversight of enterprise risk. Nearly half (48%) specifically cited AI risk as part of the board's oversight of risk – triple the 16% that did last year.** The depth of these disclosures varies widely. Some mention it as one of many risks overseen by the board, while others offer more detailed insights into the board's AI risk oversight practices.
- **More director bios and skills matrices list AI. Close to half (44%) now mention AI in their description of director qualifications, a significant jump from**

26% in 2024. Directors' AI experience ranges from developing AI software to earning certifications in AI ethics. Most companies that updated directors' biographies to include their AI experience did so for existing board members over the past year. Notably, several companies disclosed AI education under their "board and director evaluations" section, noting that recent input has prompted enhanced discussions and deep dives on AI.

- **AI oversight responsibilities are being assigned to committees. Around 40% disclosed charging at least one board-level committee (usually the audit committee) with AI oversight responsibilities, almost four times the 11% that did so in 2024.** The audit committee is board members' preferred location for AI oversight. However, disclosures about the committee's focus tend to be more robust when overseen by non-audit committees such as technology or nominating and governance (e.g., reviewing the

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company's approach to responsible AI development and AI governance, overseeing the responsible and ethical application of AI). Further, more non-audit committees formalize these responsibilities in their charter than when the audit committee is charged with overseeing AI.

- **AI is increasingly showing up as a risk factor.** More than a third (36%) now disclose AI as a separate Form 10-K risk factor, up from 14% last year. New AI risk factors covered topics similar to last year's such as regulatory challenges, cybersecurity threats, operational disruptions, reputational issues, consumer expectations and technological hurdles.
- **Audit committees remain the primary spot for cybersecurity oversight.** Most (78%) companies report that cybersecurity oversight falls to the audit committee, about the same as reported over the last three years. Emerging technologies like GenAI are set to change business models and impact cybersecurity. As phishing and social engineering become more advanced, boards may need to address broader cyber risk issues, including risk culture and risk appetite. This could prompt a reassessment of how cyber risk oversight is handled at the board level to keep discussions relevant.

- **Most companies now say they are aligning to an external framework.** Nearly three in four (73%) companies now disclose alignment with an external framework such as NIST CSF 2.0, ISO 27001, or something similar. This is up from 57% last year and 4% in 2019. Many companies have found it valuable to clearly articulate the external framework used to assess and improve their abilities to respond to cyber events. This helps to demonstrate a structured and proactive approach to regulators, investors and other stakeholders.
- **A majority of companies report doing cyber preparedness exercises.** More than half (58%) report that their cybersecurity preparedness includes simulations, tabletop exercises or response readiness tests – up from just 3% in 2019. Nearly every company (99%) references some kind of response readiness, such as planning, disaster recovery or business continuity. Such exercises can be important not only when planning for a specific incident but exercising the more general skills that can help a firm effectively respond to the unexpected.

- **Cyber expertise continues to be in demand in the boardroom.** Most companies (86%) disclose cybersecurity as an area of expertise that a director has or that the board seeks – a 62% increase since 2019. Companies may choose to introduce cyber expertise into the boardroom through various approaches. For example, current board members may enhance their cyber knowledge by participating in briefings with internal or external specialists, attending industry conferences, or obtaining professional certifications. In addition, companies may establish formal or informal advisory boards to provide ongoing resources and guidance for the board, or its committees as needed. Some companies have onboarded cybersecurity advisors to provide those specific insights to the board.

Organizations face heightened cyber risks with AI integration, requiring a multifaceted approach to cybersecurity. Given the stakes and the increasing threat posed by cybercriminals adapting AI to amplify their attacks on organizations (e.g., leveraging AI to automate attacks, creating sophisticated phishing attempts including use of deepfake-enabled emails and



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voicemails, bypassing traditional security protocols), companies face an urgent need to demonstrate their capability to deploy secure and responsible AI countermeasures. Audit committees should assess whether training, governance and operational strategies are evolving to address the complexities of AI – including considerations around responsible use of AI and robust data protection. Key foundational elements and actions companies should take include:

- **Establishing a cross-functional AI governance framework:** Align AI initiatives with business goals, regulatory requirements and ethical standards.
- **Securing the data supply chain:** Confirm the integrity, privacy and provenance of data used for AI training and inference. AI-based cybersecurity tools rely on high-quality, up-to-date training data, which is hard to access when new threats emerge almost daily. Biased or outdated data could result in false or missed detections, which fail to catch quickly evolving threats. Moreover, AI decision-making can lack transparency, which makes it difficult to understand why certain actions were taken.
- **Building a secure AI development and deployment environment:** Protect models, infrastructure and interfaces from cyberthreats.
- **Leveraging AI for cybersecurity operations:** Enhance threat detection, response and resilience using AI capabilities.

▪ **Evaluating high-impact, low-risk use cases:**

Accelerating adoption of agentic AI for cybersecurity starts with identifying the right use cases to find the balance between risk, speed and value and prioritizing the right risks across three categories – low, high and extreme.

Given the dynamic cybersecurity landscape, audit committees should stay attuned to evolving oversight practices, disclosures, reporting structures, and metrics and understand implications for how the company is staying in compliance with requirements.

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Despite widespread adoption and significant investments in AI, there are only modest returns and even mixed views on AI's impact on productivity and meaningful P&L impact. A recent EY Survey³ highlights the importance of addressing the human side of AI adoption. The survey highlights a critical disconnect: when AI adoption and new technology land on fragile talent foundations – weak culture, ineffective learning and misaligned rewards – the potential benefits of AI are significantly diminished. Key highlights and talent-related risks to consider from this survey include:

- While nearly 9 out of 10 (88%) employees use AI in their daily work, their usage is mostly limited to basic applications, such as search and summarizing documents. Only a small number (5%) are using it in advanced ways to transform the way they work. AI training and providing the right AI tools are considered a differentiating factor. Employees who are most passionate about AI potential are also taking matters into their own hands, with 23% to 58% of employees bringing their own AI to work and even paying for their own subscriptions. This makes it critical for organizations to provide employees with the right toolset and create the proper guardrails for personal tool usage. Organizations and boards should establish clear governance boundaries while defining “innovation zones” for controlled risk-taking.

- There are growing workplace anxieties over AI. More than a third (37%) of employee respondents worry that overreliance on AI could erode their skills and expertise, while 64% perceive an increase in their workloads due to pressure to perform. Boards should evaluate whether leaders are articulating a clear AI vision that addresses workforce concerns with a top-down commitment to managing the stresses of transformation – the increased workloads, the fears about job security, the anxiety about obsolescence.
- While AI delivers tangible time savings (with an average of eight hours/week), many organizations struggle to translate efficiency gains into meaningful business outcomes. The value of AI has three key components: productivity, quality and efficiency. Organizations fixated solely on hours saved miss critical dimensions like improved accuracy, reduced error rates, and enhanced decision-making quality. Boards may want to inquire with management as to how newly available capacity is strategically deployed and recalibrate how ROI is measured.
- Only 12% are receiving sufficient AI training to unlock the full productivity benefits. Unsurprisingly, providing AI training (80+ hours) and the right AI tools tailored to specific roles matter and are a differentiating factor. However, there is an important dynamic to consider: job jumping remains high for those with the most AI

learning. The paradox, which broadly surfaces with highly trained, high-value talent – building capability while increasing flight risk – becomes one of the critical talent-related risks that organizations and boards may want to navigate.

- As AI agents join human teams, leaders will need to understand how to lead and manage the risks associated with a blended workforce of humans + AI teams. This will require organizations to not only revisit the workforce composition, organizational structures, and dynamics of human-AI collaboration, but also invest in training employees to effectively lead blended teams and redefine productivity metrics and job roles.

As AI reshapes the workplace, boards will want to better understand how organizations are strengthening their talent foundations and evolving culture to support both talent health and effective technology use.

³ https://www.ey.com/en_gl/insights/workforce/work-reimagined-survey

2 Financial reporting developments

Companies are continuing to re-evaluate their disclosures as stakeholders seek to understand the impact of various external developments on the business. This includes continued global economic uncertainty and evolving geopolitical developments.

We've highlighted some recent financial reporting developments and trends to assist audit committees in overseeing financial reporting, audit quality and encouraging an environment and a culture that support the integrity of the financial reporting process.

Financial Accounting Standards Board (FASB) expands derivative scope exceptions and clarifies guidance for share-based noncash consideration

The FASB issued final guidance to exclude from the scope of derivative accounting certain contracts with underlyings that are based on the operations or activities of one of the parties to the contract. The guidance also clarifies that an entity receiving share-based noncash consideration from a customer that is consideration for the transfer of goods or services in a revenue contract is required to apply the guidance on noncash consideration in ASC 606. This [guidance](#) is effective for fiscal years beginning after

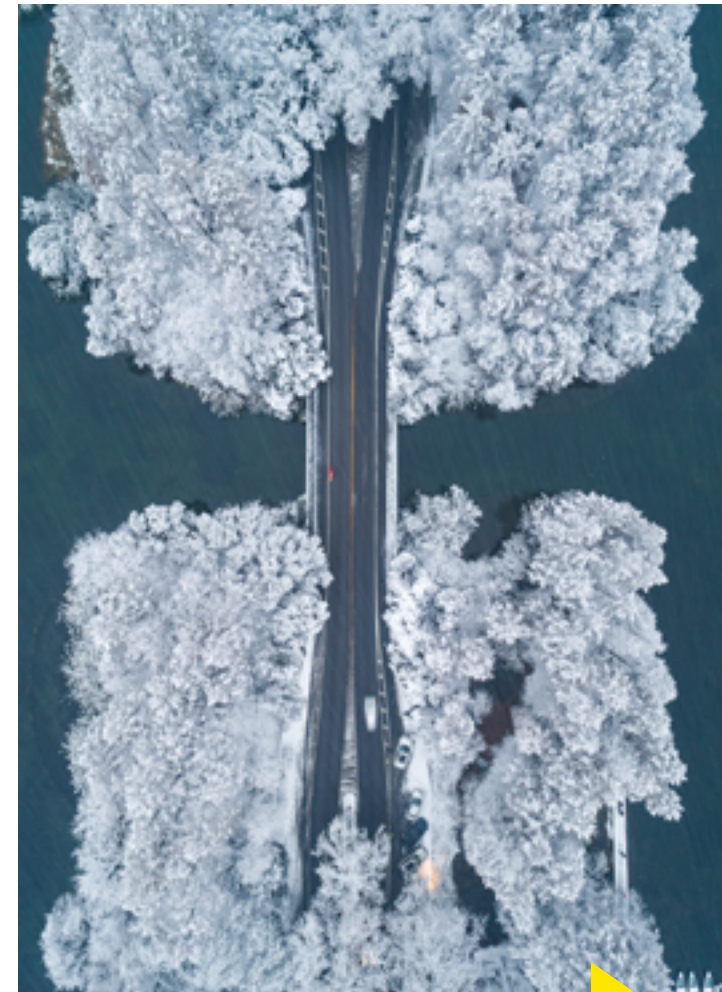
15 December 2026, including interim periods within those fiscal years. Entities are required to apply the guidance prospectively or on a modified prospective basis. Early adoption is permitted.

FASB modernizes guidance on accounting for internal-use software

The FASB issued final guidance to clarify and modernize the accounting for costs related to internal-use software. The guidance applies to all entities and is effective for fiscal years beginning after 15 December 2027, and interim periods within those fiscal years. Entities may apply the [guidance](#) using a prospective, retrospective or modified transition approach. Early adoption is permitted.

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In 2024, the FASB issued final guidance requiring PBEs to disclose, on an annual and interim basis, disaggregated information about certain income statement expense line items. Among other disclosures, PBEs are required to disclose purchases of inventory, employee compensation, depreciation, intangible asset amortization and depletion for each income statement line item that contains those expenses. The [guidance](#) is effective for fiscal years beginning after 15 December 2026, and interim periods within fiscal years beginning after 15 December 2027; entities may apply it prospectively or retrospectively. Early adoption is permitted.

**FASB amends Accounting Standards Codification (ASC) 326 to expand use of the gross-up approach**

The FASB issued final guidance requiring entities to apply the gross-up approach in ASC 326, *Credit Losses*, to all “purchased seasoned loans.” This [guidance](#) is effective for fiscal years beginning after 15 December 2026, including interim periods within those fiscal years. Entities are required to apply the guidance prospectively. Early adoption is permitted.

Other key reminders and considerations:

- **Additional income tax disclosures:** PBEs will need to [disclose](#) in their rate reconciliation table starting in calendar-year 2025 specific categories of reconciling items and provide more details in certain categories if the reconciling items meet or exceed a certain quantitative threshold under the amended guidance in ASC 740, *Income Taxes*. Entities will need 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 equal to or greater than 5%. Entities will also need to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, as well as income tax expense (or benefit) from continuing operations disaggregated by federal (national), state and foreign. Entities will also need to provide more disclosures than they did previously for the rate reconciliation and income taxes paid. Audit committees should

inquire whether management needs to modify their systems, processes and controls or create new ones to collect the information needed to provide the new disclosures.

- **Effects of One Big Beautiful Bill Act:** additionally, entities need to consider how the new tax legislation signed into law by President Trump on 4 July 2025, commonly referred to as the One Big Beautiful Bill Act, affects the accounting for income taxes and disclosures and consider how aspects of the act may affect the income tax disclosures required under ASC 740 and other required disclosures.
- **Considerations for valuation allowances:** given the current business environment, companies may need to continually assess both positive and negative evidence in determining whether to record, maintain or reverse a valuation allowance under ASC 740. This assessment is challenging and requires companies to apply judgment. The SEC staff frequently asks companies to explain how they considered both positive and negative evidence when evaluating the need for a valuation allowance. By its very nature, future taxable income (exclusive of the reversal of existing temporary differences and carryforwards) requires estimates and judgments about future events that may be predictable but are far less certain than past events that can be objectively measured. Accordingly, audit committees may want to probe and understand the key judgements, estimation processes and rationale for the conclusions.

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Trends in 2025 SEC staff comment letters

The volume of comment letters issued to registrants by SEC staff about their disclosures in periodic SEC filings in the year ended 30 June 2025 fell compared to the high volume of the previous two years. This reverses the upward trend seen over the past few years, bringing the volume of comment letters closer to that of 2022. The following chart summarizes the most frequent comment areas in the year ended 30 June 2025:

Comment area	2025 Ranking for 12 months ended 30 June ¹
Management’s discussion and analysis	1
Non-GAAP financial measures	2
Segment reporting	3
Revenue recognition	4
Goodwill and intangible assets	5

¹ These rankings are based on topics assigned by research firm Audit Analytics for SEC staff comment letters issued to registrants with a market capitalization of \$75 million or more on Forms 10-K and 10-Q from 1 July 2024 through 30 June 2025 and that were publicly available by 6 August 2025, excluding comment letters issued to SPACs and other blank check entities. In some cases, individual SEC staff comments are assigned to multiple topics.

On average, the SEC staff issued 1.2 comment letters (or rounds of comments) per registrant to resolve its concerns on each of these areas, which was generally consistent with last year.

Comment letters can provide insights into the SEC staff’s views and expectations on accounting-related matters and other disclosures. Looking ahead, we expect the SEC staff to continue to focus over the upcoming year on the topics discussed above, including disclosures pursuant to the adoption of Accounting Standard Update (ASU) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The SEC staff may also expand its comments to other financial reporting topics, including disclosures made in response to other newly effective or early adopted financial accounting standards (e.g., ASU 2023-09, *Income Taxes (Topic 470): Improvements to Income Tax Disclosures*) and the effects of the current economic environment (e.g., tax legislation) on registrants’ accounting, financial reporting and results. The SEC staff may also focus on disclosures related to artificial intelligence or required by any new or amended SEC rules that may be adopted in the upcoming year. Even with new topics, comment volume could continue to decline next year

if new SEC staff leadership decides that changes to the filing review program, alongside rulemaking, can further reduce compliance burdens on issuers and support capital formation.

It is important that registrants understand the process and effectively respond to the staff’s comments. Audit committees should continue to understand SEC staff comment letter trends to be better informed and identify disclosure improvements for the management team to consider.

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Restatement trends

Financial statement restatements and remediations carry significant implications, with potential SEC enforcement actions and threats of shareholder litigation at stake. Audit Analytics monitors specialized accounting and reporting data, including restatements. Leveraging its most recent annual *Financial Restatements Report* (issued in June 2025), we’ve highlighted and extracted some of the notable trends and issues around financial restatements:

- The overall number of restatements in 2024 remained consistent with prior year.⁴
- In 2024, the total number of reissuance restatements increased 4%, representing 49% of all domestic filer restatements. This is a near-even split between reissuances (Big-Rs) and revisions (little-rs). Reissuance restatements (Big-R) are material errors and misstatements announced in a Form 8-K, followed by the reissuance of previous financial statements with corrected financial information.
- In 2024, about half of the restatements disclosed an impact on net income, which was negative the majority of the time. The average negative impact on net income was approximately \$19 million in 2024 restatements.

- Consistency in the underlying issues leading to restatements is evident, with eight of the top 10 most common issues cited since 2004 persisting into 2024. This suggests that companies continue to face challenges in certain technical areas that have historically been problematic.
- Debt and equity accounts continue to be the most common accounting issues cited in financial restatements, accounting for 15% of the total restatements in 2024. According to the Audit Analytics report, issues often arise from convertible debentures, warrants or redeemable stock, which often are or have derivatives triggering complex accounting.
- Revenue recognition continues to be the second leading issue causing restatements, at 8% of restatements in 2024. Together, debt/equity and revenue issues continue their two-decade trend as leading restatement factors.

Top 10 issues cited in 2024 restatements

Rank	Issue	% of total restatements
1	Debt/Equity	15%
2	Revenue recognition issues	8%
3	Liabilities, payables, reserves and accrual estimate failures	7%
4	EPS, ratio and classification of income statement issues	7%
5	Cash flow statement (ASC 230) classification errors	6%
6	Expense (payroll, SGA, other) recording issues	6%
7	Accounts/loans receivable, investments and cash issues	5%
8	Acquisitions, mergers, disposals, re-org acct issues	5%
9	Inventory, vendor and/or cost of sales issues	5%
10	PPE intangible or fixed asset (value/diminution) issues	5%

⁴ Ignoring the impact of suspended auditing firm BF Borgers and the resulting restatements of its clients in 2024. In 2024, the SEC brought and settled charges against BF Borgers.

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- However, the top restatement issue does vary by industry. The table below shows the top issue for each industry in 2024.

Top issues by industry

Industry	Issue	% of industry restatements
Trade and services	Tax expense/benefit/deferral/other	34%
Technology	Acquisitions, mergers, disposals, re-org acct	30%
Manufacturing	Inventory	35%
Life sciences	Debt/equity	17%
Finance	Accounts receivable, investments and cash	25%
Industrial applications and services	Inventory, vendor and/or cost of sales issues	20%
Real estate and construction	Accounts receivable, investments and cash	16%
Energy and transportation	Consolidation related issues	32%

- From an agency standpoint, the SEC's return to "traditional" enforcement priorities may result in increased enforcement scrutiny of accounting restatements to confirm that any such material misstatements were not caused by fraud. This also means that the SEC is likely to have greater involvement in restatements involving fraud, as opposed to unintentional misapplication of accounting principles or errors.

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SOX 404 trends

In a recent report⁵ on Sarbanes Oxley Act (SOX) Section 404 reporting: “SOX 404 Disclosures: A 20-year review,” which summarizes the trends in SOX 404 disclosures. We’ve highlighted some of the notable trends and issues included in the report below:

- The adverse ICFR disclosure rate for companies peaked in FY2022 and FY2023 at 25.6% and 25.8%, respectively. In FY2024, that rate dropped to 22.8%.
- Domestic filers make up the majority of the population of SEC registrants and therefore follow a similar declining trend in adverse ICFR disclosures as that seen for the overall population. However, the proportion of foreign private issuers (FPIs) has been increasing over time, and in FY2024 constituted 16% of all ICFR disclosures, the largest proportion of FPIs seen over the 20-year period.
- External ICFR auditor attestations are required for most accelerated and large accelerated filers under SOX 404(b). The total number of companies that received an adverse ICFR auditor attestation decreased to 236 during FY2024 – a 24% decrease from FY2023.

Audit committees should query whether any of the above frequently cited control weaknesses described in the report could be present in the company’s control environment.

Monitoring these and other financial-reporting-related trends may assist audit committees in focusing on the top accounting issues and maintaining high-quality financial reporting.

⁵ SOX 404 reporting: a 20-year review, Ideagen, 2025.

2024 top 5 Internal control issues in adverse ICFR management assessments

(Rank based on percentage of total adverse disclosures referencing issues)

Rank	Issue	% of adverse disclosures
1	Accounting personnel resources	79%
2	Segregation of duties	65%
3	Information technology	31%
4	Inadequate disclosure controls	26%
5	Non-routine transactions	21%

2024 top 5 accounting issues in adverse ICFR assessments

(Rank based on percentage of total adverse disclosures referencing issues)

Rank	Issue	% of adverse disclosures
1	Revenue recognition	9%
2	Inventory, vendor and cost of sales	8%
3	Accounts receivable, investments and cash	7%
4	Foreign/subsidiary	6%
5	Debt and warrants	6%

2024 top 5 Internal control issues in adverse auditor attestation

(Rank based on percentage of total adverse disclosures referencing issues)

Rank	Issue	% of adverse disclosures
1	Accounting personnel resources	73%
2	Information technology	60%
3	Segregation of duties	43%
4	Inadequate disclosure controls	24%
5	Non-routine transactions	17%

2024 top 5 accounting issues in adverse auditor attestation

(Rank based on percentage of total adverse disclosures referencing issues)

Rank	Issue	% of adverse disclosures
1	Revenue recognition	23%
2	Inventory, vendor and cost of sales	19%
3	PPE, intangible or fixed assets	14%
4	Accounts receivable, investments and cash	10%
5	Tax	10%

3 Tax and other policy-related developments

Companies are still processing the fast-paced geopolitical and policy shifts set in motion during the first year of President Trump's second term. The Trump Administration has relied heavily on executive actions to advance policies, leading to rapid changes over the past year.

In addition, with a Republican-controlled federal government in place, Congress was able to enact the administration's centerpiece tax legislation, extending and enhancing expiring and expired provisions from the 2017 Tax Cuts and Jobs Act (TCJA) and addressing some of the president's campaign tax pledges.

The passage of the One Big Beautiful Bill Act (OBBBA) has offered greater clarity regarding anticipated tax policy developments for the upcoming year. Some of the changes enhance US competitiveness and may prompt companies to reassess historic decision-making with respect to intellectual property (IP) and research and development.

Regulatory guidance is needed to clarify details of some of the OBBBA's provisions, and a 43-day government shutdown that began October 1 and ended November 12 has made it challenging to predict the outlook for future tax regulatory and legislative priorities. Tariff and trade

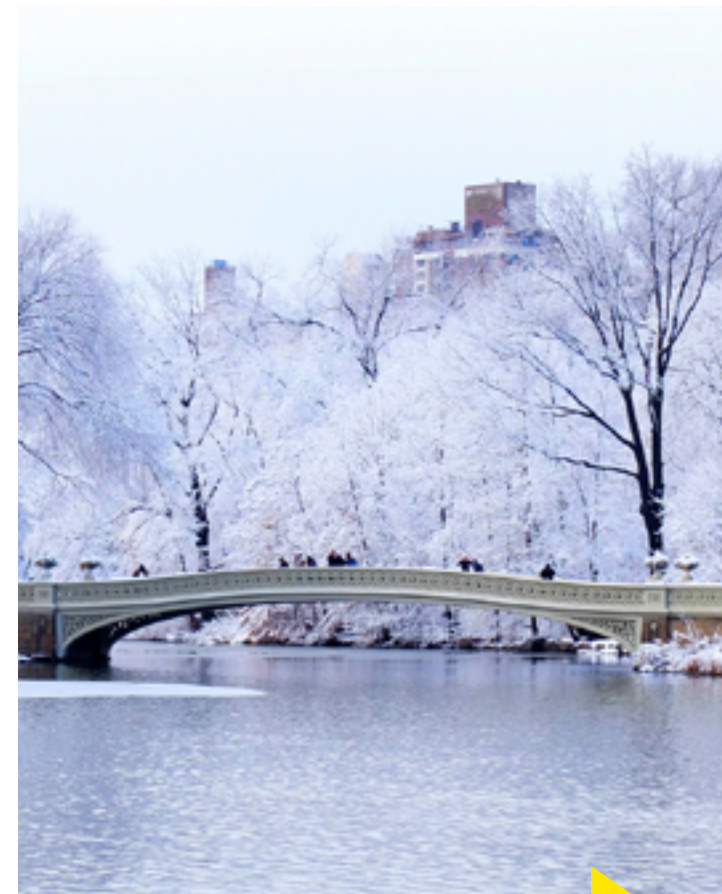
policies that can impact companies' decisions about supply chains, investments and operations are evolving amid legal challenges. And critical details of an agreement reached between the United States and the G7 nations to exclude US-parented groups from portions of the Pillar Two global minimum taxes are still being negotiated.

Companies and their audit committees continue to contend with several ongoing uncertainties, among them the economic outlook, OBBBA implementation and the M&A landscape. Notably, despite mixed economic signals, the M&A outlook has shown some strength heading into 2026, with an increased share of large deals expected to translate into stronger deal volume and value in the year ahead.

In this environment, boards and audit committees will need to pay attention to tax policy developments at the federal, global and state levels and confirm that companies are employing scenario planning and policy engagement to prepare for the unexpected.

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In this environment, boards and audit committees will need to pay attention to tax policy developments.



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US federal tax policy outlook

The OBBBA, passed on July 4, 2025, has been the Trump Administration’s principal tax policy achievement so far this term. In addition to permanently extending TCJA individual tax rates and incentives, the OBBBA extended and expanded business-favorable TCJA provisions such as expensing for domestic research and development (R&D) and immediate expensing of the costs of constructing new US factories, and it made permanent the Section 199A “pass-through deduction.” The legislation also followed through on some of President Trump’s campaign tax proposals by introducing temporary deductions for certain tip and overtime income.

The law and related guidance have also completely reshaped federal energy policy, repealing many of

the clean energy tax incentives enacted under the Biden Administration, and made several nuanced but significant changes to the US international tax regime that will affect US-based multinational companies.

Beginning with an executive order (EO) on January 31, the Trump Administration has also telegraphed and begun to implement a deregulation initiative aimed at reducing the overall number of regulations and the related compliance obligations for businesses. This EO included a requirement that agencies identify at least 10 existing regulations for elimination for every new one issued. The Treasury Department’s 2025-2026 [Priority Guidance Plan](#), released September 30, further reflects this focus on “deregulation and burden reduction.”

Republicans currently control both chambers of Congress, but the margins are slim, and the 2026 midterm elections will likely be a focus of attention for members of both parties. Although further large-scale tax-driven legislation similar to the OBBBA appears unlikely in the near future, there remains the possibility of future reconciliation legislation that might include tax policy changes generally smaller in scope than we saw in 2025. The likelihood of bipartisan legislation has been reduced due to entrenched partisan stances. There are a few areas of future potential bipartisan agreement, however, including tax extenders that were not included in the OBBBA. Cryptocurrency legislation with tax elements may also be considered.



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Global tax

On President Trump’s first day in office, the administration issued an executive order declaring that the OECD/G20 Inclusive Framework’s Pillar Two global minimum tax had “no force or effect in the United States.” In April, U.S. Treasury officials presented to the Inclusive Framework the US proposal that the Pillar Two rules should apply alongside the US corporate tax system so that US-parented multinationals would not be subject to core elements of the global minimum tax.

Initial versions of the OBBBA bill included a provision imposing additional tax on certain US-source income of individuals and entities resident in a foreign country that imposes extraterritorial or discriminatory taxes on US individuals and entities. Proposed Section 899 was removed from the final legislation when a shared understanding was reached by the G7 nations regarding the side-by-side international tax system proposed by the United States, together with a commitment to collaborate through the Inclusive Framework to reach agreement expeditiously. Negotiations regarding the details of the side-by-side system and other related Pillar Two matters are ongoing, with the aim of reaching agreement by the end of the year. The result of these discussions could have significant implications for multinational companies. US multinationals and their audit committees will need to carefully monitor the evolution of the global tax environment in the months ahead.

State tax policy outlook

The coming year is expected to be an active one from a state tax legislative perspective as the effects of federal policy changes filter out to state governments; 36 governors and 89% of state legislative chambers are up for election in November 2026. Enactment of federal legislation like the OBBBA will have significant repercussions for states, which receive funding from the federal government and conform to federal income tax laws in different ways. Some states are reassessing their conformity in the wake of the OBBBA’s corporate and individual tax changes and changes to business tax incentives. The effects of these changes will depend on state-specific fiscal situations and priorities.

Average state tax revenue has been relatively flat in recent years, but the revenue picture varies greatly from state to state and is generally more uncertain as 2026 approaches. As anticipated declines in federal funding – particularly for Medicaid – take effect, states may have to decide between reducing services or funding those services by increasing taxes. States are also contending with changing trade policies, which have varying impact depending on the primary sectors that drive a state’s economy. Against this backdrop, state policy proposals continue the trends toward taxation of foreign income and expanding state sales and use tax impositions to include digital goods and services.

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Trade

The magnitude of the Trump Administration's trade policy shifts and their effects on global trading patterns would have been difficult to anticipate a year ago – and the environment continues to be unsettled, creating both risks and opportunities for companies. The administration has repeatedly turned to tariffs to counter perceived unfair trading practices, reduce reliance on foreign countries, incentivize reshoring and raise revenue.

The fluid nature of the administration's trade policies, which have included country-specific and sectoral tariffs along with ongoing negotiations to strike deals with major trading partners, has disrupted companies' supply chains in unprecedented ways. Companies find themselves reevaluating procurement, pricing and planning for future market positioning.

Adding to the uncertainty are questions about the legal status of some tariffs. Legal challenges to the president's authority to impose these tariffs persist, and the U.S. Supreme Court is expected to rule on the issue. The Court's decision could lead to changes in the administration's current approach to some tariffs, and companies should consider modeling out how different potential outcomes might affect their specific situations.

Tax compliance and controversy

The OBBBA's changes to prior tax policies and incentives, the prospect of regulations being withdrawn and/or replaced, and uncertainty around the obligations of US MNEs under Pillar Two in the short term all are contributing to a complex reporting and tax compliance environment. Amid these challenges, it will be more important than ever for companies to focus on data consistency and integration. Increasingly companies are turning to GenAI and agentic AI to help in this effort, which can bring efficiencies to their compliance processes.

Despite companies' best efforts, the near-term compliance outlook is complicated by funding cuts, staff reductions and leadership turnover at the IRS. Companies should be prepared for the possibility that the IRS may shift priorities, reduce some prior initiatives and programs, and take longer to respond to taxpayer inquiries.

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4 Regulatory developments

The new regulatory direction that SEC Chairman Paul Atkins has ushered in since stepping into his role in April 2025 will continue in 2026. Under his leadership, the SEC has shifted its regulatory priorities toward capital formation and reducing compliance burdens on issuers.

Other priorities for the agency heading into 2026 include establishing a new regulatory framework for digital assets and expanding investor access to private funds and alternative investments. Regarding enforcement, the agency is also expected to continue prioritizing investigations of traditional fraud and penalties to hold individual wrongdoers accountable rather than broad corporate penalties.

It is anticipated that the SEC will make significant changes to the Public Company Accounting Oversight Board (PCAOB) through its oversight function. The Commission is in the process of appointing an entirely new Board, which is expected to shift its approach to standard setting and possibly other areas of PCAOB activity.

Audit committees, SEC registrants and other companies should keep abreast of these areas to be able to meet regulatory expectations.

Capital formation

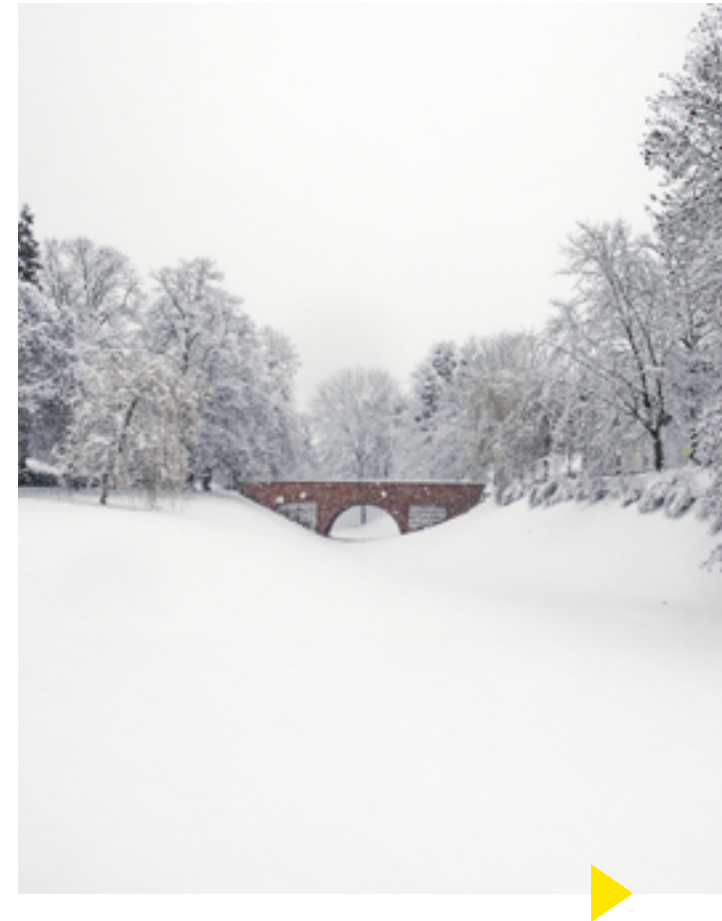
Recent SEC initiatives signal a streamlining of reporting requirements to reduce compliance burdens. A key priority for Atkins is to [make](#) going public more attractive. To do this, he has outlined three barriers to IPOs that the Commission plans to address – litigation risks, the corporate governance environment and compliance costs.

Litigation risks

One step the Commission has taken to “make IPOs great again” is to address the threat of litigation against issuers through staff guidance and policy statements. This includes issuing a [policy statement](#) clarifying that the presence of a mandatory arbitration provision in a company’s governing documents (e.g., charter, bylaws) will no longer impact decisions on whether to accelerate the effective date of a registration statement.

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Corporate governance environment

Atkins, a long-time critic of the proxy process, has pledged that the agency will make “reforms to try to address some of the gamesmanship and weaponization of” corporate governance. He placed shareholder proposal modernization on the Commission’s comprehensive [rulemaking agenda](#) and indicated that this will include changes to Rule 14a-8, which governs when shareholder proposals must be included in a company’s proxy. In a speech, Atkins [signaled](#) that the Commission may reassess “the rule’s fundamental premise that shareholders should be able to force companies to solicit for their proposals... at little or no expense to the shareholder.” Atkins also has encouraged companies to seek state law remedies to exclude shareholder proposals from proxy statements.

The SEC’s Division of Corporation Finance subsequently [announced](#) that in the 2025-2026 proxy season it will not respond to no-action requests for companies’ intended reliance on any basis for exclusion of shareholder proposals under Rule 14a-8, other than no-action requests to exclude a proposal under Rule 14a-8(i)(1), which permits companies to exclude a shareholder proposal if it is not a proper subject for action by shareholders under state law.

Compliance costs – disclosures

This quarter, Atkins has repeatedly discussed President Trump’s call for a shift from mandatory quarterly to semiannual reporting. Trump also raised this issue during his first term, which prompted then-SEC Chair Jay Clayton to seek [public comment](#) on the idea. However, the SEC did not take further action at the time. As a critic of increasingly complex and costly disclosure requirements, Atkins has pledged that the SEC will propose rule amendments to allow firms the choice of reporting semiannually.

The SEC’s agenda also includes other projects aimed at lowering compliance burdens to spur capital formation. One of these is rulemaking to rationalize disclosure practices, focusing on material disclosures. Other rulemaking projects would modernize the shelf registration process, expand accommodations available to emerging growth companies and simplify filer status determinations.

Climate-related disclosures

In 2026, the SEC may take steps to rescind or modify its climate disclosure rules, which have been on hold and the subject of litigation since 2024. Most recently, the Eighth Circuit Court of Appeals, which is adjudicating the litigation, denied the agency’s request to make a decision about the legality of the rules, leaving the case on hold until the SEC takes steps to rescind, revise or defend the rules. The SEC had previously voted to halt its defense of the rules in March 2025.

Issuers also may be impacted in 2026 by the ongoing litigation over California’s climate disclosure laws (CA SB253 and SB261). Currently, two suits have been filed against the legislation. Enforcement of the 1 January 2026 reporting date for SB-261 has been paused following a motion for injunction, pending appeal, granted by the US Court of Appeals for the Ninth Circuit on 18 November 2025. However, this preliminary injunction doesn’t apply to SB-253. Despite the legal uncertainty and a delay from the California Air Resources Board (CARB) in finalizing regulations to implement the laws, CARB expects companies in scope to make good faith efforts to submit Scope 1 and 2 emissions reports by 10 August 2026.



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SEC enforcement

Another area where Atkins is expected to chart a different path in 2026 than his predecessor is in the SEC's enforcement program. Atkins has directed the Division of Enforcement to prioritize cases of investor harm and securities fraud. He also has said the Division will seek to hold individuals rather than corporations responsible for securities law violations where possible, arguing that shareholders are harmed when companies must pay penalties. The Division also is expected to focus on combatting fraud by foreign-based companies and gatekeepers with its newly formed [Cross-border Task Force](#).

Atkins also has publicly [discussed](#) refinements to the Commission's enforcement processes that are intended to achieve transparency, consistency and fairness. For example, the Division has returned to the [practice](#) of simultaneously considering enforcement settlements and collateral waiver requests.

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PCAOB Board

Acting PCAOB Chair George Botic [shared](#) that 2025 inspections of audit firms registered with it show a decrease in 2025 Part I.A deficiency rates compared to 2024. New PCAOB Board members are expected to take their seats in 2026, which likely will bring additional changes. The SEC is considering candidates to replace the PCAOB Board Members and could announce the new Board at any time.

As the year end approaches, audit committees should be aware of the PCAOB's [guidance publications](#), which are designed to provide information to facilitate auditor oversight. Additionally, audit committees should consider the [research reports](#) from the Board's Technology Innovation Alliance Working Group, which provide recommendations on how the Board's future work might address the use of artificial intelligence by auditors.

Other resources for audit committees to consider

- [SEC in Focus](#), October 2025

Questions for audit committees to consider

Risk management

- How is management evolving the organization's risk management framework to address the NAVI environment – where risks are nonlinear, accelerated, volatile and interconnected? Are board conversations appropriately integrating top risk and strategy dimensions?
- What are the key risks, assumptions and factors critical to our strategy? Have we stress-tested these key risks and assumptions?
- Do scenario analyses consider an appropriate range of extreme and even improbable scenarios, such as “single point of failure”?
- Given the top risks for 2026, how is the audit committee establishing that management's scenario analysis, portfolio resilience reviews, and capital allocation processes are robust and forward-looking?

- What is the current level of technology fluency in the boardroom? What is the quality of the company's leadership team related to technology? Where is the company currently in terms of its technology maturity across the enterprise?
- How is the board overseeing the governance of AI? Has the board evaluated how to allocate the oversight of AI, including committee responsibilities and whether there is sufficient director expertise to address AI related risks?
- How is the board and audit committee monitoring talent-related risks, such as workforce anxiety, skill gaps, and the integration of human and AI teams? How is management measuring and reporting the true business impact of AI beyond efficiency gains?

Financial and sustainability reporting

- Has management considered which financial reporting items and disclosures may pose heightened restatement risk, such as through the company's regular risk assessment activities?
- How has management monitored the financial reporting standard setting activities (e.g., new FASB guidance discussed previously) and identified any financial reporting impacts of recently issued guidance? For example, how will the organization adapt its financial reporting processes to meet the new requirements for disaggregated disclosures of certain income statement expenses, and what additional processes and controls are necessary to implement this new guidance effectively?
- Does the company have a strong understanding of the sustainability reporting requirements that the company is subject to globally? Has the company performed a gap analysis to identify where additional resources and investments are needed to meet these requirements?



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Tax and other policy-related developments

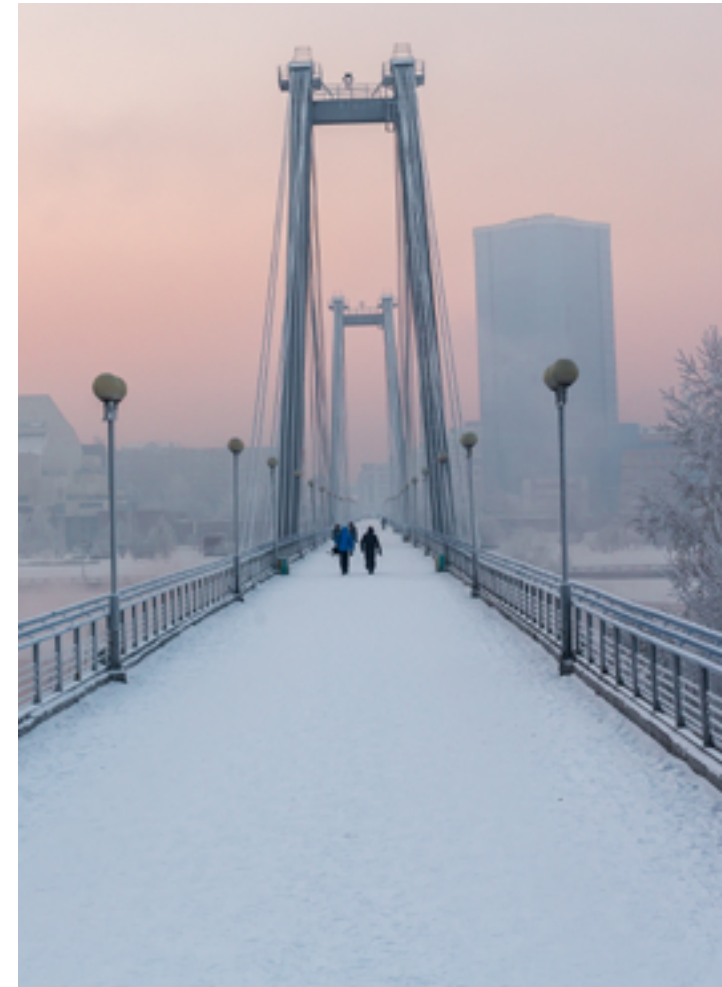
- How is management addressing any changes to the company's tax outlook resulting from the OBBBA?
- What are the global tax implications of any potential M&A activity the company may be contemplating?
- Does management have a plan for ongoing engagement with federal and state policymakers on tax legislative issues, and does the audit committee have input?
- Does the repeal of clean energy tax incentives affect any planned projects, and if so, has management mapped out potential paths forward or alternatives?
- How is management staying informed about global tax developments, and how might the G7 side-by-side agreement affect the organization's international tax liabilities?
- Is the organization considering the potential for reshoring or diversifying its supplier base in response to ongoing trade shifts?
- Is management exploring the use of AI in the Tax function to help automate routine tasks and enhance compliance efforts?

Regulatory developments

- What strategy does the committee have in place to assess the impacts of changes to the shareholder proposal process?
- How is the organization proactively assessing opportunities and risks associated with a potential shift in financial reporting requirements and scaled compliance obligations?
- What process does the committee have in place to assess the impact of regulatory updates and is the committee sufficiently engaged in dialogue providing views and input as needed on the related impacts?
- How is the committee preparing for a new PCAOB Board and shift in strategic direction of the standard setting agenda?
- How is your auditor preparing for the eventual implementation of QC 1000?

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