



The 2025 Audit Committee agenda and the questions investors should be asking



KPMG. Make the Difference

The business and risk landscape has evolved rapidly over the last few years, shaped by geopolitical conflict, market volatility and accelerating regulatory change. Audit committees will be expecting their company’s financial reporting, compliance, risk and internal control environment to face increased investor scrutiny in 2025.

Key pressures include economic uncertainty, the wars in Ukraine, the Middle East and Sudan, increasing cyber threats, and the preparations for climate and sustainability reporting requirements which will require developing related internal controls and disclosure controls and procedures. These developments coincide with growing investor expectations around transparency, particularly in relation to risk management, diversity, AI usage, climate risk and estimation uncertainty. The evolving UK regulatory context, including the CSRD and the potential for mandatory internal controls assurance, is prompting investors to question the robustness of corporate governance arrangements. Audit committees will need to assess whether they have the right composition, expertise and agenda focus to fulfil their core oversight responsibilities and meet rising expectations from the investor community.

Last year, one of our [FTSE350 audit committee chairs survey](#) revealed that several audit committee chairs engaged with investors less than once a year. While this may reflect current practice across the market, audit committees play a vital role in areas of oversight that are of clear interest to investors. The audit committee report remains a key source of insight, but there may be additional value in more direct dialogue between audit committees and investors where appropriate.

Reflecting on insights from our [Board Leadership Centre](#), ongoing engagement with audit committees and business leaders, the [FRC’s Audit committees and assurance: conversation starters](#) and our discussions with investors, we have identified ten matters that audit committees might prioritise for their 2025 agendas, along with related areas that investors may wish to explore in greater depth.

<p>Financial reporting and related internal control risks.</p> 	<p>GenAI, Cybersecurity, and Data Governance.</p> 	<p>Climate Reporting, Data Integrity and Assurance.</p> 	<p>Talent, Technology and ESG Readiness.</p> 	<p>Ethics, Compliance and Organisational Culture.</p> 
<p>Audit Quality, Challenge and the Expanding Assurance Agenda.</p> 	<p>Critical and Emerging Enterprise Risks.</p> 	<p>Governance Reform, Material Controls and Regulatory Readiness.</p> 	<p>Global Change and Domestic Impact.</p> 	<p>Audit Committee Composition, Capacity and Capabilities.</p> 

Financial reporting and related internal control risks

Forecasting and disclosures

Matters requiring the audit committee's attention are expected to include:

- a. Disclosures regarding the impact of the wars in Ukraine, the Middle East, and Sudan, government sanctions, supply chain disruptions, heightened cybersecurity risk, inflation, interest rates, and market volatility.
- b. Preparation of forward-looking cash-flow estimates.
- c. Impairment of nonfinancial assets, including goodwill and other intangible assets; impact of events and trends on liquidity; accounting for financial assets (fair value).
- d. Going concern.
- e. Use of non-GAAP metrics.

With companies making more tough calls in the current environment, regulators are emphasising 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.

Ask for details about the key judgments and assumptions the audit committee considered in relation to forecasting, liquidity, and asset impairment, what makes these judgments "significant," and how they have been challenged and addressed in light of ongoing geopolitical and economic uncertainty.

Ask how the audit committee has ensured transparency and rigour in disclosures, particularly around going concern, non-GAAP metrics, and fair value, given the heightened regulatory focus on well-reasoned judgments and the increased need for contemporaneous documentation.

Internal control over financial reporting (ICOFR) and probing control deficiencies.

Notwithstanding the 'new' declaration on the effectiveness of material controls introduced via the 2024 UK Corporate Governance Code (see later), the current geopolitical, macroeconomic, and risk environment, as well as changes in the business, such as acquisitions, new lines of business, digital transformations, etc., internal controls will continue to put ICOFR to the test.

Ask how the audit committee is monitoring the effectiveness of internal controls in light of the new UK Corporate Governance Code requirements, including how climate-related regulations, business changes, and external conditions have been factored into their assessment.

Ask whether any significant issues or deficiencies have been identified by internal or external audit in relation to internal controls, and how the audit committee has responded to and overseen the resolution of those issues.

Climate and other ESG related matters.

Regulators, investors and other bodies are increasingly expecting companies to consider climate risks when preparing their financial statements. This places pressure on the often-prevailing assumption among financial professionals that in many cases climate and other ESG related do not currently have a material quantitative effect on the recognition and measurement of assets and liabilities recognised in financial statements.

Companies are expected 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.

As companies begin to articulate their goals and efforts to address ESG issues via in their external reporting, it is essential to build strong processes and effective internal controls. There is rapid change around ESG, which could make establishing proper reporting environment challenging. Unlike ICOFR, where the underlying financial statements have defined accounting frameworks, principles, and policies, 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 is expected to be an area for audit committee focus.

Ask how the audit committee oversees management's materiality judgments and principal risk disclosures in the annual report, particularly in relation to climate, ESG, supply chain resilience, and geopolitical risks and how emerging risks are factored into that oversight.

Ask how the audit committee ensures it has the capacity, expertise, and processes to oversee the expanding risk landscape, including ESG reporting and evolving standards, and how it evaluates its own effectiveness in fulfilling these responsibilities.

GenAI, Cybersecurity, and Data Governance

Assessing audit committee oversight responsibilities for GenAI.

The explosive growth in the use of GenAI has emphasised 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 expected to probe whether the company's data governance framework and interrelated AI, GenAI, and cybersecurity governance frameworks are keeping pace. Many boards are still considering how best to oversee AI and GenAI and the appropriate roles of standing committees as they seek to understand GenAI's potential impact on strategy and the business model. As we discuss in *On the 2025 board agenda*, for most companies, oversight currently is largely at the full board level—where boards are expected to understand the company's strategy to develop business value from GenAI, 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 GenAI issues, and it is important to clarify the scope of the audit committee's responsibilities. GenAI-related issues for which the audit committees might have oversight responsibilities include:

- a. Compliance with evolving AI and privacy laws and regulations globally.
- b. Use of Gen AI in the preparation and audit of financial statements and other regulatory filings.
- c. Deployment of GenAI tools by internal audit and finance teams, including talent readiness and skill requirements.
- d. Development and maintenance of internal controls and procedures supporting AI-related disclosures and data governance.

Ask how the audit committee is overseeing the governance of GenAI, data quality, and cybersecurity risks, including the company's disclosures about cyber threats, preparedness, vulnerabilities, and mitigation and whether these disclosures reflect the true extent of the risk landscape and response capabilities.

Ask how the audit committee is assessing compliance with evolving AI and privacy regulations, and whether the committee has the skills and capacity to effectively oversee GenAI-related risks, controls, and 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 GenAI and the significant risks posed by the technology, many boards are rigorously assessing their data governance and cybersecurity frameworks and processes.

Wherever oversight resides, it is critical that boards understand the opportunities and risks posed by the technology, including how GenAI 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.

Ask how the audit committee is overseeing the effectiveness of the company's cybersecurity and data governance frameworks, including how GenAI is being deployed, the associated risks, and whether disclosures accurately reflect preparedness, vulnerabilities, and mitigation efforts.

Ask what actions the audit committee is taking to support a smooth transition to the updated UK Corporate Governance Code expectations, particularly in relation to GenAI and data governance and how it is overseeing the required cultural shifts and leveraging technology to strengthen oversight.



Climate Reporting, Data Integrity and Assurance

One of the biggest challenges the committee are expected to face is staying aware of rapidly evolving ESG standards and regulations given the rapidly changing landscape. This means keeping abreast of what is now in force and ready for implementation, as well as what is on the horizon that should be taken into consideration now. So, in the coming months, a priority for audit committees will be the state of the company's preparedness—requiring periodic updates from management including gap analyses, materiality assessments, resources, assurance readiness and any new skills needed to meet regulatory deadlines.

Of specific focus for many is the EU's Corporate Sustainability Reporting Directive (CSRD) which is driven by the concept of double materiality and requires companies in scope to prepare extensive sustainability reports including information on how its activities and value chain affect the environment and people, as well as 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. Companies in scope will need to have robust governance and controls to enable them to:

- a. Perform effective double materiality assessments; and
- b. Deliver the granular sustainability information needed to meet the qualitative characteristics of useful information.

A key question will be whether management has the necessary talent, resources, and expertise—internal and external—to gather, organise, calculate, assure, and report the necessary data, and to develop the necessary internal controls and procedures to support the both the regulatory and any 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 process will be essential.

As discussed in [our ESG Guide for audit committees](#), we have recommended the following areas for audit committee focus in addition to management's climate-related expertise and resources: Management's plans to meet compliance deadlines, considering materiality and double materiality, and 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.

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

Getting ready for assurance.

Audit Committees will be asking management how ESG data is being collected, measured, and reported. Many companies have standalone ESG teams that are responsible for ESG-related reporting but may lack expertise around internal controls. Finance may be able to offer advice, leadership and resources such as process and control templates to the broader organisation given their knowledge of the control systems and processes used for financial reporting. This will become increasingly important as companies start to seek assurance and integrating ESG information into their annual reporting.

Audit Committees are expected to work with management to identify which information would be considered material to stakeholders and the business, and therefore merit assurance. For example, labour conditions in the supply chain could be an area in which a retail company's customers may want assurance, while shareholders of a consumer goods company may want assurance on claims of sustainable sourcing. It is essential that what companies report to the public is accurate, robust and credible. Aside from being a regulatory compliance requirement in some cases (e.g., CSRD), assurance will give companies the opportunity to test any significant judgments they may have made in measuring ESG metrics, spur investor confidence, reduce exposure to risks, and support in securing access to better financing.

CSRD reporting is subject to mandatory assurance from the first year of application. Starting in 2025 for those companies producing the first reports on the financial year starting on or after 1 January 2024, all companies in scope for CSRD are required to obtain limited assurance from a third-party assurance provider from their first reporting year.

We have seen many companies restate some of their ESG metrics—reportedly, nearly half of the FTSE100 made restatements on their sustainability metrics during the last year—and anticipate some modified assurance opinions in the first round of CSRD reporting due to a lack of available evidence to support the disclosures.

Audit committees are expected to be pro-actively asking management about how they are going to mitigate this risk—not least because a modified assurance report might impact the way investors vote at the AGM. Boards and audit committees are expected to be prepared to articulate their position and manage the risk of any votes against the reappointment of directors.

Ask how the audit committee is overseeing the company's readiness for CSRD and other ESG reporting requirements, including its role in evaluating climate-related risks, the incorporation of climate change into key accounting assumptions (e.g. impairments, depreciation, asset decommissioning), and the robustness of double materiality assessments and internal controls.

Ask whether the audit committee is satisfied with the level of assurance over ESG disclosures, what steps are being taken to ensure the reliability and credibility of reported metrics, and how the committee is addressing the risk of restatements or modified assurance opinions considering evolving regulatory expectations.

Talent, Technology and ESG Readiness

Finance teams face a challenging environment—addressing talent shortages, while at the same time 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 have suggested two areas of focus:

- a) GenAI goes a long way toward solving one of the biggest pain points in finance: manual processes. Labour-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 GenAI. But they first need to determine the potential value of GenAI across their enterprise through the lens of workforce capacity and productivity. GenAI and the acceleration of digital strategies and transformations presents important opportunities for finance to add greater value to the business.
- b) 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 expected that the audit committee devote adequate time to understanding finance's GenAI 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, there is an expectation that committees 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.

Ask how the audit committee is overseeing the finance function's climate, sustainability and ESG strategy alongside its digital and GenAI transformation efforts, and whether the function has the leadership, talent and resources required to deliver on these priorities while maintaining its core financial reporting and control responsibilities.

Ask what actions the audit committee is taking to monitor risks related to finance talent shortages, over-reliance on emerging technologies and potential internal control weaknesses as the function responds to new disclosure requirements and shifting stakeholder expectations.

Ethics, Compliance and Organisational 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.

Committees are expected to ensure management has systems and processes in place to comply with the [Economic Crime and Corporate Transparency Act 2023](#) and in particular the new 'failure to prevent fraud' corporate criminal offence which will render large companies liable for fraud committed by their associates—including employees, agents, subsidiaries and persons who otherwise perform services for or on behalf of the organisation. Under the new regulations, prosecutors will no longer have to show that the 'directing mind and will' of a company were involved in the fraud. New [Government Guidance](#) on the 'failure to prevent fraud' offence has now been published.

Fundamental to an effective compliance program is the right tone at the top and culture throughout the organisation, 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 capitalise on opportunities in new markets, leverage new technologies and data, engage with more vendors and third parties across complex supply chains.

Committees are expected to closely monitor the tone at the top and culture throughout the organisation with a sharp focus on behaviours (not just results) and yellow flags.

Committees are expected to ensure that the 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. They must also ensure that 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. Committees are expected to 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 cosy relationship is unlikely to lead to effective oversight as challenging questions are all too easily avoided in such circumstances.

Committees and managements must 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 organisations have huge change agendas on the go, committees must ensure they are getting sufficient visibility and that the right people are being held to account for delivering such change safely and effectively.

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

Ask how the audit committee is overseeing the effectiveness of the company's ethics, compliance and fraud prevention frameworks in light of the Economic Crime and Corporate Transparency Act 2023, and how it satisfies itself that management has appropriate systems in place to detect and mitigate fraud across the organisation and its associates.

Ask how the audit committee is involved in the oversight of the company's whistleblowing procedures, how it evaluates their effectiveness, and how it ensures the organisation promotes a culture where concerns can be raised and addressed transparently and safely.

Audit Quality, Challenge and the Expanding Assurance Agenda

Delivering a high-quality audit relies on the auditor, management and those charged with governance (boards and their audit committees) working effectively together.

The importance of commonly understood risk assessments and audit plans should not be underestimated. An appropriate risk assessment and audit plan requires cooperation between the company and the auditor, and should factor in a common, dynamic and responsive understanding of how the company's financial reporting and related internal control risks have changed in light of the geopolitical, macroeconomic, regulatory and risk landscape, as well as changes in the business. A formal, planned and agreed escalation framework should ensure effective resolution of issues in a timely and effective manner. It is fundamentally important that the auditor approaches the audit with adequate professional scepticism and challenge. The audit committee is expected to contribute to the enhancement of audit quality by setting a tone with management that supports open and robust challenge. Effective auditor challenge is best achieved if it is in risk assessed areas of material importance and should be evidenced by sufficient and proportionate documentation. Documentation alone will not however tell the "full story" of an audit—active engagement by and with all parties is essential to understand the story of the audit.

Committees are expected to be setting clear expectations for frequent, open, candid communications between the auditor and the audit committee, beyond the required communications that include matters about the auditor's independence as well as matters related to the planning and results of the audit.

Be mindful that auditors can also enhance the audit committee's oversight by providing valuable insights and perspectives through an independent lens, particularly regarding the company's culture, tone at the top, and the quality of talent in the finance team.

Audit committees will also be probing the audit firm on its quality control systems that are intended to drive sustainable, improved audit quality—including the firm's implementation and use of new technologies such as AI to drive audit quality. In discussions with the external auditor regarding the firm's internal quality control systems, committees will be considering the results of regulatory inspections and internal inspections and efforts to address deficiencies.

Audit committees will also be monitoring developments such as—for US registrants—the PCAOB’s proposal on non-compliance with laws and regulations (NOCLAR), which would significantly increase auditors’ responsibilities related to NOCLAR. Although the proposal is targeted to auditors, the potential effects would be wide-reaching, extending to company management, audit committees and investors alike.

Ask how the audit committee is involved in the planning and execution of the external audit, including how it measures audit effectiveness, challenges the auditor’s findings, assesses the auditor’s challenge of management, and what factors it considers most important when selecting or reappointing an auditor.

Ask how the audit committee ensures audit quality by fostering open and frequent communication with the auditor, evaluating the auditor’s quality control systems, including the use of technologies such as AI, and reviewing outcomes from regulatory and internal inspections.

Critical and Emerging Enterprise Risks

At a time when audit committees are wrestling with heavy agendas and issues like GenAI, 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, GenAI and other technology risks and related controls, as well as ESG risks.

ESG-related risks include human capital management—from diversity to talent, leadership, and corporate culture—as well as climate, cybersecurity, data governance and data privacy, and risks associated with ESG disclosures.

Controls and procedures will be a key area of internal audit focus. It is important to have clarity on 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.

Given the evolving geopolitical, macroeconomic, and risk landscape, it is important for committees to 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 is expected to be working 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 GenAI and digital technologies, talent management and retention, hybrid work and organisational 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. Committees are expected to 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.

Ask how the audit committee monitors the effectiveness of the internal audit function, how it ensures the internal audit plan is aligned to the company’s key and emerging risks, and how it has responded to any significant issues raised by internal audit.

Ask how the audit committee is assessing whether internal audit has the skills, resources and independence required to provide assurance across areas such as ESG, GenAI, cybersecurity and supply chain risk, and what steps are being taken to upskill the function in line with its expanding remit.

Governance Reform, Material Controls and Regulatory Readiness

For periods beginning on or after 1 January 2026, to comply with the UK Corporate Governance Code, boards of applicable companies will inter alia need to make a declaration on the effectiveness of their material controls at the balance sheet date. Whilst material controls are not a new concept, the fact that an explicit declaration is now required is causing boards and audit committees to closely consider what these are and maintain a defined but agile list that can be monitored.

Whilst the FRC have provided no definition of a material control, boards and audit committees might consider:

- How a deficiency in a control could impact the interests of the company, shareholders and other stakeholders.
- The extent to which controls help maintain principal (and potentially other significant risks) within the board’s defined risk appetite.

There is no right answer for the number of material controls a company should have, but we understand companies are targeting between 30 and 100.

After agreeing on a list of material controls, the next step is to define the criteria for their effective operation and determine what evidence exists to assure the board that such criteria have been met.

Things audit committee will be thinking about include:

- a) How comfortable they are that their risk management systems are effective in identifying the most material risks to the business.
- b) If they have determined an agreed standard for designing and operating material controls and how comfortable they are with the material controls they currently have against this standard.
- c) How do they calculate whether a material control mitigates risks to a suitable tolerance against a specific risk and where do they have external assurance and/or precise compliance obligations.
- d) Where can they leverage Entity Level Controls and Management Review Controls, and where do they need to build 'bottom-up' control sets to 'aggregate' into material controls.

Draft Audit Reform and Corporate Governance Bill.

In July's King's Speech, the Government announced that it intends to bring forward legislation to replace the Financial Reporting Council with a new regulator, the Audit, Reporting and Governance Authority (ARGA)—a regulator with statutory powers and sharper teeth.

The Bill would also make other changes, including:

- a) Expanding the range of entities that qualify as public interest entities (PIEs) (which are subject to greater regulation and oversight) whilst, at the same time, removing unnecessary rules for smaller PIEs;
- a) Introducing powers to investigate and sanction company directors for serious failures in relation to financial reporting and audit responsibilities; and
- b) Creating a regime to oversee the audit market and protect against conflicts of interest at audit firms.

Audit committees will be keeping abreast of these developments considering what requirements will apply to current PIEs and any new companies brought into scope; as well as ensuring all reasonable steps are taken to prevent breaching any financial reporting and audit responsibilities.

Ask how the audit committee is preparing for the new requirement to declare the effectiveness of material controls, including how material controls are being defined, assessed and evidenced, and what actions are being taken to ensure a smooth transition to the 2024 UK Corporate Governance Code expectations.

Ask how the committee is overseeing the broader implications of governance reform, including how it is managing the necessary cultural shift, leveraging technology to support control effectiveness, and ensuring alignment with forthcoming changes under ARGA and expanded director accountability.

Global Change and Domestic Impact

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 initiative—or national governments introducing new taxes, such as those related to funding a green transition. Also, the on-going attention to ESG has brought with it increased focus on tax governance.

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.

The Autumn budget was very much about tax on business with increased employer national insurance and a rise in the minimum wage. With businesses keen to manage costs, audit committees are going to be mindful of the risks associated with cutting costs too dramatically and dampening hiring in key areas of the finance, risk, and assurance functions.

The UK, of course, doesn't operate in isolation and global events can and do impact on the economy. The success or otherwise of some of the Chancellor's announcements may depend not on UK domestic matters, but what happens beyond our shores. For example, the trade tariffs introduced by the US administration are having far reaching consequences that impact trading, supply chains and more. Nevertheless, audit committees are expected to be closely monitoring managements preparations for any changes.

Ask how the audit committee oversees the company's approach to tax governance, including how it is monitoring evolving domestic and international tax developments and assessing the potential financial reporting and risk implications.

Ask how the committee is challenging management on tax-related assumptions, disclosures and resource allocation, particularly in light of increased audit scrutiny, ESG-related tax expectations, and pressures to reduce costs in key control functions.

Ask how has management assessed and responded to the direct and indirect financial reporting implications of recent global tariff changes, particularly those affecting supply chains, transfer pricing, and tax provisions? Are these considerations reflected in the group's risk management processes and disclosures, and what oversight has the audit committee exercised in challenging these assumptions.

Audit Committee Composition, Capacity and Capabilities

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. Committees are expected to assess thoroughly whether they have the time, and the right composition and skill sets to oversee the major risks on their plate. Such an assessment is sometimes done in connection with a reassessment of issues assigned to each board standing committee.

In making that assessment, committees are recommended to probe four areas as part of the audit committee's annual self-evaluation:

- a) Whether the committee has the bandwidth and members with the experience and skill sets necessary to oversee areas of risk beyond its core responsibilities. This includes evaluating whether topics such as cyber and data security, AI and GenAI, ESG (including climate), mission-critical risks like safety, and issues related to supply chain, and geopolitical developments would be more appropriately addressed at the full board level or by a separate board committee.
- b) The number of committee members who spent their careers working on financial accounting, reporting, and control issues. Whether the committee is relying only on one or two members to do the "heavy lifting" in the oversight of financial reporting and controls.
- c) As the committee's workload expands to include oversight of disclosures of non-financial information—including cybersecurity, climate, GenAI, and environmental and social issues—as well as related controls and procedures, whether it has the necessary financial reporting and internal control expertise to effectively carry out these responsibilities, in addition to its core oversight responsibilities.
- d) Whether the committee needs to hire experts in order to discharge its oversight duties.

As discussed in [On the 2025 Board Agenda](#), boards will be identifying categories of risk for which the audit committee and other board committees have oversight responsibilities and will 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 another 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 will 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.

Ask how the audit committee assesses whether it has the capacity, composition and skill sets required to oversee its core responsibilities and the expanding range of emerging risks, and what measures are in place to address any identified gaps, including adjustments to committee size, recruitment of expertise or training.

Ask how the committee evaluates its own effectiveness, including how its workload is managed, how oversight responsibilities are coordinated across board committees, and what steps are being taken to ensure members remain equipped to oversee areas such as ESG, cyber, AI and geopolitical risk.

About KPMG Investor Insights

KPMG's Investor Insights programme has been set up to facilitate communication between auditors, who provide vital assurance over financial statements issued to the markets; and shareholders, who rely on that assurance.

Our programme aims to:

- Provide a forum to discuss and share perspectives on how corporate reporting and governance can evolve to meet investors' needs today and in the future;
- Explain the impact of developments in corporate reporting and assurance from an investor's point of view; and
- Enable investors to feed back their views on the companies we audit.

Visit our [web page](#) and follow KPMG Investor Insights on [LinkedIn](#) to see our latest publications and insights.

Contact us

Adia Khan

Investor Insights

E: adia.khan@kpmg.co.uk

E: ukfminv@kpmg.co.uk



Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.



kpmg.com/uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2025 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

CREATE: CRT162577A | July 2025