

On the 2026 audit committee agenda

KPMG Board Leadership Centre

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Audit committees face an expanded remit driven by uncertainty, regulatory change, and technological disruption. When asked which challenges have grown most for boards and directors, 82%¹ of surveyed board members point to corporate reporting obligations. In addition, 81%¹ say the current regulatory landscape makes the director experience increasingly challenging.

Drawing on insights from our conversations with audit committee chairs and business leaders, we highlight eight key issues to keep in mind as audit committees set their agendas for the year ahead to maintain resilience and investor confidence:

01 Financial reporting and volatility

Continue to monitor the impact of economic headwinds, trade duties, and geopolitical tensions on financial reporting and internal controls.

02 Regulatory developments

Help ensure that management are prepared for and are monitoring regulatory changes.

03 Oversight of Artificial Intelligence (AI), cybersecurity, and data governance

Clarify the role of the audit committee.

04 Finance team and talent

Understand how technology is affecting the team's talent, productivity, and value-add.

05 Sustainability reporting

Monitor management's readiness for sustainability reporting and ensure it is integrated with the organisation's strategic objectives, rather than treated in isolation.

06 Audit quality

To maximise the value of an audit, audit committees should provide rigorous oversight, set clear expectations for high standards, and promote open, constructive two-way communication.

07 Internal audit

Help maintain internal audit's focus on the company's critical risks, beyond financial reporting and compliance.

08 Committee composition

Take a fresh look at the audit committee's composition and skill sets.

01 Financial reporting and volatility

Continue to monitor the impact of economic headwinds, trade duties, and geopolitical tensions on financial reporting and internal controls.

Oversight of financial reporting, accounting, and disclosure obligations amid ongoing trade and economic uncertainty, and changing regulatory requirements, will remain a top priority for audit committees in 2026. This includes consideration of:

- Ongoing tariff uncertainty in 2026, as it may affect areas such as revenue recognition, cost of goods sold, impairment, credit losses, and going concern.

- The impact of global conflicts, sanctions, supply chain disruption, inflation, and market volatility. Transparent, well-documented judgments, particularly those which are forward looking and used within forecasts, will be essential as regulators emphasise rigorous processes and timely updates to estimates and controls.

Transparent disclosures in annual reports are essential for communicating the impact of ongoing volatility on a company's financial position, internal controls, and risk profile. High-quality disclosures enable stakeholders to understand management's judgements and the company's response to emerging risks, supporting informed decision-making in a rapidly evolving environment.

⁽¹⁾ Board Leadership Centre - In the hot seat | KPMG UK

02 Regulatory developments

Help ensure that management are prepared for and are monitoring regulatory changes.

While deregulation is on the political agenda, UK PLCs continue to navigate an increasingly complex and expanding regulatory landscape. Audit committees should remain well-informed and understand implications for disclosure practices, reporting frequency, and compliance obligations. Key audit and corporate governance priorities include:

Provision 29 of the 2024 UK Corporate Governance Code:

This requires the board to make a declaration on the effectiveness of material controls within the company's internal control and risk management systems. Management is responsible for designing, implementing, and maintaining these controls, and for providing the board and audit committee with robust evidence and reporting on their effectiveness. The audit committee should review management's assessment and reporting and report its findings to the board. This enables the board to make its attestation with confidence. These requirements apply to accounting periods beginning on or after 1 January 2026.

Enhanced outcomes reporting under the updated UK Corporate Governance Code (effective January 2025):

Audit committees should ensure reporting is concise, specific, and focused on the impact of their actions. Reports should move beyond generic statements, clearly demonstrating how oversight of audit quality, risk management, and internal controls has delivered tangible improvements. At the time of writing, the Audit and Corporate Governance Bill is yet to be published and will not progress through parliamentary scrutiny during the current session. When released, the Bill is expected to include the following key provisions.

Expanded Public Interest Entity (PIE) definition:

The definition of a PIE will be broadened to include large private companies with turnover exceeding £1 billion and more than 1,000 employees.

Establishment of the Corporate Reporting Authority:

The new statutory regulator – previously referred to as the Audit, Reporting and Governance Authority – will have enhanced powers, including a greater ability to hold PIE directors accountable for their audit and corporate reporting responsibilities.

03 Oversight of Artificial Intelligence (AI), cybersecurity, and data governance

Clarify the role of the audit committee in the oversight of AI, cybersecurity, and data governance.

The audit committee plays a critical role in overseeing AI deployment, data governance and cyber resilience. While the board will lead on strategy to create business value from AI, the committee must ensure that control frameworks keep pace with technology and provide robust oversight.

AI is reshaping how businesses operate, driving innovation and unlocking new ways to create value. Its application in areas such as customer analytics, supply chain management and financial forecasting is creating new efficiencies and opportunities, but it does introduce fresh complexities. Control frameworks must keep pace and provide clear oversight of how AI tools are deployed, monitored and validated. Particular attention should be paid to data integrity, model transparency and the accountability and explainability of outcomes.

Validation can become a complex task as even AI solutions of a more operational nature like a customer chat-bot can expose businesses to litigation or penalties if their conduct is inappropriate.

Cybersecurity risks are escalating in scale and sophistication, with ransomware remaining a major threat. AI is increasingly being used to enhance social engineering attacks, while supply chain vulnerabilities continue to rise. High-profile attacks in 2025 have underscored the need for robust escalation procedures, effective incident response, and strong business continuity and resilience plans.

Regulatory scrutiny is intensifying. The UK's Cyber and Resilience Bill (under discussion in Parliament at the time of writing) signals heightened expectations for essential and digital services and critical third parties. Horizon scanning is vital to identify emerging risks and update plans proactively. For example, the UK's National Cyber Security Centre (NCSC) recently published guidance on preparing for post-quantum cryptography, while regulators such as the US National Institute of Standards and Technology (NIST) and the European Telecommunication Standards Institute (ETSI) have highlighted the growing threat quantum computing poses to encryption protocols.

Audit committees should consider:

- Whether oversight frameworks and internal controls keep pace with technology, addressing risks from AI-driven solutions, evolving privacy regulations and increasing cyber threats.
- How cybersecurity risks and horizon scanning are managed, and whether response processes are timely and effective. This includes understanding the 'Minimum Viable Company' required to maintain critical operations, which refers to the smallest set of people, processes and systems a company needs to keep running its most essential functions while everything else may be disrupted.
- Whether the committee has the expertise to oversee these areas effectively. Asking the right questions of management or experts is key to building understanding and mitigating risks.

04 Finance team and talent

Understand how technology is affecting the team's talent, productivity, and value-add.

Finance teams are navigating a complex environment shaped by digital transformation and increasing expectations to move beyond traditional reporting to deliver strategic value, while dealing with forecasting in a volatile environment. Audit committees should therefore focus on three key areas:

- How AI and GenAI could be used to reduce labour-intensive, manual processes, cutting errors and freeing resources. Human oversight will remain vital for accuracy, context, and judgement.
- Finance can lead in deploying AI and digital tools, offering forward-looking insights for strategy and risk management.
- Success requires expertise beyond a traditional finance background – skills in IT, AI, data analytics, risk management and strategy are necessary for success.

Audit committees should work closely with the CFO and CTO to understand finance's digital strategy, ensure the right talent is in place, and monitor progress. Capability gaps could lead to internal control deficiencies.

05 Sustainability reporting

Monitor management's readiness for sustainability reporting and ensure it is integrated with the organisation's strategic objectives, rather than treated in isolation.

Audit committees should monitor evolving sustainability reporting requirements and management's readiness, as many companies will continue to provide voluntary climate disclosures. With sustainability now a strategic priority and stakeholder expectations often diverging across different jurisdictions, it is essential that reporting is aligned with the company's broader objectives.

Recent sustainability reporting developments include:

- The European Parliament voted to simplify the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD) reporting in November.
- The ISSB has proposed significant amendments to SASB Standards to support IFRS Sustainability Disclosure Standards, requiring industry-specific disclosures; changes expected to apply 12–18 months after finalisation. These amendments will shape disclosure requirements and industry guidance.
- The UK Transition Plan Taskforce (TPT) has published its final framework for credible climate transition plans. While voluntary now, it is expected to influence future regulation. Listed companies must disclose climate-related information aligned with TCFD recommendations. These rules will evolve as ISSB standards are adopted.

06 Audit quality

To maximise the value of an audit, audit committees should provide rigorous oversight, set clear expectations for high standards, and promote open, constructive two-way communication.

Strong audit quality depends on an engaged audit committee that sets clear expectations, monitors performance rigorously, and promotes open, frequent communication beyond statutory requirements. For 2026, discussions with the auditor should cover:

- How financial reporting and internal control risks are evolving amid ongoing disruption and business changes.
- The company's use of GenAI and AI agents in reporting and controls and how the audit plan addresses the risks arising from this. Equally important is how the auditor uses technology and AI supported tools in their own processes – covering audit quality, strategy, and resource implications.
- The audit firm's system of quality management, including its use of technology to improve audit quality, FRC inspection results and any remediation efforts.

While the list of required communications is extensive, extending discussions beyond these can strengthen the audit committee's oversight – particularly with regard to company culture, the tone set by leadership, and emerging trends and best practices.

07 Internal audit

Help maintain internal audit's focus on the company's critical risks, beyond financial reporting and compliance.

Internal audit should provide strong insight on risk and controls – covering not only financial reporting and compliance but also strategic, operational, technology (including AI-driven technologies), and sustainability risks. Audit committees should confirm the internal audit plan is risk-based and adaptable to changing conditions. With the rapid proliferation of new technologies, including but not limited to AI, internal audit's remit must evolve to address a broader spectrum of risks and opportunities.

Key areas for audit committee consideration include:

- Assessing governance and risk management around the company's use of emerging technologies, such as GenAI, automation, and data analytics, ensuring that human oversight is maintained at key stages.
- Understanding how internal audit uses technology to improve efficiency, which workflows are automated, and how risks associated with technology adoption are managed.
- Recognising that internal audit's expanding remit will require upskilling in data analytics, AI, cybersecurity, sustainability, and resilience. Audit committees should set clear expectations and ensure the function has the talent, resources, and expertise to succeed.

08 Committee composition

Take a fresh look at the audit committee's composition and skill sets.

The audit committee's remit now extends beyond core duties – financial reporting, internal controls, and auditors – raising concerns about capacity and expertise. Committees should assess whether they have the time, composition, and skills to oversee major risks, often as part of a broader review of responsibilities. Investors and regulators are focused on composition, skills and potential overboarding, therefore a review is essential. Key questions for annual self-evaluation should include:

Bandwidth and expertise

Can the committee oversee risks beyond its core remit? Should mission-critical risks – such as product safety, AI, data governance, cybersecurity, compliance, culture, supply chain, and geopolitics – be addressed by the full board or another committee?

Financial expertise

How many members have deep knowledge of accounting and controls? Is oversight concentrated in one or two individuals?

Expanding workload

As responsibilities grow to include risk disclosures, AI, cybersecurity, sustainability and related controls, does the committee have sufficient expertise and time to manage these alongside its core duties?

Looking ahead

The audit committee's role in 2026 will demand agility, a wide-ranging understanding of evolving risks and opportunities, and strong engagement with management and auditors. A proactive approach to talent, technology, and regulatory change will be key to maintaining investor confidence.

The KPMG Board Leadership Centre

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