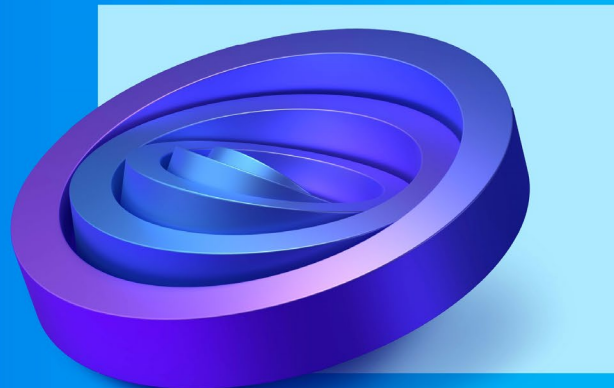




# On the 2025 audit committee agenda

KPMG Middle East Board Leadership Centre

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Audit committees can expect their company's financial reporting, compliance, risk, and internal control environment to continue to be put to the test in 2025 by an array of challenges that have grown and intensified over the past year. From the general global economic volatility and uncertainty, specifically from the change in tariffs as announced by the United States, resulting in elevated trade and geopolitical tensions, and the wars in Ukraine and the Middle East, to cyberattacks, global climate and the upcoming sustainability reporting requirements, and advances in artificial intelligence (AI). These issues, and others, will continue to put the audit committee's skill sets and agenda to the test. Does the audit committee have the leadership, composition, and agenda time to carry out its core oversight responsibilities—financial reporting and internal controls—along with the growing range and complexity of other risks? Drawing on insights from our survey of lead audit partners in the region, work and interactions with audit committees and business leaders, we highlight nine issues to keep in mind as audit committees consider and carry out their 2025 agendas.



## **First and foremost: stay focused on financial reporting and related internal control risks**

Focusing on the financial reporting, accounting, and disclosure obligations posed by the current geopolitical, macroeconomic, and risk landscape will be a top priority and major undertaking for audit committees in 2025. Key areas of focus should include:

### **Forecasting and disclosures**

Among the matters requiring the audit committee's attention are disclosures regarding the impact of the wars and conflicts, government sanctions, supply chain disruptions, heightened cybersecurity risk, inflation, interest rates, and market volatility; preparation of forward-looking cash-flow estimates; impairment of nonfinancial assets, including goodwill and other intangible assets; impact of events and trends on liquidity; accounting for financial assets (fair value); and going concern.

With companies making more tough calls in the current environment, regulators are emphasizing the importance of well-reasoned judgments and transparency, including contemporaneous documentation to demonstrate that the company applied a rigorous process.

Given the fluid nature of the long-term environment, disclosure of changes in judgments, estimates, and controls may be required more frequently—and audit committees should be questioning whether disclosure of these things along with cashflow generation is balanced and understandable.

### **Climate and other ESG related matters**

Globally regulators, investors and other bodies are increasingly expecting companies to consider climate risks when preparing their financial statements. Whilst the regulators in the region have not yet prescribed a date for implementation of the IFRS S1 and S2, it is expected to be a matter of time when the implementation date will be announced. Companies need to make materiality judgements when deciding what information about climate and other ESG-related risks to disclose in the financial statements.

Also, it is important, particularly for companies operating in sectors that are more significantly affected by climate risks, to consider the effect on the business model, strategy and financial performance along with the adequacy of related disclosures made both inside and outside their financial statements.

It is essential to build strong processes and effective internal controls from now. There is rapid change around ESG, which could make establishing proper reporting environment challenging. ESG reporting outside of the financial statements is still largely in an evolving phase of identifying and applying the emerging standards and regulations. As such, many companies' policies and processes for ESG reporting have not yet been fully developed. To prepare for mandatory ESG reporting, this control environment should be an area for audit committee focus.



#### **Clarify the role of the audit committee in the oversight of GenAI, cybersecurity, and data governance**

The explosive growth in the use of Gen AI has emphasized the importance of data quality, having a responsible use AI policy, complying with evolving privacy and AI laws and regulations, and rigorously assessing data governance practices.

As a result, many boards are probing whether the company's data governance framework and interrelated AI, Gen AI, and cybersecurity governance frameworks are keeping pace. In assessing the audit committee's oversight responsibilities in these areas, we recommend the following areas of focus.

#### **Assessing audit committee oversight responsibilities for Gen AI**

As we discuss in On the 2025 board agenda, for most companies, oversight currently is largely at the full board level—where boards are seeking to understand the company's strategy to develop business value from Gen AI, and monitor management's governance structure for the deployment and use of the technology. However, many audit committees may already be involved in overseeing specific Gen AI issues, and it is important to clarify the scope of the audit committee's responsibilities. Gen AI-related issues for which the audit committees may have oversight responsibilities include:

- Oversight of compliance with evolving AI and privacy laws and regulations globally.
- Use of Gen AI in the preparation and audit of financial statements and other regulatory filings.
- Use of Gen AI by internal audit and the finance team, and whether those functions have the necessary talent and skill sets.
- Development and maintenance of controls and procedures related to AI and Gen AI disclosures.

#### **Assessing audit committee oversight responsibilities for cybersecurity and data governance**

For many companies, much of the board's oversight responsibility for cybersecurity and data governance has resided with the audit committee. With the explosive growth in Gen AI and the significant risks posed by the technology, many boards are rigorously assessing their data governance and cybersecurity frameworks and processes.

Given the audit committee's heavy agenda, it may be helpful to have another board committee do the heavy lifting on cybersecurity and data governance. In On the 2025 board agenda, we discuss in more detail how boards are probing to determine whether the company's data governance and cybersecurity governance frameworks and processes are keeping pace with the growth and sophistication of data-related risks.

Wherever oversight resides, it is critical that boards understand the opportunities and risks posed by the technology, including how Gen AI is being used by the company, how it is generating business value, and how the company is managing and mitigating its risks. This may require education or even bringing new skills into the boardroom.



#### **Monitor management's preparations for new climate reporting frameworks/standards and oversee the quality and reliability of the underlying data and reported metrics**

Management must formulate careful plans to meet compliance deadlines, considering materiality and double materiality, disclosure controls and procedures, and internal controls. It is vital that audit committees are equipped to challenge management appropriately and resist any inclination to focus only on the "good news" stories.

Of specific focus is the UAE's sustainability reporting requirements on how its activities and value chain affect the environment and people, and how sustainability-related matters affect its cash flows, financial position and financial performance. Such reporting requirements have a consequential impact on the scope, volume and granularity of sustainability-related information to be collected and verified.

A key question is whether management has the necessary talent, resources, and expertise—internal and external—to gather, organize, calculate, assure, and report the necessary data, and to develop the necessary internal controls and procedures to support the both the regulatory and voluntary climate disclosures. For many companies, this will require a cross-functional management team from legal, finance, sustainability, risk, operations, IT, HR, and internal audit.

Identifying and recruiting climate and GHG emissions expertise for a climate team—which may be in short supply—and implementing new systems to automate the data-gathering will be essential. Audit committees should also focus on management’s climate readiness, including compliance plans, materiality assessments, disclosure controls and internal procedures. They must be equipped to challenge management objectively and avoid focusing solely on positive developments.

Preparation will be a complex and expensive undertaking involving difficult interpretational issues, and may take months, or perhaps years, for some companies. Disclosure will be an iterative process (apart from any phase-in). Companies should closely monitor legal and regulatory developments, and consider the disclosures of their peers and others in their industry.

The UAE’s regulations further emphasize the need to:

- Develop structures for consistent, comparable, and verifiable sustainability and climate reporting, maintaining a level of quality similar to financial disclosures.
- Evaluate the adequacy of internal controls related to sustainability reporting and risk management.
- Consider the need for third-party audits or verification of sustainability data to enhance credibility and investor confidence.
- Deliver the granular sustainability information needed to meet the qualitative characteristics of useful information.
- Ensuring compliance with the evolving sustainability standards, the Audit Committee enhances transparency, mitigates sustainability and climate related risks, and meets investor, regulator and wider stakeholder expectations.
- Deliver the granular sustainability information needed to meet the qualitative characteristics of useful information.



### Understand how technology, ESG reporting and other drivers are affecting the finance team’s talent, efficiency, and value-add

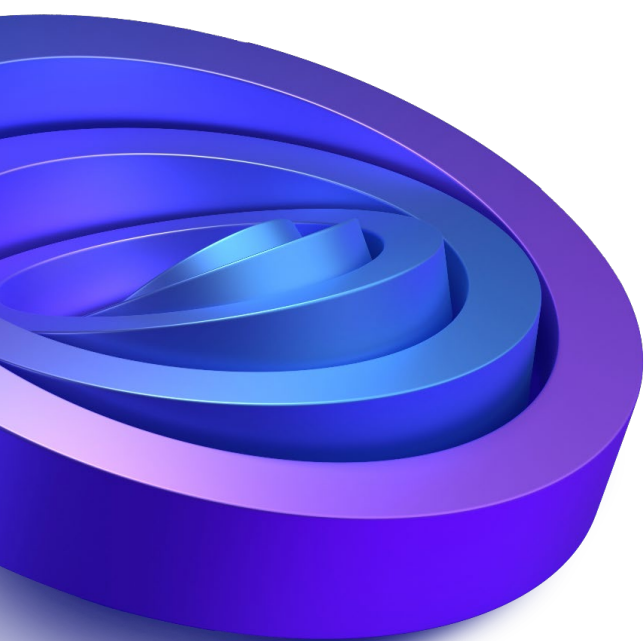
Finance teams face a challenging environment; they must address talent shortages while managing digital strategies and transformations and developing robust systems and procedures to collect and maintain high-quality climate and sustainability data both to meet investor and other stakeholder demands and in preparation for new disclosure requirements. At the same time, many are contending with difficulties in forecasting and planning for an uncertain environment. As audit committees monitor and help guide finance’s progress, we suggest two areas of focus:

- Gen AI goes a long way toward solving one of the biggest pain points in finance: manual processes. Labor-intensive systems increase the risk of human errors, consume valuable resources, and limit real-time insights. At the same time, given the broad role for finance in strategy and risk management, finance professionals are uniquely positioned to spearhead Gen AI. But they first need to determine the potential value of Gen AI across their enterprise through the lens of workforce capacity and productivity. Gen AI and the acceleration of digital strategies and transformations presents important opportunities for finance to add greater value to the business.
- Many finance departments have been assembling or expanding management teams or committees charged with managing a range of climate and other sustainability activities, and preparing for related disclosure rules—e.g. identifying and recruiting climate and sustainability talent and expertise, developing internal controls and disclosure controls and procedures, and putting in place technology, processes, and systems.

It is essential that the audit committee devote adequate time to understanding finance’s Gen AI and digital transformation strategy and climate/sustainability strategy, and help ensure that finance is attracting, developing, and retaining the leadership, talent, skill sets, and bench strength to execute those strategies, as well as its existing responsibilities. Staffing deficiencies in the finance department may pose the risk of a significant internal control breakdowns.

Similarly, be alert to the risks associated with over-reliance on technology too quickly by a few key people who “get it” without the wider business clearly understanding what it’s doing and how that fits into end-to-end processes.

Against this background, audit committees should be mindful that CFO (and senior finance staff) succession is getting more difficult as individuals with the full breath of skills required are in short supply.





## Help sharpen the company's focus on ethics, compliance, and culture

The reputational costs of an ethics or compliance failure are higher than ever, particularly given increased fraud risk, pressures on management to meet financial targets, and increased vulnerability to cyberattacks.

Fundamental to an effective compliance program is the right tone at the top and culture throughout the organization, including commitment to its stated values, ethics, and legal and regulatory compliance. This is particularly true in a complex business environment, as companies move quickly to innovate and capitalize on opportunities in new markets, leverage new technologies and data, engage with more vendors and third parties across complex supply chains. We suggest the audit committees to consider the following:

- Closely monitor the tone at the top and culture throughout the organization with a sharp focus on behaviors (not just results) and yellow flags.
- Is senior management sensitive to ongoing pressures on employees (both in the office and at home), employee health and safety, productivity, and employee engagement and morale?
- Leadership, communication, understanding, and compassion are essential. Does the company's culture make it safe for people to do the right thing?
- It is helpful for directors to spend time in the field meeting employees to get a better feel for the culture.
- Help ensure that the company's regulatory compliance and monitoring programs are up to date, cover all vendors in the global supply chain, and communicate the company's expectations for high ethical standards.

The audit committee should work to create the appropriate balance between strong relationships and robust oversight.

A committee that fails to understand the line between oversight and management can easily find itself in a poor relationship with executive management; and effective oversight is difficult to achieve where management sees the audit committee as nothing more than a necessary corporate governance burden. Equally, an overly cozy relationship is unlikely to lead to effective oversight as challenging questions are all too easily avoided in such circumstances.

Create a safe space to ensure people can speak up when things aren't going right because things do go wrong and it needs to be about how you are transparent about that and how you recover from it. Where organizations have huge change agendas on the go, how does the audit committee ensure they are getting sufficient visibility and that the right people are being held to account for delivering such change safely and effectively?

Also, focus on the effectiveness of the company's whistleblower reporting channels (including whether complaints are being submitted) and investigation processes.

Does the audit committee see all whistle-blower complaints? If not, what is the process to filter complaints that are ultimately reported to the audit committee? With the radical transparency enabled by social media, the company's culture and values, commitment to integrity and legal compliance, and its brand reputation are on full display.



## Make sure internal audit is focused on the company's critical risks—beyond financial reporting and compliance—and is a valuable resource for the audit committee

At a time when audit committees are wrestling with heavy agendas and issues like Gen AI, ESG, supply chain disruptions, cybersecurity and data governance, and global compliance are putting risk management to the test, internal audit should be a valuable resource for the audit committee and a crucial voice on risk and control matters. This means focusing not just on financial reporting and compliance risks, but on critical operational, Gen AI and other technology risks and related controls, as well as ESG risks.

Controls and procedures should be a key area of internal audit focus. Clarify internal audit's role in connection with ESG risks and enterprise risk management more generally—which is not to manage risk, but to provide added assurance regarding the adequacy of risk management processes. Does the finance organization have the talent it needs? Do management teams have the necessary resources and skill sets to execute new climate and other ESG initiatives? Recognize that internal audit is not immune to talent pressures.

Given the evolving geopolitical, macroeconomic, and risk landscape, reassess whether the internal audit plan is risk-based and flexible enough to adjust to changing business and risk conditions. Going forward, the audit committee should work with the head of internal audit and chief risk officer to help identify the risks that pose the greatest threat to the company's reputation, strategy, and operations, and to help ensure that internal audit is focused on these key risks and related controls.

These may include industry-specific, mission-critical, and regulatory risks, economic and geopolitical risks, the impact of climate change on the business, cybersecurity and data privacy, risks posed by Gen AI and digital technologies, talent management and retention, hybrid work and organizational culture, supply chain and third-party risks, and the adequacy of business continuity and crisis management plans.

Internal audit's broadening mandate will likely require upskilling the function. Set clear expectations and help ensure that internal audit has the talent, resources, skills, and expertise to succeed—and help the chief audit executive think through the impact of digital technologies on internal audit.



## Stay apprised of tax legislative developments

Tax is high on the agenda whether it is the increasing complexities in global tax policies—including the tax rules proposed by the OECD’s Base Erosion and Profit Shifting (BEPS) initiative—or national governments introducing new taxes, such as those related to funding a green transition. The UAE has already introduced a Federal Corporate tax regime and a Domestic Top up tax. E-invoicing is also planned to be introduced from 2026.

With the constantly evolving tax landscape in the UAE, businesses need to adapt and understand what the potential tax changes might mean for them. In addition, the ongoing attention to ESG has brought with it increased focus on tax governance.

Companies are expected to face an increasingly challenging tax compliance environment. Resource constrained companies are facing more complex and interdependent tax return processes and tax accounting complexities that coincide with the onset of UAE corporate tax and Pillar Two reporting requirements. With businesses keen to manage costs, audit committees should be mindful of the risks associated with cutting costs too dramatically and dampening hiring in key areas of the finance and tax functions.

Tax strategy is generally a matter for the whole board, but given both the risk management and financial reporting consequences of taxation, there is a natural role for the audit committee—a role that is set to become more onerous given expectations that, in the coming years, tax audits will become more intense, information requests from authorities more thorough, and disclosure requirements more detailed.

Consequently, audit committees will want to closely monitor managements preparations for any changes. Some of the aspects for audit committees to consider include:

- 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 tax legislation changes and identify areas that might impact the organization?
- Has management explored integrating AI resources into the tax function to address any emerging data needs or resource constraints?



## Stay abreast of ongoing audit and corporate governance reforms

In compliance with the UAE Corporate Governance Code, the boards of applicable companies must, among other requirements, declare the effectiveness of their material controls as of the balance sheet date.

The code provides guidelines on the composition and role of boards, shareholder rights and financial disclosures. Companies are expected to comply with these regulations, which include:

- **Board composition:** Companies must have a balance of independent and non-independent directors, with a majority being independent.
- **Audit committee:** Companies are required to establish an independent audit Committee responsible for overseeing financial reporting and internal controls.
- **Companies must have various board committees** such as nomination, remuneration and risk management committees.
- **Board responsibility:** The board must act in the best interest of shareholders, ensure compliance with relevant laws and oversee the company’s strategic direction.



## Take a fresh look at the audit committee’s composition and skill sets

The continued expansion of the audit committee’s oversight responsibilities beyond its core oversight responsibilities (financial reporting and related internal controls, and internal and external auditors) has heightened concerns about the committee’s bandwidth, composition and skill sets. Assess whether the committee has the time and the right composition and skill sets to oversee the major risks on its plate. Such an assessment is sometimes done in connection with a reassessment of issues assigned to each board standing committee.

In making that assessment, we recommend four areas to probe as part of the audit committee’s annual self-evaluation:

- Does the committee have the bandwidth and members with the experience and skill sets necessary to oversee areas of risk beyond its core responsibilities that it has been assigned? For example, do cyber and data security, AI and Gen AI, ESG (including climate), or mission-critical risks such as safety, as well as supply chain issues and geopolitical risk, require more attention at the full board level—or perhaps the focus of a separate board committee?



- How many committee members spent their careers working on financial accounting, reporting, and control issues? Is the committee relying only on one or two members to do the “heavy lifting” in the oversight of financial reporting and controls?
- As the committee’s workload expands to include oversight of disclosures of non-financial information—including cybersecurity, climate, Gen AI, and environmental and social issues—as well as related controls and procedures, does it have the necessary financial reporting and internal control expertise to effectively carry out these responsibilities as well as its core oversight responsibilities?
- Does the committee need to hire experts in order to discharge its oversight duties?
- As we discuss in On the 2025 board agenda, boards should identify categories of risk for which the audit committee and another board committee(s) each have oversight responsibilities, and clearly delineate the responsibilities of each committee. For example, in the oversight of climate and other ESG risks, the sustainability committee, remuneration committee, audit committees and even nomination committee likely each have some oversight responsibilities. And where cybersecurity and AI oversight resides in a technology committee (or other committee), the audit committee may also have a role to play.

For smaller boards, the challenge of securing the ‘right’ balance of skills and experience is particularly acute. In such cases, consideration should be given to increasing the size of the board/audit committee.

With investors and regulators focusing on audit committee composition and skill sets—as well as audit committee agenda overload—the composition of the audit committee is an important issue.

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## Board Leadership Centre

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