On the 2026 audit committee agenda

KPMG Board Leadership Center

Audit committees face an expanded remit driven by uncertainty, regulatory change and technological disruption. When asked which challenges have grown most for boards, a vast majority of members point to corporate reporting obligations. In addition, they say the current regulatory landscape makes the board member experience increasingly challenging.

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

Seven focus topics for the Audit Committee

1) **Financial reporting and volatility:** Continue monitoring the impact of economic turbulence on financial reporting and internal controls.
2) **Oversight of artificial intelligence (AI), cybersecurity and data governance:** Clarify the role of the audit committee.
3) **Finance team and talent:** Understand how technology is affecting the team's talent, productivity and value added.
4) **Sustainability reporting:** Monitor management's readiness for sustainability reporting and ensure it is aligned with the organization's strategic objectives rather than addressed in isolation.
5) **Audit quality:** To maximize the value of an audit, audit committees should provide rigorous oversight, set clear expectations for high standards and promote open, constructive two-way communication.
6) **Internal audit:** Help maintain internal audit's focus on the company's critical risks beyond financial reporting and compliance.
7) **Committee composition:** Take a fresh look at the audit committee's composition and skill sets.

1) Financial reporting and volatility

Continue monitoring the impact of economic turbulence on financial reporting, disclosure notes and internal controls.
Oversight of financial reporting, accounting and disclosure obligations amid ongoing trade and economic uncertainty as well as changing regulatory requirements will remain a top priority for audit committees in 2026.

Forecasting and disclosure
This includes consideration of:

- ongoing tariff uncertainty, 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 that are forward looking and used within forecasts, will be essential and require rigorous processes and timely updates to estimates and controls.
- the appropriateness and transparency of the respective disclosure notes are key for communicating the impact of ongoing volatility on the company's financial position.

Only 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.

Internal controls over financial and non-financial reporting
Given the ongoing volatility as well as changes in the business (acquisitions, new lines of business, digital transformations, deployment of GenAI and AI agents, etc.), a focus on the effectiveness of internal controls remains critical. This should include an assessment of whether controls have kept pace with changes in the company's operations and risk profile.

Discuss with management how the current environment and regulatory mandates affect management's disclosure controls and procedures and its internal control system, as well as management's assessment of their effectiveness.

Audit committees should consider tasking management with reassessing whether the company's internal controls as well as its disclosure controls and procedures are sufficient to support the company's current sustainability disclosures and any current or future disclosures about the company's use of AI, the related risks and how the company governs such technology. Management should also reassess the company's processes and procedures for identifying and escalating potentially significant cybersecurity incidents and risks to ensure timely analysis.

2) Oversight of artificial intelligence (AI), cybersecurity and data governance

Clarify the role of the audit committee.
As companies continue to move forward with investment in and deployment of AI in all its forms, a key question for boards is how to structure AI oversight at the full board and committee levels (including the audit committee). As discussed in "On the 2026 board agenda", oversight at many companies is often handled at the full-board level – with boards seeking to understand the company's strategy for developing business value from AI and its potential impacts on the business model and workforce, while also monitoring management's governance structure for the deployment and use of the technology.

Many audit committees may already be involved in overseeing specific AI-related issues, however, and it is important to clarify the scope of the audit committee's responsibilities. AI-related issues for which audit committees may have oversight responsibilities include:
- AI governance, including compliance with evolving and diverging AI, privacy, consumer protection and intellectual property laws and regulations
- the use of GenAI and AI agents in the preparation and audit of financial statements and drafts of SEC and other regulatory filings
- the use of GenAI and AI agents by internal audit and the finance organization, as well as determining whether those functions have the necessary talent and skill sets
- the development and maintenance of internal controls and AI-related disclosure controls and procedures, as well as data-related controls

3) Finance team and talent

Understand how technology is affecting the team's talent, productivity and value added.
Finance teams are navigating a complex environment where digital transformation and growing expectations push them to move beyond traditional reporting to deliver strategic value, all while trying to make forecasts in a volatile environment.

Audit committees should therefore focus on three key areas:
- How AI and GenAI could be used to reduce manual, labor-intensive processes to cut the risk of human errors and free up valuable resources. AI can boost efficiency, but human oversight will remain necessary to ensure accuracy, validate results, fix mistakes, add context and provide judgment.
- Given the broad role of finance in strategy and risk management, finance professionals can help spearhead the company's use and deployment of GenAI and AI agents. These technologies and the acceleration of digital strategies and transformations present important opportunities for finance to add greater value to the business by providing forward-looking insights and analyses in key strategic and risk areas.
- Success requires expertise beyond a traditional finance background – skills in IT, AI, data analytics, risk management and strategy are essential.

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.

4) Sustainability reporting

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

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

Recent sustainability reporting developments include:

European Union

In February 2025, the European Commission released an Omnibus package of proposals to reduce sustainability reporting and due diligence requirements. This includes proposed amendments to the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CS3D) aimed at simplifying and streamlining the regulatory framework introduced by both directives.

The following key outcomes were communicated on 16 December 2025:

NCSRD:

- Reduction in scope: Only EU companies with > EUR 450 million net turnover and > 1,000 employees will remain in scope. Non-EU groups will only need to report if they generate > EUR 450 million in the EU.
- Changes to ESRS and Taxonomy: Simplification of ESRS with reduced disclosures (intended to be adopted by mid-2026). Companies in scope will also be required to report under the amended EU Taxonomy.
- Value chain companies (companies not in scope of CSRD) with up to 1,000 employees will be protected from excessive information requests from in-scope companies (based on the content of a voluntary standard that is based on the existing VSME standard).

CS3D:

- Reduction in scope: Only companies with > 5,000 employees and > EUR 1.5 billion net turnover will need to comply with the CS3D (starting in 2029, delay of a further year).
- Reduction of requirements: Companies will use simpler process to identify actual a potential adverse impacts (risk-based approach); no requirement to adopt transition plans for climate change mitigation; removal of proposed EU-wide civil liability regime.

The two directives are expected to be published by the EU in May 2026, and member states will then have 12 months to transpose them into national law.

ISSB

The International Sustainability Standards Board (ISSB) has proposed significant amendments to the SASB Standards as part of efforts to promote the high-quality implementation of IFRS Sustainability Disclosure Standards. IFRS® Sustainability Disclosure Standards are mandatory only in jurisdictions that choose to adopt them. Although the effective date in the IFRS Sustainability Disclosure Standards is 1 January 1 2024, individual jurisdictions are deciding whether and when companies would be required to apply the standards, akin to the process for adopting IFRS Accounting Standards. Unlike IFRS Accounting Standards, which have become the de facto global language of financial reporting, adoption of IFRS Sustainability Disclosure Standards varies widely across jurisdictions. This leads to differences in how the standards are adopted, who is required to comply, which requirements apply, and when they become mandatory. Even in the absence of regulatory-driven disclosure requirements, many companies will continue to issue voluntary sustainability and climate reports, and many may be asked to provide climate information to companies to which they provide products and services.

Switzerland

On 21 March 2025, the Federal Council requested that potential solutions be drawn up for a "pragmatic" amendment of the provisions on sustainability reporting. Implementation of the ordinance on climate disclosures will therefore be suspended until there is clarity regarding regulatory developments in the European Union. So far, both the draft of the provisions on sustainability reporting and the amended ordinance on climate disclosures have been largely aligned with EU regulations. The Omnibus package approved by the EU on 16 December 2025 resulted in substantial changes not only to the thresholds, but also to the scope of sustainability reporting and due diligence requirements. The Federal Council intends to reach a decision regarding the next steps as soon as the European Union has approved the announced simplifications, but at the latest in early 2026.

Companies listed on SIX Swiss Exchange previously had the option of voluntarily reporting on their climate action in accordance with an internationally recognized standard. In light of the current uncertainties about developments in the EU and Switzerland, this option will be temporarily suspended as of 1 January 2026.

Key areas to consider for the audit committees are:

- Support management to find a path forward in a fragmented regulatory (regulatory) environment.
- Ensure alignment of sustainability reporting and ambition.
- Strengthen governance and reliability of (sustainability) reporting.

Audit committees should help management define a risk-based reporting strategy that satisfies immediate compliance requirements without losing sight of broader market expectations or the future regulatory horizon.

5) Audit quality

To maximize 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 that exceeds 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 as well as 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, and inspection results.

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.

6) 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 that 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.
- recognizing 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 that the function has the talent, resources and expertise to succeed.

7) Committee composition

Take a fresh look at the audit committee's composition and skill sets.
An audit committee remit that extends beyond its core duties (financial reporting, internal controls and auditors) continues to raise concerns about capacity and expertise. Committees should assess whether they have the time, composition and skills needed to oversee major risks, often as part of a broader review of their responsibilities.

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 only one or two individuals or evenly spread?
- 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?

Investors and regulators are focused on composition, skills and potential overboarding, making a review of these questions essential.

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.

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- *On the 2026 board agenda*

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The KPMG Board Leadership Center offers support and guidance to board members. We equip you with the tools and insights you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business. In addition, we help you to connect with peers and exchange experiences.
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Contact us

KPMG AG
Badenerstrasse 172
PO Box
8036 Zurich
Switzerland

kpmg.ch

Prof. Dr. Reto Eberle
Partner, Member of the
Board Leadership Center
KPMG Switzerland

+41 58 249 42 43
reberle@kpmg.com

Rolf Hauenstein
Partner, Head of the
Board Leadership Center
KPMG Switzerland

+41 58 249 42 57
rhauenstein@kpmg.com