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EY Center for Board Matters

2026 Q3 audit committee update



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Executive summary

Five areas audit committees should watch next

As audit committees prepare for the quarter ahead, they should consider the following themes as they set agendas. Additional context is provided below.

- **Risk oversight must be more connected and forward-looking.**

Geopolitical disruption, tariff uncertainty, AI, cyber risk, market volatility and regulatory change are converging across operations, supply chains, technology environments and capital allocation decisions. Audit committees should challenge whether management is assessing these risks collectively (and their interdependencies) and with sufficient visibility into second- and third-order impacts.

- **Resilience should be tested, not assumed.**

Companies may be accustomed to disruption, but the current environment requires more rigorous scenario planning, stress testing, liquidity discipline and third-party dependency mapping. Audit committees should understand the triggers, thresholds and contingency actions management would use if conditions deteriorated.

- **AI governance is entering a more disciplined phase.**

As AI moves from experimentation to scaled deployment, boards are focusing on cost, return, accountability and control. Audit committees should ask whether management has clear decision rights, reliable cost and value measures, appropriate data and model controls, and cyber defenses that can keep pace with AI-enabled threats.

- **Financial reporting implications need early attention.**

Tariffs, supply chain changes, inflation, interest rates, impairment indicators, liquidity pressures, tax developments, cyber incidents and AI-enabled processes may affect judgments, estimates, disclosures and internal controls. Audit committees should confirm that disclosure controls and ICFR remain responsive to the current risk environment.

- **Regulatory change may create both relief and new oversight demands.**

FASB, SEC and PCAOB developments could affect disclosure requirements, enforcement expectations and audit quality discussions. Audit committees should monitor rulemaking progress and outcomes, being mindful to consider potential implications for investor communications, audit planning and governance practices.



Risk management

Audit committees enter Q3 with a risk agenda shaped by continued uncertainty, rapid technology changes and increasing interdependence across business ecosystems.

The priority is not to monitor more risks, but to understand which developments could materially affect strategy, performance, resilience, reporting and capital allocation. Audit committees should continue to challenge whether management is connecting risks across the enterprise; revisiting key assumptions; and defining clear triggers, thresholds and contingency actions as conditions evolve.

Key areas for Q3 audit committee attention include:

Geopolitical and economic uncertainty continue to test organizational resilience

Trade policy, tariff uncertainty and geopolitical volatility remain central to the risk agenda. Shifts in US and global trade policy, retaliatory measures, export controls and supply chain localization efforts may affect sourcing, pricing, demand, supplier stability and working capital, while tensions in the Middle East continue to raise exposure to energy, logistics, sanctions, cyber and market risks.

The economic environment also remains uneven. AI-driven investment continues to support demand for technology, energy and digital infrastructure, but trade

volatility, Middle East tensions and potential energy price shocks could renew inflation pressure and tighten financial conditions. Recent CPI data suggests inflation is still moving in the right direction, though the disinflation process is likely to remain gradual and uneven.

Leading boards and audit committees continue to evaluate whether management is distinguishing short-term volatility from structural change. It's also important to test the assumptions embedded in forecasts, liquidity plans, supply chain decisions and capital allocation, and understand the triggers that would prompt management to adjust strategy or deploy contingency plans.

Emerging technology risks are expanding the board's oversight agenda beyond AI

While AI remains a central board topic, the broader technology risk agenda is expanding. Quantum computing, AI-enabled cyber threats, digital assets and stablecoin-enabled payment infrastructure are moving from technical or sector-specific topics to enterprise risk considerations. These developments may affect business models, cyber resilience, payment processes, data protection, third-party dependencies, treasury activities and regulatory exposure. Audit committees should ask how these risks are being incorporated into enterprise risk management, internal and external audit planning, third-party oversight, capital allocation and board education.



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AI is making cyber offense and defense faster, more scalable and increasingly automated. AI-enabled tools can strengthen monitoring, vulnerability management and incident response, but also enable attackers to discover, prioritize and exploit vulnerabilities at unprecedented speed.

This is shifting cyber risk from periodic controls and known indicators to behavior-based detection, continuous monitoring and machine-speed response. As attackers use AI to automate reconnaissance, social engineering and vulnerability exploitation,

audit committees should challenge whether cyber governance, patching, incident response and third-party oversight are keeping pace.

A recent development illustrating this shift is the White House's [GOLD EAGLE Initiative](#), an AI-enabled public-private clearinghouse designed to coordinate the identification, validation and remediation of software vulnerabilities across critical infrastructure. Although the operating model is still developing, the initiative may compress expectations for how quickly companies assess and patch high-priority vulnerabilities. Boards and audit committees should understand whether management can translate

external vulnerability intelligence into rapid exposure analysis, accountable remediation and timely escalation across both the enterprise and its critical third parties.

Interconnected dependencies are also amplifying cyber-related risk as organizations become increasingly dependent on AI-enabled systems, cloud providers, data platforms and third-party technology ecosystems. These changes increase the potential for disruptions to cascade across and beyond the enterprise. Many companies are not prepared: for example, 48% of cybersecurity leaders who responded to the 2026 EY Global Cybersecurity Leadership Insights Study report they are confident in their ability to quickly detect an incident in their supply chain.

Beyond cybersecurity concerns, dependency risk is becoming a focus area for audit committees due to the implications for operational continuity, customer service, financial performance, regulatory compliance and the reliability of critical business processes.

Management should be prepared to discuss with audit committees and boards which critical services and data assets are most exposed, how quickly the company can detect and contain an incident, how dependencies on cloud providers and technology vendors are being monitored, and whether recent tabletop exercises reflect AI-enabled threat scenarios.



The economics of AI are driving greater scrutiny of costs, returns and governance

As companies move from AI experimentation to scaled deployment, boards are shifting from asking whether AI is being adopted to whether it is delivering measurable value. The governance challenge is to understand AI's fully loaded cost and expected return while maintaining appropriate oversight, controls and financial discipline.

According to the recent [EY AI Pulse Survey](#), 82% of senior leaders report concerns about AI token costs, and 98% say token costs have caused their organization to reconsider its approach. But while tokens are often the most visible component of AI spending, they represent only a portion of the total investment. In addition to token usage, other costs to consider include infrastructure, software, data, governance, model monitoring, change management and compliance costs.

Unlike many traditional technology investments, AI costs are often variable, usage-based and distributed across budgets. As a result, management may not fully understand the cost of an AI-enabled process until after it has run, a challenge that will increase as agentic AI systems execute more complex workflows across functions.

Leading Finance functions are closely monitoring AI consumption patterns, establishing thresholds and controls, and evaluating AI initiatives based on full lifecycle costs and expected business value.



Expectations for AI returns are also rising. Our survey found that 37% of senior leaders are reassessing where to prioritize AI investments across functions, reinforcing AI economics are becoming an increasingly important consideration in strategic planning and capital allocation.

Audit committees should ask how management measures return on AI investments and whether AI-related expenditures are captured and monitored consistently. This includes asking management how external constraints – such as compute capacity, energy usage, data-center availability and related legislative and policy developments (including possible restrictions on data centers) could affect current and future AI costs, strategy and the company's license to operate in the short and long term.

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In the spotlight

Risk oversight in an era of disruption

EY Center for Board Matters research with *Corporate Board Member* highlights a central risk oversight challenge: boards are spending more time on risk, but many are still working to convert risk discussions into stronger strategic insight, earlier warning signals and clearer action.

Here are the key themes and takeaways from the director survey:

- **More time on risk is not enough.** Sixty percent of directors said their boards are spending more time on risk at the full board level, yet 38% cited integration of risk and strategy as a key area for improvement.

- **Scenario planning is a leading gap.** Forty-four percent of directors said their boards need stronger scenario planning and stress testing; 38% said they need to better understand interconnected and systemic risks.
- **Risk reporting is generally strong, but board engagement may need to evolve.** More than 70% of directors viewed management reporting on timely key risk indicators, strategic implications, thresholds and forward-looking insights as robust or having only non-material gaps.
- **Risk functions may be underleveraged strategically.** While 46% of directors rated the Risk function at the highest level of performance for maintaining effective controls and compliance, only 25% said the same for identifying emerging risks and 24% for informing strategic decisions.

- **Risk appetite is often implied rather than explicit.** Fewer than half of directors said their company's risk appetite is formally articulated and documented, reinforcing the need for clearer guardrails to guide strategic trade-offs.
- **Third-party dependencies remain a vulnerability.** Forty-two percent of directors said a critical vendor failure would significantly or severely disrupt their company, while board reporting is more often focused on incidents and compliance than on forward-looking indicators such as concentration and dependency risk.

Implications for audit committees:

- Move risk discussions closer to strategy by testing the assumptions, trade-offs and downside scenarios embedded in major strategic decisions.
- Ask management to define measurable triggers and thresholds that signal when strategy, capital allocation or contingency plans should be reassessed.
- Strengthen visibility into critical third-party, technology and ecosystem dependencies, including concentration risk and disruption scenarios.
- Elevate the Risk function's role in strategic decision-making so it acts as a source of foresight and challenge, not only compliance and control.

The takeaway for audit committees: effective risk oversight depends not on more information alone, but on more disciplined use of risk insight to test strategy, resilience and readiness to act.

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Financial reporting and internal controls

Audit committees should continue to assess whether financial reporting judgments, disclosures and internal controls remain responsive to the current operating environment.

This includes understanding how macroeconomic volatility, tariff and trade developments, technology changes, cyber risk, and evolving regulatory expectations may affect estimates, controls, liquidity, MD&A and investor communications. Heading to the next quarter, these are the key financial reporting areas for audit committees to focus on:

Reminders on disclosing certain disaggregated income statement expenses

FASB's ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40)*: Public business entities (PBEs) are required to disclose, on an annual and interim basis, disaggregated information about certain income statement expense line items for annual periods beginning after 15 December 2026, and interim periods within annual reporting periods beginning after 15 December 2027. Entities may apply the guidance prospectively or retrospectively. Early adoption is permitted.

Reminders on MD&A disclosures

SEC staff comment letters continue to underscore the importance of clear, company-specific MD&A disclosure, particularly around results of operations. Audit committees should confirm that management explains material period-to-period changes in a financial statement line item or subtotal in both quantitative and qualitative terms, including the business, economic and other factors driving those changes and any material offsetting factors.

The SEC staff has also focused on whether companies provide sufficient insight into unusual or infrequent events or transactions and significant changes in the economic environment that materially affected income or loss from continuing operations. Additionally, they have focused on the discussion of reportable segment information and significant components of revenue or expense necessary to understand the results of operations.

Liquidity and capital resources disclosures have been another area of staff attention, especially when trends or uncertainties may affect liquidity. Audit committees should confirm whether MD&A provides a meaningful analysis of cash flow variability and the material components of cash flows.

When management uses key performance indicators (KPIs) and metrics, whether financial or non-financial, to discuss results of operations, the SEC expects the company to classify them appropriately, whether



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as non-GAAP measures or KPIs, and follow the related presentation and disclosure guidance. Audit committees should also confirm that KPIs are consistently defined and appropriately controlled and that disclosures clearly identify KPIs and non-GAAP measures separately.

Disclosures about critical accounting estimates also warrant focused review. The SEC staff expects those disclosures to go beyond a description of accounting policies and provide insight into the quality and variability of management's most significant judgments and assumptions, including how sensitive those estimates are to the methods, assumptions and estimates underlying their calculation.

Audit committees should also consider whether disclosure controls and internal control over financial reporting have kept pace with changes in business processes, technology use, third-party dependencies and AI-enabled workflows. Where management has changed systems, data flows, controls or review procedures, the committee should understand how control design, operating effectiveness and management review controls have been evaluated.

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Audit committees should also consider whether disclosure controls and internal control over financial reporting have kept pace with changes in business processes, technology use, third-party dependencies and AI-enabled workflows.

SEC rulemaking and other regulatory considerations

The SEC has continued to execute on its ambitious agenda focused on capital formation, compliance burden reduction and the creation of a more welcoming environment for digital assets.

In July, the SEC released its [2026 regulatory agenda](#), which includes 38 rulemaking projects. In [remarks](#) on the agenda, SEC Chairman Paul Atkins said that the Commission is “embracing innovation and new technology,” working to revitalize the public markets and to facilitate retail investor participation in private markets. Planned rulemakings could reduce disclosure and reporting obligations and impact capital raising strategies for public companies, including by amending executive compensation disclosure requirements, modernizing custody rules for crypto assets and expanding retail investor access to private markets.

Chairman Atkins has focused on stakeholder engagement in his pursuit to “make IPOs great again.” In a May [speech](#), he also solicited public comment on “broader ideas for modernizing IPOs overall,” emphasizing the need to dismantle “the barriers that drove companies away in the first place.” He added that “overly burdensome SEC rules may not be the sole reason for this decline – but where regulatory frictions are a determinant of it, the agency is moving intently to remove them.” In July, the Commission hosted a [discussion](#) with public market practitioners on innovative approaches and regulatory solutions to improve access to public markets.

In August, the SEC proposed new rules for crypto assets that would, among other things, provide two exemptions from registration under the Securities Act of 1933 for covered investment contracts. The proposal would create a startup exemption for

offerings of up to \$5 million over four years and a two-tier fundraising exemption for offerings of up to \$20 million under Tier 1 and up to \$75 million under Tier 2 in any 12-month period. Comments on this proposal are due on 20 October 2026.

The Commission also issued the highly anticipated “innovation exemption” in September, which provides five-year exemptive relief to certain securities trading venues and liquidity providers to facilitate on chain trading of tokenized National Market System securities.

The Commission took steps to modify the shareholder proposal framework in September, issuing a proposal to rescind SEC Rule 14a-8, which governs when public companies must include non-binding shareholder proposals in their proxy materials. If adopted, only state law would govern the treatment of these proposals.

With comment periods now closed on other rule proposals, including those to allow semiannual reporting, simplify the filer status framework, rescind climate-related disclosure rules and enhance the registered offering reform process, as well as on the request for comment on IPO modernization, the Commission is weighing stakeholder feedback before it finalizes rule amendments. While the proposals reflect priorities supported by the current Commission, the timing and scope of any final amendments remain uncertain.



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On enforcement, the SEC [announced](#) the launch of a new Financial Reporting and Accounting Unit dedicated to pursuing “accounting and financial reporting fraud cases as well as general misconduct in the accounting and auditing areas.” It also has [rescinded](#) its “no-admit/no-deny” policy, which had been in place for more than 50 years and required registrants settling with the Commission to agree not to publicly deny the allegations against them.

When rescinding the policy, the Commission also stated it will not enforce the policy in settlements already in place. In another Division of Enforcement development, Principal Deputy Director Sam Waldon [departed](#) and was succeeded by Osman Nawaz, who previously served in the Division and now also oversees its specialized units.

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Audit committees should monitor whether the SEC’s recent actions could affect the company’s disclosure roadmap, capital markets strategy and investor communications.

Audit committees should monitor whether the SEC’s recent actions could affect the company’s disclosure roadmap, capital markets strategy and investor communications, including how the company prepares for potential SEC staff comments or questions.

PCAOB developments

The PCAOB has begun implementing its standard-setting agenda under Chairman Demetrios (Jim) Logothetis’ leadership. In September, the board adopted targeted revisions to QC 1000, *A Firm’s System of Quality Control*. The adopting release states that the amendments “will improve alignment, where appropriate, with other quality management standards and seek to reduce compliance costs” without risking investor protection. Chairman Logothetis highlighted that the amendments help the Board “not only to fulfill our critical responsibility of getting QC 1000 right, but also to establish a foundation for our proposed strategic goal of modernizing the PCAOB’s inspections with a QC-focused approach.”

Comments on the Board’s [draft goals and objectives](#) for its 2026-2030 strategic plan were due on 4 September. On stakeholder engagement, the draft plan emphasizes the Board’s intention to work with audit committees, investors and other stakeholders to strengthen oversight effectiveness and gather perspectives on “audit quality, oversight priorities, and the effectiveness of PCAOB communications.” The goals reflect Logothetis’ stated focus on operational, technological and organizational improvements at the Board.

The Board is also considering comments on its draft standard setting and research agenda, [proposed](#) in June. Possible standard-setting agenda items include fraud, critical audit matters (CAMs), non-compliance with laws and regulations (NOCLAR), firm and engagement metrics, and auditor independence.

Audit committees may want to discuss with the external auditor how evolving PCAOB priorities, quality-control expectations, technology use and inspection focus areas could affect audit planning, audit quality and committee communications.

Additional resources

- [SEC in Focus](#)
- [To the Point - SEC proposes optional semiannual reporting in lieu of quarterly Form 10-Q reporting](#)
- [To the Point - SEC proposes enhancements to registered offering process](#)
- [To the Point - SEC proposes changes to simplify the filer status framework and allow scaled disclosure for more companies](#)
- [To the Point - SEC proposes rescinding climate-related disclosure rules](#)
- [To the Point - SEC proposes tailored rules for certain offerings involving crypto assets](#)

Questions for the audit committee to consider

In discussions with management, compliance personnel and internal and external auditors, audit committees may want to prioritize the following questions:

Risk management

- Which risks could materially change our strategy, performance, liquidity or resilience, and are we distinguishing short-term disruption from structural change?
- What assumptions underpin our forecasts, supply chain decisions, capital allocation and contingency plans, and what triggers would prompt management to reassess them?
- Do we have credible stress tests and response plans for prolonged geopolitical, economic, cyber, operational or third-party disruption?
- Where are our most significant dependencies across suppliers, technologies, data, markets and geographies, and how are we reducing vulnerability where concentration is too high?
- Do we have clear governance over AI use, including accountability for data, models, controls, human oversight, cost discipline and measurable value realization?

- Are cyber defenses, vulnerability management and incident-response processes keeping pace with AI-enabled, machine-speed threats?
- Can management rapidly determine whether vulnerabilities prioritized through government and industry coordination mechanisms affect our critical systems or third parties, and do we have clear remediation deadlines, escalation thresholds and accountability for exceptions?
- Has management identified the company's most sensitive long-lived data, where it resides, who has access to it and which third parties hold or process it?
- Are emerging technology risks, including AI, quantum, cyber and digital asset-related risks, reflected in the risk register, internal audit plan and board education agenda?

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Tax and financial reporting, disclosures and controls

- How are tariffs, trade policy changes, customer demand, supply chain costs, liquidity, impairment indicators and tax developments reflected in financial reporting judgments and disclosures?
- Have disclosure controls and ICFR been updated for changes in business processes, AI-enabled workflows, cybersecurity risks and third-party technology dependencies?
- Has management evaluated the impact, if any, of changing tariffs on the pricing of intercompany transactions and the related-party transfer-pricing rules for tax purposes?

- How is management progressing with its analysis of the impact of the OECD Pillar Two global minimum tax model? What impact do the rules have on the estimated annual effective tax rate (EAETR) for 2026 and is management monitoring proposed tax legislation for potential impact on the projected EAETR as countries begin to take action to enact the new side-by-side safe harbor agreement into their Pillar Two rules?
- Are financial and nonfinancial disclosures and stakeholder communications aligned with current strategy, risk profile, investor priorities and regulatory expectations?

Regulatory developments and external audit oversight

- What SEC rulemaking, enforcement or disclosure developments could affect our reporting roadmap, investor communications or capital markets strategy?
- How is the company assessing potential impacts of proposed SEC rules, including whether and how to provide feedback during comment periods?
- How could evolving PCAOB priorities, quality-control expectations, technology use and inspection focus areas affect audit planning, audit quality and committee communications?



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US SCORE no. 32342-261US
CS no. 2609-10192-CS

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