

EY Center for Board Matters

What audit committees should prioritize in 2025

■ ■ ■ ■ ■
The better the question. The better the answer. The better the world works.



Shape the future
with confidence

PRESENTED BY THE EY AUDIT COMMITTEE FORUM

This final audit committee update for 2024 provides a summary of key developments related to risk management, financial reporting and the regulatory side.

Heading into 2025, audit committees are anticipating and adapting to prepare for evolving legislative and regulatory implications of the US election. Businesses and governments are considering how the second Trump administration and a new Washington environment might shape the economic landscape moving forward

on key issues, such as tax; trade and supply chains; technology; the regulatory environment; climate; and workforce.

Cybersecurity, data privacy, and artificial intelligence (AI) and other emerging technologies are areas that audit committees are closely monitoring as companies experiment with and rethink controls and processes. In particular, audit committees continue to re-evaluate cyber incident response plans and related cyber disclosures.

Meanwhile, rulemaking and other actions by the Securities and Exchange Commission (SEC) could meaningfully shift regulatory requirements in the months ahead. Audit committees are working closely with management teams to assess how well prepared their company will be to comply with the applicable climate- and sustainability-related disclosure requirements (such as California's climate reporting laws and the EU's Corporate Sustainability Reporting Directive, among others).

Risk management

The year ahead is yet another filled with uncertainty across many dimensions of the environment in which companies do business, especially with the change in presidential administrations in the US. Policy changes under President-elect Donald Trump could have major economic impacts leading to notable effects on the US economy, though how the policy priorities will manifest to impact businesses remains to be seen. Changing financial conditions and decreasing regulation could be catalysts to stronger business investment and spending in the near term. It is possible that changes in trade, tax and immigration policy could increase inflation and slow GDP growth, but the impact is more likely to be seen in 2026-27 than in the near term.



Against this backdrop, boards and audit committees are rethinking and questioning legacy approaches in organizations, such as risk management frameworks that approach risk in a linear way. Leading boards are continuing to add value by supporting management in horizon scanning and scenario planning to identify and capitalize on changes in the business environment before they materialize into significant risks. Audit committees may want to delve deeper into enterprise risk management 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 2025.

Top risks and expectations for 2025

Navigating economic conditions, geopolitical volatility, regulatory environment/US election impacts, cybersecurity threats, and artificial intelligence and other disruptive technologies continues to be an area of focus for organizations.

We are hearing that organizations are cautiously optimistic in making strategic right-sizing decisions on labor and investments in 2025. A recent EY global CEO survey finds broad consensus among CEOs that economic conditions, investment opportunities, and their company's ability to grow will be positive in 2025.

Most are not assuming strong economic tailwinds and are preparing to adapt to take advantage and grow in this ever-shifting business environment. According to global CEOs, the top disruptive forces that are expected to drive the most change for organizations over the next 12 months are emerging tech (including AI), changing customer behaviors, regulatory impacts, supply chain pressures and the shifting global economic environment (including trade tensions and conflicts).

While demand drivers dictated the pace of economic activity during the 1990-2020 period, supply conditions have played and are expected to continue to play an increasingly important role. Accordingly, some organizations are closely monitoring supply-driven risks and preparing to quickly adapt to changing market conditions. Ways organizations are preparing include enhancing brand differentiation in certain geographic areas (such as China), diversifying supply chains, creating flexible work arrangements, or developing scenario-based strategic planning processes to prepare for various geopolitical and economic outcomes. As an example, some organizations are expanding production to other countries (such as Vietnam, Malaysia, India or Mexico) to strengthen supply chains. However, potential changes in tax policy could impact these investment decisions.



We expect that companies will need to be able to understand how the dynamics for their business have evolved and to anticipate future shifts, including their competitive position within their target markets. Boards and audit committees may want to consider whether their companies' management teams are regularly revisiting and updating key strategic assumptions and related risks to the business and continuously optimizing company portfolios. By frequently assessing these assumptions, organizations can confirm that their portfolio strategy remains relevant and aligned with the external environment.

Audit committees should consider discussing with management how some of these key risks may impact financial reporting and disclosure and the related controls. Additional conversations around scenario planning and risk mitigation plans (including emerging risks resulting from changes in the political and regulatory landscape) may be prudent along with stress-testing assumptions surrounding these key risks and opportunities.

Internal audit areas of focus

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 *2025 Risk in Focus: Hot Topics for Internal Auditors*. We've excerpted some notable highlights from these reports¹:

- The areas of highest risk for organizations globally continue to be cybersecurity, business continuity, human capital, digital disruption (including AI), and regulatory change. In North America, supply chain (including third parties) and market changes/competition are ranked high as well.
- The fastest-growing risk in the next three years is expected to be digital disruption (including AI). We also anticipate supply chain risks may significantly increase due to possible changes to trade policy. None of the other risks are expected to have large increases, and this trend is expected by internal auditors worldwide.
- Extreme weather is on the rise and driving higher costs for businesses and governments. Additionally, social impact and public opinion are also pushing more businesses and governments to develop climate change responses. We believe that evaluating both resilience in light of extreme weather and the impacts to operations and supply chain will be key areas of focus. Voluntary sustainability reporting and regulatory compliance will also require more attention.
- Chief audit executives (CAEs) globally and in North America rank cybersecurity as the top area in which internal audit will spend the most time and effort. Other top priority areas are governance/corporate reporting, business continuity, regulatory change and financial liquidity. These internal audit priorities were generally consistent across all geographic areas with small differences per region. For North America, fraud was ranked as a lower priority than in other regions.
- There is a level of urgency among CAEs to understand and adopt AI. CAEs identify competitive pressure, operational strain, implementation considerations and compliance matters as significant issues associated with digital disruption and AI. At the same time, the interconnected risks associated with AI, including AI's potential to amplify cybersecurity-, human capital- and fraud-related risks is an area of concern.
- A key theme emerging from CAEs is the acknowledgment of a general immaturity of AI governance. The zeal to keep pace with the opportunities created by generative AI (GenAI) is driving rapid adoption, sometimes without sufficient consideration for supporting governance and controls. Strategies or policies for using and managing AI are inconsistent, uncoordinated or, in some cases, nonexistent.

¹ Adapted and sourced from the Internal Audit Foundation's "2025 Risk in Focus: Hot Topics for Internal Auditors" (Global Summary and North America editions).

- To address this possible gap, as AI is implemented, some internal audit functions are providing advisory services to set up processes and controls. After these are in place, internal audit is shifting to providing assurance.
- Leading internal audit functions proactively help the organization understand the control environment and the need to enhance governance, transparency, data quality, data privacy and ethical guidelines for AI.
- Securing the right talent and skill sets for internal audit is a continuing challenge. Evolving technologies, the growing complexity of new and changing regulations, and the dynamic nature of risks all require new skills and capabilities within internal audit. Increasing the use of guest auditors from different business functions for specific assignments and boosting rotations from within the business is a strategy organizations are continuing to deploy to strengthen the bench and capabilities of the internal audit function. A longer-term focus for internal audit functions includes upskilling, training and recruitment to support digital disruption/AI risk management.

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, climate and political trends and developments.

Cybersecurity trends and related governance

In our latest analyses of disclosures in the proxy statements and Form 10-K filings of Fortune 100 companies, we have seen increases in the percentage of certain categories of cybersecurity risk and oversight disclosures. We've highlighted below some notable cyber-related developments:

- **Audit committees continue to oversee cyber:** Despite an increasingly heavy workload, 81% of Fortune 100 companies report that cybersecurity oversight lies with the audit committee, up from 61% in 2018.
- **New technologies are enabling growing threats:** GenAI is now being used in some way by nearly every company, and many report that they have plans to use GenAI to improve cybersecurity² by helping companies identify potential cyber risks, detect vulnerabilities and breaches, and prioritize cybersecurity efforts. However, cyber threats continue to grow and extortion (including ransomware) remains a dominant threat.
- **Identity access management, vulnerability management and social engineering all require greater focus:** Recent research indicates that more than two-thirds of breaches are reported to include some involvement by company workers through phishing, social manipulation or other methods to obtain and exploit employee credentials.

- **Third-party cyber risks are growing:** Reliance on third parties for increasingly complex IT operating environments is expanding the threat surface area – the places where an adversary may attack. It also may create single points of failure in critical systems that can be disrupted. Additionally, in the AI era, the threat landscape is widening to include the many third- and fourth-party AI services in the supply chain.
- **The latest AI advancements and the pace of AI experimentation across business functions present opportunities and risks for chief information security officers (CISOs) and boards to consider.** AI has great potential to ease cybersecurity workloads and the global skills shortage by expanding the scope of task automation, shortening response time and optimizing visibility across the attack surface. On the flip side, there may be increased cyber concerns if employees mishandle sensitive data. Additionally, foreign adversaries have started targeting vulnerabilities in AI systems. As AI implementation progresses, boards and audit committees should verify that there is a shared understanding of risks within the organization.

² "The State of Security 2024: The Race to Harness AI," Splunk.



- **The cybersecurity implications of AI use in the wider workforce accentuate a long-standing concern among CISOs and their teams about weak adherence to cybersecurity protocols.** According to a recent EY study, 64% of CISOs were not satisfied with the non-IT workforce's adoption of cybersecurity leading practices.

Organizations face heightened cyber risks with AI integration, requiring a multi-faceted approach to cybersecurity. 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. Given the dynamic cybersecurity landscape, audit committees should stay attuned to evolving oversight practices, disclosures, reporting structures and metrics and understand implications of how the company is staying in compliance with requirements.

Compliance and integrity considerations: highlights from the global and US editions of the EY Global Integrity Report 2024

Against a backdrop of rapid change, persistent macroeconomic and geopolitical uncertainty, as well as increased regulatory scrutiny, organizations are finding it increasingly difficult to maintain a culture of integrity and compliance. The *EY Global Integrity Report 2024* highlights a positive development with almost half (49%) of global respondents thinking that compliance with their organization's standards of integrity has improved in the last two years. Despite the rise in overall perception of integrity, companies struggle with significant incidents and violations. Twenty percent of companies acknowledge that they have had a significant integrity incident, such as a major fraud, data privacy or security breach, or a regulatory compliance violation in the last two years. Notably, of those who say their organization had a significant integrity incident, more than two-thirds note the incident involved a third party.

According to our most recent reports³, there are several key external and internal challenges at play that are creating headwinds on sustaining integrity, such as:

- **External risks:** Nearly half (49%) of global respondents are finding it difficult to adapt to the speed and volume of change in regulations and say economic pressures such as inflation, unemployment and

exchange rates make it harder to carry out business with integrity. Geographically, most cite China; Eastern Europe, including Russia; the US and Canada; and the Middle East and North Africa as posing the greatest integrity risks, including compliance and fraud risks, for doing business in the next two years.

- **Employee risks:** Continuing challenges around misconduct are making it difficult for organizations to drive higher standards of integrity across the business and among third parties and supply chains. More than one-third (38%) of global respondents say they'd be willing to behave unethically if asked by a manager. Nearly half (47%) of respondents say employees pose the greatest integrity risk to the organization over the next two years.
- **Operational risks:** While 40% cite privacy and security as their greatest operational integrity risks, 53% of global respondents say that employee turnover and employees not understanding policy are the greatest internal threats to organizational standards of integrity.

³ Adapted and sourced from: https://www.ey.com/en_us/insights/forensic-integrity-services/us-edition-2024-global-integrity-report and https://www.ey.com/en_gl/insights/forensic-integrity-services/global-integrity-report.

Key actions and considerations boards and audit committees can take to bolster integrity include:

- Inquire whether the organization has recently evaluated the nature of incidents and determined the largest issues, drivers and lessons learned behind major or repeated violations.
- When reviewing and discussing risk assessments, evaluate whether the impact of internal and external factors on business strategies, commercial activities and employee pressures has been considered. Understand not only which factors apply, but also how and why they link directly to compliance risks.
- Evaluate environmental, social, and governance (ESG) compliance issues and monitor regulatory developments and related obligations as part of a continuous ESG risk assessment. Assess whether there is adequate monitoring and testing of controls around ESG reporting, including whether sustainability disclosures are appropriately folded into the company's existing disclosure controls and procedures.
- Align compliance priorities with the organization's most critical risks and areas needing enhancement, while also improving detection methods in riskier business areas.
- Evaluate whether the company has strategically incorporated advancements in technology (such as AI) into the areas of compliance with the greatest forecast returns on investment to reduce efforts on existing compliance activities and free up limited resources.
- Digitize and modernize compliance programs. Our US survey finds that nearly one in three large corporations is using at least one AI-enabled technology within its compliance environment, most frequently in continuous program improvement, third-party due diligence and ongoing monitoring.
- Consider whether the company should create a cross-functional team responsible for guiding the use of emerging technologies; managing critical risks around privacy, security and transparency; and establishing guardrails aligned with responsible design principles and legal requirements. Compliance leaders should work closely with the risk management team to explore how AI technologies can uplift current compliance efforts and integrate with existing technology capabilities.
- Improve confidence in reporting by addressing the main factors behind employees' reluctance to report misconduct: corporate accountability and whistleblower safety. As it relates to investigations and whistleblower incidents:
 - Discuss whether specific privacy protocols and controls should be developed to offer greater confidentiality and anti-retaliation protections, and whether the company is strictly adhering to such standards throughout the report-handling process.
 - Confirm that those charged with investigating and resolving reports of misconduct are truly independent; in cases involving senior leadership, this may require formation of a special committee.
 - Follow up with whistleblowers to periodically inform them of the status and resolution of reported complaints.
 - Subject the whistleblower hotline to periodic audits by independent parties; such audits should include an evaluation of completeness and adequacy in addressing all reported incidents, compliance with confidentiality requirements, consistency of disciplinary actions and effectiveness of whistleblowing hotline controls. (Consider publishing summary findings from these audits internally to instill employee confidence in the reporting process.)



- Boost awareness, training and communication. Traditional ways of training and communicating integrity need to adapt to real-world demands. Periodic training may teach broad principles, but it is not enough to navigate the complexities faced in real-life scenarios. Moreover, employees may encounter barriers to finding the guidance they need; they may feel uncomfortable contacting a manager with questions or overwhelmed by the volume of policies and regulations to search through for answers.
- Accordingly, leading organizations are leveraging just-in-time and consumer-targeted training. Employees receive online instruction tailored to their job profiles when they need it. Some companies are also considering a generative pre-trained transformer (GPT)-powered compliance chatbot on demand to answer questions about specific compliance scenarios or company policies and procedures, creating a real-time helpline for inquiries.

Lastly, the U.S. Department of Justice (DOJ) updated its Evaluation of Corporate Compliance Programs (ECCP) guidance in September 2024. The ECCP can serve as a guide in evaluating whether the company's compliance programs are effective and would hold up under the DOJ's scrutiny. Among other updates, the ECCP has significant revisions in three areas: (1) evaluation and

management or risk related to new technologies, such as AI; (2) additional emphasis on the role of data analysis; and (3) whistleblower protection and anti-retaliation. This updated guidance may signal potential changes in the corporate enforcement landscape. Accordingly, boards and audit committees should understand the implications of these updates, including revisiting the organization's compliance program to verify whether it is designed and functioning effectively. Additionally, boards should understand how a culture of integrity and ethics is being fostered within the organization.



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 the continued global economic uncertainty, the climate and other ESG factors, and evolving geopolitical developments.

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

The FASB's new requirement for public business entities to disaggregate certain income statement expenses

The Financial Accounting Standards Board (FASB) issued final guidance requiring public business entities to provide, in the notes to the financial statements, disaggregated disclosures of certain categories of expenses that are included in expense line items on the face of the income statement. The disclosures will be required on an annual and an interim basis.

The FASB issued the guidance in response to investors' requests for more detailed expense information, which they said is critical to understanding an entity's performance, assessing its prospects for future cash flows, and comparing its performance both over time and with that of other entities.

Public business entities are required to apply the guidance prospectively and may apply it retrospectively. The guidance is effective for fiscal years beginning after 15 December 2026 and interim periods within fiscal years beginning after 15 December 2027. Early adoption is permitted. Audit committees should inquire with management teams whether existing systems can capture the data required and/or whether additional processes and controls are necessary to implement this new guidance.

Compliance with EU's Corporate Sustainability Reporting Directive

US companies with operations in the EU should continue to consider their obligations under the EU Corporate Sustainability Reporting Directive (CSRD) and EU Corporate Due Diligence Directive (CS3D). The CSRD will require climate-related and other ESG disclosures and the CSRD will require companies to identify and address potential and actual adverse human rights and environmental impacts within the business, its subsidiaries and its supply chain operations carried out by business partners. Meeting these new regulatory requirements will most likely involve extensive planning, resource allocation, robust data management systems and new/revised processes.

With the CSRD going into effect 1 January 2025 for most EU subsidiaries of US multinationals, affected entities should have already started preparing for implementation, including performing a double materiality⁴ assessment to identify which disclosures and metrics are in scope.

The CSRD may require some companies to start reporting in 2025 on 2024 information. Accordingly, audit committees should understand how management teams are planning to comply, including whether adequate processes, controls and technologies are in place to provide quality reporting. Audit committees should also understand the outcome of management's materiality assessment.

Lastly, audit committees should consider how their skills, responsibilities and oversight activities may need to evolve related to sustainability reporting, including updating the audit committee charter to reflect these changes.

⁴ The European Sustainability Reporting Standards (ESRS) use the concept of "double materiality," which means a disclosure is required if it is material from an impact or financial perspective. A sustainability matter is material from an impact perspective if it pertains to the entity's actual or potential positive or negative material impacts on people or the environment. It is material from a financial perspective if it triggers or may trigger material financial effects on the entity, including its cash flows, development, performance, position, and cost of capital or access to financing.

Update on California climate laws that apply to public and private entities

California recently enacted several amendments to its climate disclosure laws granting the California Air Resources Board (CARB) more time and discretion to adopt implementing regulations. The amendments don't delay the reporting deadline; therefore, public and private entities that do business in the state and meet certain annual revenue thresholds⁵ are still required to provide initial disclosures in 2026. The laws are currently being challenged in court, but they have not been stayed.

For affected entities, audit committees should inquire as to management's plans to comply with these new laws and disclosure requirements, including impacts arising from possible changes to new processes, systems and controls.

Trends in 2024 SEC staff comment letters

The SEC staff in comment letters issued to registrants about their disclosures in periodic SEC filings in the twelve months ending on June 30, 2024 continued to focus on many of the topics we highlighted last year. Consistent with prior years, management's discussion and analysis (MD&A) and non-GAAP measures continued to draw the most scrutiny from the SEC staff. The following chart summarizes the most frequent comment areas in periodic SEC filings in the year ended 30 June 2024:

2024			
Comment area	Ranking 12 months ended June 30*	Comment area received as a percentage of registrants receiving comment letters	Average letters per registrant***
MD&A**	1	34%	1.2
Non-GAAP financial measures	2	32%	1.3
Segment reporting	3	15%	1.3
Revenue recognition	4	13%	1.2
Goodwill and intangible assets	5	7%	1.2
Business combinations	6	6%	1.1

* These rankings are based on topics assigned by research firm Audit Analytics (AA) for SEC comment letters issued to registrants with a market capitalization of \$75 million or more on Forms 10-K and 10-Q from 1 July 2023 through 30 June 2024, excluding comment letters issued to special purpose acquisition companies (SPACs) and other blank-check entities. In some cases, individual SEC staff comments are assigned to multiple topics.

** For the year ended 30 June 2024, this category includes comments on MD&A topics in order of frequency: (1) results of operations (56%), (2) liquidity matters (30%) and (3) various other matters, including key performance indicators and critical accounting estimates (14%). Many registrants received MD&A comments on more than one MD&A topic.

*** This represents the average number of comment letters (or rounds of comments) the SEC staff issued for each topic to resolve its concerns.

⁵ Companies with more than \$1 billion in annual revenues will be required to disclose Scope 1, 2 and 3 greenhouse gas (GHG) emissions. Those with more than \$500 million in annual revenues will be required to biennially provide disclosures (1) in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures, which includes Scope 1 and 2 emissions without assurance, and (2) on the measures they adopted to reduce and adapt to identified climate-related risks.

The volume of staff comment letters issued on periodic reports remained consistent with last year, when it was significantly higher compared with each of the previous four years. The average number of comment letters (or rounds of comments) the SEC staff issued for each topic to resolve its concerns also was consistent with last year but remained elevated compared to historical levels.

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 on the topics mentioned above. The SEC staff may also expand its comments to other financial reporting topics, including disclosures made in response to recently issued SEC rules and financial accounting standards. These areas could include cybersecurity, clawbacks, segment reporting and disclosures on supplier finance programs. In addition, the SEC staff may also focus on areas of emerging risk, such as artificial intelligence.

With the SEC staff continuing to issue a significant number of comment letters, it's important that registrants understand the process and effectively respond to the comments. Audit committees should continue to understand SEC comment letter trends to be better informed and identify disclosure improvements for the management team to consider.



Restatement trends

Financial statement restatements and remediations carry significant implications, with potential SEC enforcement actions and civil litigation at stake. Audit Analytics (AA) monitors specialized accounting and reporting data, including restatements. Leveraging that data, we've highlighted and extracted some of the notable trends and issues around financial restatements:

- There appears to be a marginal decline in the total number of restatements, with a decrease of approximately 6% from 2022 to 2023.
- In a notable shift, the number of reissuance⁶ restatements in 2023 dropped to a historic low, accounting for fewer than 200 of the approximately 400 total restatements. This nearly even split between restatements and revisions represents one of the highest ratios observed in recent years.
- Consistency in the underlying issues leading to restatements is evident, with seven of the top 10 most common issues cited since 2004 persisting into 2023. This suggests that companies continue to face challenges in certain technical areas that have historically been problematic.
- Debt and equity classification challenges remain the foremost cause of restatements, accounting for 21% in 2023, with issues often arising from convertible debentures, warrants and redeemable stock. Revenue recognition follows at 16%. Together they continue their two-decade trend as leading restatement factors.

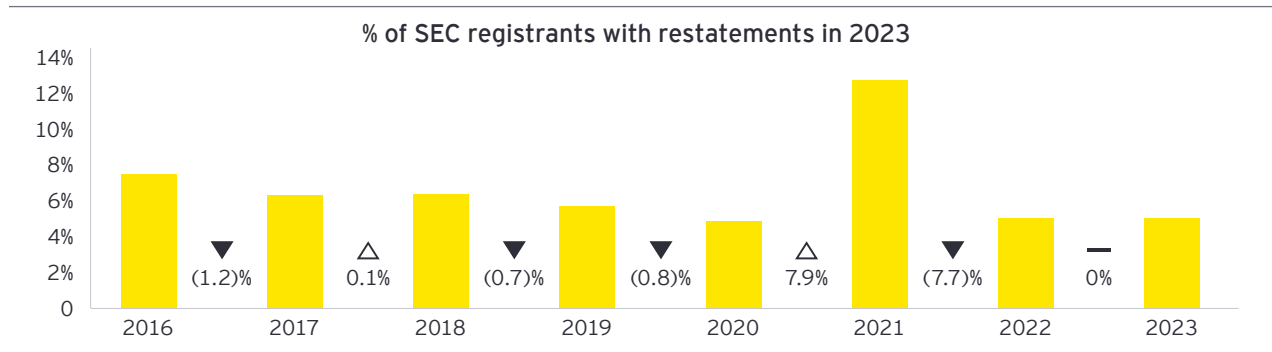
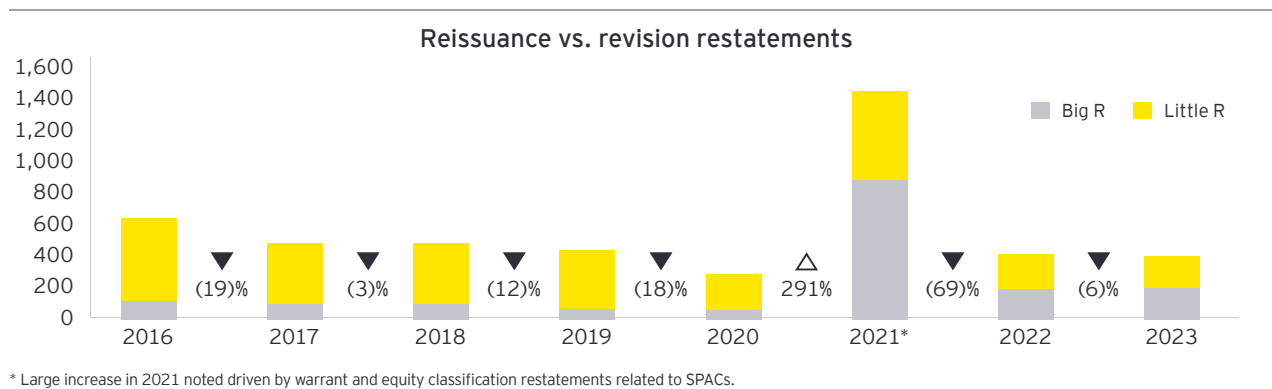
Restatement causes by issue 2023



⁶ Reissuance restatements (big-R) are material errors announced in a Form 8-K item 4.02, followed by reissued financial statements with corrections. Revision restatements (little r) are immaterial errors for the period they occurred but would be material if recorded currently; they are corrected in the current financial report footnotes.

- Excluding the surge in SPAC restatements in 2021 and the corresponding decrease in 2022, reissuances and revisions have declined by an average of 12% annually over the past eight years. In 2023, there was a slight 6% decrease in restatement volume.
- In 2023, the percentage of SEC filers issuing restatements held steady relative to 2022. Despite a slight reduction in restatements, from 458 in 2022 to 430 in 2023, and fewer unique companies restating, down from 424 to 401, the proportion remained unchanged, reflecting a concurrent decrease in total registrants from 8,250 to 7,825.

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.



Tax and other policy-related developments

National, global and local policy changes can significantly affect companies' business agendas and priorities, and 2025 is expected to be a year in which US tax policy and legislative efforts will shift into high gear. Against a backdrop of a new Republican-controlled federal government, one of the top priorities will be tax legislation to address the "tax cliff" approaching at the end of 2025, when many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) are scheduled to change or expire.

Legislation could move quickly, and businesses are already thinking ahead to what the potential tax changes might mean for them. In this evolving policy environment, boards and audit committees will need to be especially attentive to tax policy activities in Washington DC, state governments and around the globe.

US federal tax policy outlook

Given the broad scope of tax changes enacted in the TCJA, the 2025 tax debate is likely to be expansive, affecting corporate, international and individual taxes. Allowing the TCJA provisions to expire or change would result in a nearly \$3.5t tax increase to individuals and corporations, and it is widely expected that Congress will try to prevent such a large tax increase.

Republicans have indicated they want to extend most or all of the TCJA expiring provisions, which the Congressional Budget Office has [estimated](#) would cost at least \$4.6t. Due to federal debt and deficit concerns, there are likely to be debates among policymakers over whether to offset at least some of the cost of extending these provisions, and if so, how.

With Republicans gaining control of the White House and both chambers of Congress, tax changes could be on a fast track. That said, single-party control in Congress does not necessarily make legislating these complex tax issues easy. There is not unanimity within the party on how to handle potential tax increases, international tax changes, and the future of the Inflation Reduction Act's renewable energy tax credits, all of which could be pulled into a debate over revenue sources. In addition to revenue offsets, spending cuts and tariffs have been repeatedly mentioned as ways to offset the cost of extending the TCJA. With so many variables at play, trade-offs will need to be made for tax legislation to be enacted.

State tax policy outlook

The evolving federal political landscape can significantly influence state budgetary conditions and tax policy decisions. Following the election, Republicans in 23 states have a "trifecta," meaning they control the governorship and both legislative chambers, while Democrats have trifectas in 15 states. Over half of the states have reported revenue declines for fiscal year 2024, with several experiencing revenue shortfalls. In 2025, federal fund transfers to the states are expected to continue decreasing – just as state revenues reflect the final years of expiring TCJA policies.

In 2025 every state is required to pass a budget that generally must balance revenue and spending. Given that state budgets are impacted by federal funding decisions and are perennially adjusted for conformity to changing federal tax law, election outcomes are expected to shape state tax policies in the year ahead.

Global tax – conform or go it alone?

Globally, the tax landscape continues to evolve as some countries, following the 2021 OECD/G20 Inclusive Framework Pillar Two agreement, enact 15% global minimum tax rules through their domestic tax laws. It remains to be seen whether and how the new administration will engage on the Pillar Two minimum tax.

These global minimum tax developments, as well as several scheduled significant US international tax changes that could raise taxes on many US multinational companies, may factor into next year's negotiations over tax legislation.

Trade

US trade policy is another area to watch in 2025. Against a backdrop of continuing geopolitical challenges, the renegotiation of trade agreements and new US tariffs could have wide-ranging implications for US relationships with trading partners, multinational businesses and the global economy.

Based on historical precedent, it is likely that incoming President Trump will have significant authority to implement trade and tariff policy priorities swiftly. The last Trump administration imposed tariffs on goods from foreign rivals and on steel and aluminum imports, some of which were kept in place by the Biden administration, which also placed tariffs on specific goods such as semiconductors and electric vehicles imported from trade rivals.

Alternatively, congressional leaders have discussed the viability of enacting tariffs legislatively, so that revenue from the tariffs could officially be used to offset the cost of extending the TCJA.

Trump has promised tariffs of 10% to 20% on imported goods, 25% on products seen as contributing to unauthorized immigration, 60% on products from certain foreign rivals, and 100% or 200% on certain foreign-made automobiles. He has also said he would levy 25% tariffs on products from Mexico and Canada on his first day in office, as well as an additional 10% tariff on top of other tariffs on imports from China (although he did not specify how soon that would be). This has caused many companies to start thinking now about the potential impact of these kinds of tariffs on their supply and value chains.

Tax compliance and controversy

Whatever happens from a tax policy perspective in 2025, companies will continue to face an increasingly challenging tax compliance environment. Resource-constrained companies are facing more complex and interdependent tax return processes, ongoing legislative and regulatory change including tax accounting complexities that coincide with the onset of Pillar Two reporting requirements.

These trends mean consistency and mapping of tax and financial statement data will be critical, and companies should be focusing on ways to further integrate and reuse data throughout the tax lifecycle. At the same time, new tax technology tools are becoming more widely available that can help with these demands; GenAI is becoming more prevalent in the tax realm as a tool for mapping data, creating efficiencies and freeing up humans to focus on high-value and strategic activities.

The IRS is continuing its enforcement focus on complex partnerships, large corporations and high-net-worth individuals, through increased hiring and pursuit of more cohesive strategies for conducting audits in these areas. While the number of large corporate audits has remained steady, it could increase in fiscal 2026 and beyond as recent IRS initiatives get underway, although it remains to be seen what impact the Republican administration and Congress may have on the IRS budget and these initiatives. If the annual appropriation is cut or the supplemental IRA funding is clawed back, the IRS will have to reduce or pause its initiatives.



Regulatory developments

Market participants should expect regulatory changes in 2025 as part of the change in administration. President-elect Trump has nominated a new SEC chair, who in turn will bring a shift in the agency's priorities. Among other responsibilities, the SEC oversees the Public Company Accounting Oversight Board (PCAOB) and has the authority to appoint its Board members. Thus, a change in the SEC chair can impact the PCAOB and its agenda in turn. In addition, several landmark Supreme Court decisions in 2024 are expected to further impact the SEC's approach to rulemaking and enforcement, and the plan of the incoming administration involving government efficiency could have a ripple effect on the work of all agencies including the SEC.

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

Role of the courts

Recent Supreme Court rulings limit the authority of federal agencies in certain areas and are expected to impact the SEC rulemaking and enforcement processes.

- The [Loper Bright Enterprises v. Raimondo](#) decision requires courts to exercise independent judgment in deciding if a federal regulatory agency has acted within its statutory authority, rather than deferring to the agency's interpretations of ambiguous statutes.
- There also are significant open questions regarding the SEC's ability to use its in-house administrative forum following the Supreme Court's decision in [SEC v. Jarkesy](#).

While it is still early to gauge the full impact of these decisions, the Loper decision is expected to alter the regulatory environment. For example, regulators likely will provide more detailed justifications of their statutory authority when writing regulations. This decision might also lead to more court challenges of both new and existing regulations. While some observers have suggested the ruling could limit agency overreach and lead to the elimination of burdensome rules, others have warned of the uncertainty that could arise if settled industry-specific principles and rules are overturned. Regulators may also rely more heavily on other existing tools to carry out their mandates, including enforcement.

Climate-related disclosures

The court cases over SEC and California climate reporting requirements remain pending, meaning ongoing uncertainty about whether they will be overturned. The courts handling the cases are not expected to make decisions until sometime in 2025. If not vacated by the court, the next SEC chair is expected to attempt to roll back the SEC's requirements.

SEC enforcement

Looking ahead to 2025, a new SEC chair will likely bring a different focus to the SEC's enforcement program, although the program is expected to remain robust. Some activities will carry over; for example, securities fraud and insider trading are expected to remain a priority.

The next SEC chair is expected to have a different approach to crypto assets than current Chair Gary Gensler. The SEC has confronted the crypto industry head-on for the past several years through its enforcement activities, charging dozens of crypto industry participants for operating as unregistered broker-dealers and failing to register digital tokens as securities. Trump has said that he will foster an environment that is friendlier to crypto assets. He also committed to appointing a bitcoin and crypto presidential advisory council tasked with designing regulatory guidance and pledged to create a stablecoin framework.

PCAOB activity

PCAOB standard setting: The PCAOB has adopted five standards that will become effective over the next two years and will impact the audit process. The standards relate to [quality control systems](#), [general responsibilities of the auditor](#), [technology](#), [other auditors](#) and [confirmation](#). Rules to require expanded [audit firm- and engagement-level reporting](#) also were finalized by the PCAOB in November and would mostly take effect starting in 2027, if approved by the SEC. Audit committees may wish to ask about firm implementation plans, challenges and the near- and long-term impacts on audit quality.

Additionally, the PCAOB's current [standard-setting and rulemaking agenda](#) includes plans to finalize several standard-setting projects in 2025.

Helpful publications: 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. Recent reports share insights on:



1. [Sound auditor independence practices](#), including technology-based tools, personal independence representations and establishment of disciplinary actions.



2. [Improving inspection results](#) by sharing good practices with auditors and audit committees for audits of companies with crypto asset activity, significant or unusual events and multi-location audits.

Questions for audit committees to consider

Risk management:

- What financial and nonfinancial metrics are driving management's investment decision-making? How confident is the board that those decisions are fully informed, unbiased and anchored on the right key performance indicators (KPIs)?
- How do we determine what scenarios to plan for, and how are these incorporated into boardroom discussions or exercises? How do we balance short- and longer-term scenarios? How do the scenarios help us better understand which trade-offs the company should make – more resilient but more expensive supply chains, for example?
- How does management evaluate resiliency? How do we know we are resilient? What does management need to change if we are not?
- How will board discussions about cybersecurity, data privacy, and innovation and emerging technologies change over the next year?
- What are the largest near- and longer-term risks associated with emerging technologies? What new critical single points of failure exist in the cybersecurity and technology infrastructure and supply chain? How can these be mitigated?

- What is our process to keep track of potential regulatory and policy changes and prepare for them? What is the process by which key regulatory and policy changes are identified and elevated to the board?
- Is management confident in the effectiveness of its whistleblowing process that known or suspected issues in financial reporting would be appropriately reported and addressed? How does management evaluate the effectiveness of its whistleblowing process? How do whistleblowing KPIs compare to published benchmarks and trends?



Financial and sustainability reporting:

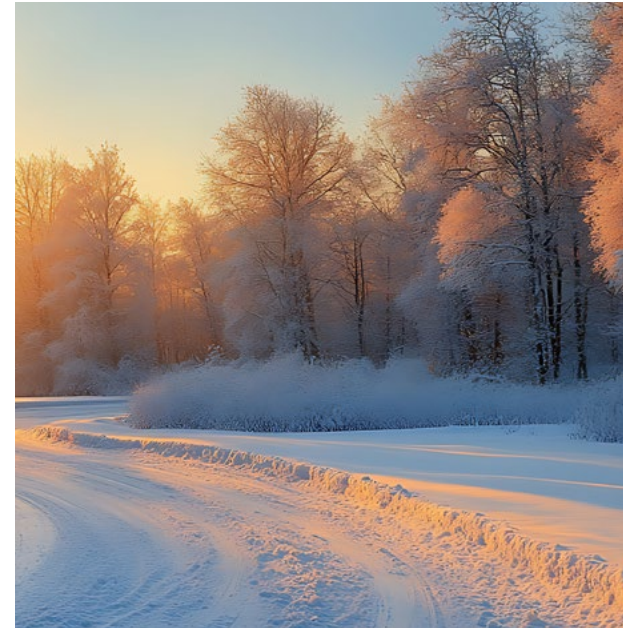
- Has management considered which financial reporting items and disclosures may pose heightened restatement risk, such as through the company's regular risk assessment activities?
- How will the organization adapt its financial reporting processes to meet the new requirements for disaggregated disclosures 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?
- What process and/or framework does the company have in place to coordinate sustainability reporting across different geographies and business units to ensure a holistic view?
- If ESG-related matters are being discussed in more than one place (e.g., SEC filings, earnings releases, analyst communications, annual report and shareholder letter, sustainability report), is there consistency in the disclosures? Has the company evaluated controls related to such disclosures?

Tax and other policy-related developments:

- How does management include the tax department in the organization's broader strategic and business discussions?
- What plans does management have in place to monitor potential federal and state tax legislation and model out areas that might impact the organization's specific situation?
- Does the organization plan to engage with policymakers on tax legislative issues of interest, and if so, does the audit committee have any input into the plan?
- Is management prepared for potential trade policy changes and increased supply chain risks?
- Has management explored integrating AI resources into the tax function to address any emerging data needs or resource constraints?

Regulatory developments

- What process does the committee have in place for assessing 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 organization proactively assessing opportunities to enhance stakeholder communications, including corporate reporting, to address changes in operations and strategies as well as changing stakeholder expectations?
- In light of the changing environment, what additional voluntary proxy disclosures might be useful to shareholders related to the audit committee's time spent on certain activities, such as data privacy, business continuity, corporate culture and financial statement reporting developments?



EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

About the EY Center for Board Matters

Effective corporate governance is an important element in building a better working world. The EY Center for Board Matters supports boards, committees and directors in their oversight role by providing content, insights and education to help them address complex boardroom issues. Using our professional competencies, relationships and proprietary corporate governance database, we are able to identify trends and emerging governance issues. This allows us to deliver timely and balanced insights, data-rich content, and practical tools and analysis for directors, institutional investors and other governance stakeholders.

© 2024 Ernst & Young LLP.
All Rights Reserved.

US SCORE no. 25534-241US
CS no. 2410-11980

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com/us/boardmatters

Looking for more?

Access additional information and thought leadership from the EY Center for Board Matters at ey.com/us/boardmatters.

