Risk oversight in an era of persistent volatility:

Rethinking the audit committee's mandate

Board Leadership Center (India)

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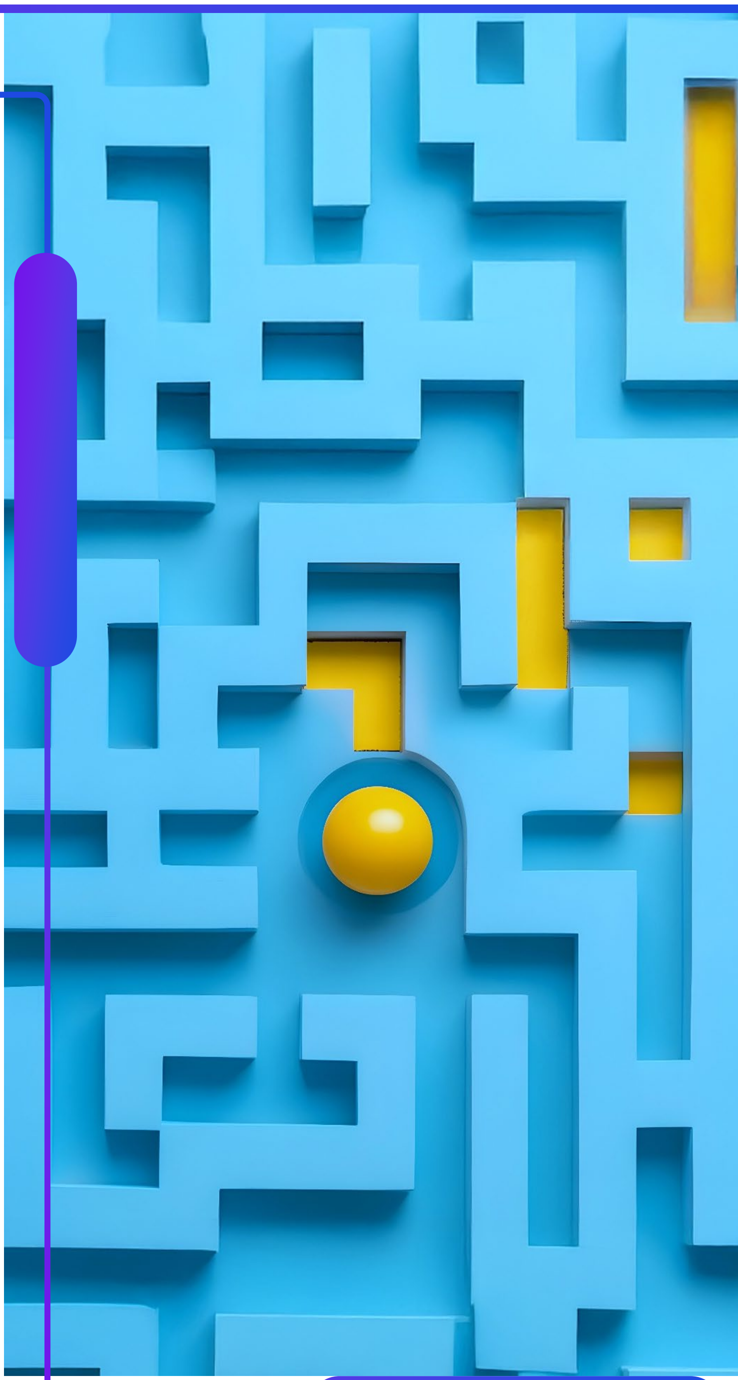


Introduction

The business environment has changed significantly in recent years. Geopolitical tensions, evolving trade and sanctions regimes, technological disruption, heightened regulatory scrutiny, supply chain shifts, and changing stakeholder expectations have made uncertainty a constant feature of business rather than an occasional disruption. At the same time, organisations are navigating volatile commodity prices, foreign exchange movements, inflationary pressures, cybersecurity threats, capital allocation challenges, and the rapid adoption of Artificial Intelligence (AI) and other emerging technologies. Together, these developments are reshaping business strategy, risk management, governance, and financial reporting.

As risks become increasingly interconnected, the role of boards and audit committees is also evolving. Effective oversight today requires looking beyond financial reporting and compliance to understand how emerging risks may influence strategy, performance, and long-term value creation.

The following themes highlight how the audit committee's role is evolving in response to this changing landscape.

How the audit committee's role evolving?

Structural volatility

Organisations are operating in an environment where uncertainty is no longer temporary but an enduring feature of the business landscape. Geopolitical developments, regulatory changes, shifting trade relationships, and rapid technological advances are making business conditions more difficult to predict. As a result, risks cannot be assessed in isolation. Decisions relating to strategy, operations, finance, and technology increasingly influence one another, requiring a more integrated approach to oversight

Shorter planning cycles

Organisations are moving away from long-term planning cycles towards rolling forecasts, shorter budgeting horizons, and more frequent performance reviews. This reflects the challenge of forecasting business conditions with confidence in a rapidly changing environment. However, financial reporting processes continue to rely on assumptions that can become outdated quickly. Consequently, assumptions used in forecasts, valuations, impairment assessments, and other significant estimates require more frequent review to ensure they remain relevant

Governance and behaviour

The increasing complexity of today's business environment requires boards and audit committees to engage with management more frequently than traditional quarterly review cycles allow. Regular dialogue helps identify emerging issues earlier and enables more timely decision-making

Effective governance is also about understanding the behaviours and incentives that drive business decisions, not just reviewing reported outcomes. Performance targets, Key Performance Indicators (KPIs), and incentive structures can significantly influence management actions and should remain aligned with the organisation's long-term objectives

Evolving risk landscape

Boards today oversee a broader and more interconnected range of risks than ever before. Alongside financial reporting and compliance, greater attention is required for cybersecurity, data privacy, geopolitical developments, regulatory change, supply chain resilience, and technology adoption. Many of these risks originate beyond the organisation's direct operations through suppliers, customers, distributors, and other third parties across the value chain. This makes timely risk identification and coordination across governance functions increasingly important

AI and technology - new governance challenges

Artificial intelligence and other emerging technologies are creating significant opportunities for innovation, efficiency, and better decision-making. At the same time, they introduce new governance challenges relating to data quality, cybersecurity, privacy, model reliability, accountability, and responsible use. As organisations increasingly rely on AI-enabled tools, questions around data ownership, transparency, and oversight become increasingly important. Over-reliance on automated outputs, data leakage, and inappropriate use of AI can create operational, regulatory, financial, and reputational risks

Financial reporting and judgement

In an environment of heightened uncertainty, effective oversight extends beyond reviewing reported financial results. Management judgments underlying valuations, impairment assessments, provisions, forecasts, and going concern assessments have become increasingly significant as business conditions continue to evolve

Reviewing downside scenarios, stress testing key estimates, and understanding management's rationale are becoming essential elements of effective oversight. This helps ensure that financial reporting provides a transparent and balanced view of the organisation's financial position and performance.

Key considerations for audit committees

The evolving business environment calls for a broader and more forward-looking approach to oversight. Audit committees may consider the following priorities:

01 **Challenge assumptions, not just outcomes:** Audit committee is expected to look beyond reported numbers by understanding the judgments supporting forecasts, valuations, impairment assessments, provisions, and other significant estimates

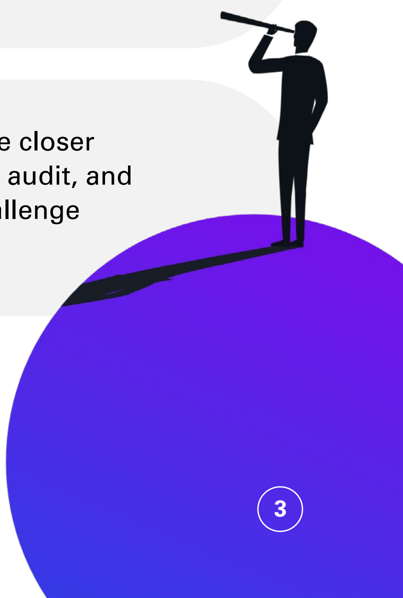
02 **Promote forward-looking reporting:** To encourage management to present alternative scenarios, downside cases, and stress testing rather than relying solely on base-case projections

03 **Expand visibility across the value chain:** Audit committee is expected to understand risks arising from suppliers, customers, technology partners, and other third parties, particularly in areas such as geopolitical developments, sanctions, cybersecurity, and regulatory compliance

04 **Strengthen oversight of technology and data governance:** Ensure appropriate governance over AI, data quality, privacy, cybersecurity, model reliability, and accountability

05 **Focus on judgment as much as compliance:** Allocate greater attention to areas involving estimation, uncertainty, and management judgment alongside traditional compliance responsibilities

06 **Encourage integrated governance and timely engagement:** Promote closer coordination between the audit committee, risk committee, internal audit, and external auditors, with discussions taking place early enough to challenge significant assumptions before reporting decisions are finalised.



The bottom line

The role of the audit committee is evolving beyond its traditional focus on financial reporting and compliance. Persistent volatility, interconnected risks, and rapid technological change require broader business understanding, professional skepticism, and informed judgment.

The challenge is no longer simply to review historical results and compliance outcomes. Increasingly, audit committees are expected to question the assumptions that underpin management decisions, understand how emerging risks may affect future performance, and encourage constructive challenge throughout the governance process. Those that embrace this broader mandate are likely to be better positioned to support resilient governance, transparent reporting, and sustainable long-term value creation.

We would like to thank our audit committee council members for their time in providing us with their valuable insights and perspectives that have contributed to building this point of view document.

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