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AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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This Update summarizes recent developments regarding public company audit committees, their oversight of financial reporting, and the company's relationship with its auditor.

In This Update

What Should Be on the Audit Committee's 2026 Agenda?

At the beginning of each year, many accounting and consulting firms present their views on the issues that should be on audit committee agendas during the next 12 months. For 2026, those papers include:

- BDO, Audit Committee Priorities for 2026.
- EY Center for Board Matters, 2026 audit committee priorities: navigating complexity and change.

Dan Goelzer is a retired partner of Baker McKenzie, a major international law firm. The SEC appointed him to the Public Company Accounting Oversight Board as one of its founding CPA members, and he served on the PCAOB from 2002 to 2012, including as Acting Chair from 2009 to 2011. Dan was on the Securities and Exchange Commission's staff for 16 years and served as SEC General Counsel from 1983 to 1990. He chaired Deloitte's Audit Quality Advisory Council for eleven years, and, from 2017 to July 2022, was a Sustainability Accounting Standards Board member.

- KPMG Board Leadership Center, On the 2026 audit committee agenda.

- Protiviti, Setting the 2026 Audit Committee Agenda.

- PwC Governance Insights Center, Approaching the 2025 year-end financial reporting season.

For last year's audit committee agenda suggestions, see What Should Be on the Audit Committee's 2025 Agenda?, December 2024 Update; What Should Be on the Audit Committee's 2025 Agenda? – Part II, January 2025 Update; and What Should Be on the Audit Committee's 2025 Agenda? – Part III, February 2025 Update.

Frequent Agenda Suggestions

These papers examine audit committee agenda setting at varying levels of generality, and each firm has a unique perspective on how committees should allocate their time and attention. However, there are many common themes. Eight of the most frequent 2026 audit committee agenda topics, along with examples of firm suggestions on each, are described below:

1. Audit Committee Effectiveness and Skills (KPMG, Protiviti, PwC)

    - KPMG: "The continued expansion of the audit committee's 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 skills to oversee the major risks on its plate. Such an assessment is sometimes done in connection with an overall assessment of issues assigned to each standing board committee."

    - PwC: "For audit committees, assessments are an opportunity to confirm whether oversight is keeping pace with the business; quality of pre-reads and dashboards; clarity of risk ownership across committees; sufficiency of time on critical estimates, disclosures, and ICFR; and the depth of dialogue with the external auditor."

2. Oversight of AI, Cybersecurity, Data Privacy, and Data Governance (BDO, EY, KPMG Protiviti, KPMG)

    - BDO: "As generative artificial intelligence reshapes how the communication of financial data is analyzed, boards must reassess how disclosures are interpreted by both humans and machines, including both supervised and unsupervised models. This dual audience will reshape how communication is crafted. Generative AI tools increasingly perform sentiment analysis, keyword tracking, anomaly detection, and ESG risk mapping - functions that influence investor perception and regulatory scrutiny. Boards are urged to enhance their collective digital literacy and adopt oversight frameworks that address generative AI's dual role in innovation and risk exposure. Boards should evaluate if and how company reporting is optimized for AI-driven analysis and aligned with emerging regulatory standards and stakeholder expectations."

    - PwC: "AI introduces new technical risks - such as model manipulation and prompt injection—when connected to sensitive data or tools. These risks are now appearing in control environments (e.g. automated log analysis, identity analytics, narrative drafting), which means model design, monitoring, and fallback procedures matter for financial reporting, not just for IT. * * * From an oversight standpoint, an audit committee with cybersecurity oversight responsibility should treat AI as both an accelerant of cyber risk and an enabler of better defense—and confirm its oversight keeps pace. AI."

3. Geopolitical Uncertainty (BDO, EY, KPMG)

   - BDO: "We are navigating a complex environment shaped by evolving regulation, evolving tariff regimes, and dynamic geopolitical tensions. With the U.S. government re-opening in mid-November 2025, ACs are strongly encouraged to monitor regulatory activities of the SEC, PCAOB, and the activities of broader governmental agencies in both the U.S. and globally that will impact corporate decision-making. They should also evaluate whether their companies' finance functions are prepared for potential regulatory changes and actively engage management in scenario planning to anticipate and address possible impacts."

   - EY: "For example, geopolitical conflicts - such as wars and sanctions - can disrupt oil and gas supply chains, resulting in price volatility and energy shortages. These disruptions drive up energy costs, creating affordability issues for both households and businesses. Additionally, as AI adoption accelerates, the rising cost of energy makes data center operations and AI model training more expensive, potentially slowing innovation and broader implementation. Given the pace of change and the existential threats to companies, boards and audit committees are rethinking and questioning legacy approaches in organizations, such as risk management frameworks that approach risk in a linear way."

4. Internal Control Effectiveness and Deficiencies (EY, KPMG, Protiviti)

   - EY: "Audit committees should query whether any of the * * * frequently cited control weaknesses described in the [2025 Ideagen] report could be present in the company's control environment. Monitoring these and other financial-reporting-related trends may assist audit committees in focusing on the top accounting issues and maintaining high-quality financial reporting." (The report referenced in this passage is Ideagen Audit Analytics, SOX 404 disclosures: A twenty-year review (August 2025).)

   - Protiviti: "AI has driven layoffs and workforce transformations, which can have a profound impact on the effective operation of established internal controls. The risk is that, in planning AI initiatives, those controls may be an afterthought. This issue goes beyond managing the risks directly associated with AI and maintaining a "human in the loop." While AI may automate certain processes and even strengthen some controls, it can introduce new risks or weaken existing controls - such as segregation of duties - particularly during workforce reductions and organizational changes. Audit committees should ensure that the chief financial officer (CFO), chief audit executive (CAE), chief information officer (CIO), and others are advocating for sustaining the control structure throughout AI planning and implementation."

5. Internal Audit's Focus on New and Emerging Risks (EY, KPMG, Protiviti)

   - KPMG: "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. The audit committee should work with the chief audit executive and chief risk officer to help identify the risks, including industry-specific and mission-critical risks, that pose the greatest threat to the company's reputation, strategy, and operations, and help ensure that internal audit is focused on these key risks they're related controls."

   - Protiviti: "The accelerating integration of AI into assurance activities places new demands on internal audit. Success will depend on the function's capacity to combine advanced technology with professional skepticism, ethical judgment, and business acumen. Through active oversight and partnership, audit committees can help ensure internal audit remains a trusted, independent advisor that strengthens governance, enhances transparency, and upholds confidence in the company's integrity."

6. Risk Oversight (BDO, EY, PwC)

- BDO: "The oversight of enterprise risk management (ERM) is not confined to financial reporting. ACs can strengthen governance by regularly evaluating committee composition, structure, and effectiveness needs while clarifying roles, refining ERM frameworks, and fostering collaboration across committees. With rising threats from cybersecurity to fraud, boards need sharper focus on risk tolerance, crisis readiness, and management's effectiveness in identifying and mitigating emerging risks."

- PwC: "And while companies may be keenly focused on risks associated with matters that are front and center in today's business environment, such as those associated with AI/GenAI, cybersecurity, the geopolitical landscape, and regulatory changes, other risks may be lurking around the corner. These include risks associated with talent, like skills gaps in control functions; third-party concentration and outsourcer resilience; IT and ERP implementations; M&A transactions; and crisis response and disclosure readiness, to name a few. These risks rarely appear as a single headline item and can cascade quickly into financial reporting, controls, and disclosure challenges. It is essential for the audit committee to proactively monitor management's understanding of the evolving risk landscape and how prepared the company is for risks around the corner."

7. Regulatory Change (BDO, KPMG, Protiviti)

- BDO: "Chairman Atkins has stated that the SEC will prioritize a proposal related to quarterly reporting requirements and that he anticipates the proposal will give companies the option to report semi-annually or quarterly, letting the market dictate reporting. * * * Proponents of semiannual reporting argue that reduced reporting frequency lowers compliance costs and also enables executives to focus on long-term strategy, curbing short-term volatility. However, critics warn of diminished transparency, weakened investor confidence, and higher capital costs. * * * ACs should engage in this evolving dialogue to understand impacts to their stakeholders, their company, and participate in comment periods to help shape emerging guidance in this area."

- Protiviti: "Regulatory change ranks among the top five enterprise risks globally, along with geopolitical volatility - making clear board alignment on risk appetite and tolerance a governance imperative. In many organizations, the audit committee oversees management's processes for risk identification and assessment, including scenario planning and horizon scanning, and mitigation. In the U.S., an easing of certain federal enforcement priorities -- combined with a patchwork of evolving state-level rules over sustainability, data privacy and cyber security, as well as CSRD implications for global reporters - demands clarity on how much regulatory risk the company is prepared to accept. Board-level oversight of management's alignment of risk appetite with strategy and disclosures is now a critical stakeholder expectation."

8. Talent Management (EY, KPMG, Protiviti)

- EY: "As AI reshapes the workplace, boards will want to better understand how organizations are strengthening their talent foundations and evolving culture to support both talent health and effective technology use."

- Protiviti: "Beyond assessing internal skills and capabilities, management must consider the strategic utilization and mix of third parties - including consulting firms, contractors, and offshore resources - to supplement subject matter expertise and address spikes in demand. By focusing on these areas with senior leadership, the audit committee can help ensure organizational resilience and effective governance in a rapidly changing landscape."

CAQ's 2026 Audit Committee Action Plan

The Center for Audit Quality (CAQ) has created an audit committee action plan for 2026, based on the BDO, EY, and PwC agenda papers. The CAQ distilled those three papers into a ten-point plan:

1. Map 2026 risks to scenarios (economic, tariff/trade, cyber/AI, supply chain) and agree on triggers, decision rights, and escalation paths.

2. Update cyber incident response and AI governance (policy, model risk controls, change management, monitoring); set AC reporting metrics (e.g., time to detect, model drift indicators).

3. Be aware of leading SEC comment letter themes and focus on non-GAAP measures, MD&A clarity, segment reporting, and revenue recognition; ensure management has remediation plans and disclosure controls aligned with these trends.

4. Be aware of the top internal control issues in adverse ICFR management assessments and focus on accounting personnel resources, segregation of duties, information technology, inadequate disclosure controls, and non-routine transactions.

5. Assess Pillar Two/global minimum tax impacts (measurement, disclosures, controls) and confirm readiness in tax and consolidation processes.

6. Challenge impairment and going concern judgments amid interest rate and liquidity dynamics; review refinancing plans and covenant sensitivities.

7. Refresh fraud risk assessment and investigations protocol, including data driven detection and hotline triage; confirm auditor's use of data analytics and how AC will get insight.

8. Clarify AI in the audit and finance functions: understand where the external auditor uses tech/AI, the benefits/limits, and how management's AI controls interface with audit procedures.

9. Tighten cyber reporting to the board -define thresholds for "material incident," board ready dashboards, and linkage to enterprise resilience KPIs.

10. Revisit AC charter, skills, and education plan - ensure technology fluency (AI, data governance), transaction oversight (M&A comeback), and disclosure expertise are covered.

Audit Committee Takeaways

A high-level review of these papers could be helpful to an audit committee as it considers the issues it will need to address in 2026 and as a check to ensure it is not overlooking topics that should be on its agenda. Each paper also includes suggested questions for the audit committee to pursue with management or the auditor to better understand the topics. The questions provide a good starting point for discussion.

CAQ Reviews Form 10-K Climate, AI, and Digital Asset Reporting

The Center for Audit Quality (CAQ) has released an analysis of S&P 500 company Form 10-K disclosures on climate, artificial intelligence, and digital assets. Analysis of S&P 500 Companies' 10-Ks provides "a snapshot of what S&P 500 companies typically disclose and where they disclose that information within the 10-K" on these three topics. The CAQ's analysis examines the most recent Form 10-Ks for S&P 500 companies as of June 2025. (These reports generally relate to the company's 2024 fiscal year.) In addition, a CAQ blog post provides an overview of the analysis and highlights the fact that most of these disclosures appeared outside the financial statements. See AI, Digital Assets, and Sustainability: What Form 10-Ks Tell Us About Reporting Trends.

Analysis of Climate-Related Information

The CAQ’s review of S&P 500 companies' Form 10-K climate-related information reporting included disclosures on greenhouse gas emissions; net zero, carbon neutral, or other emissions reduction commitments; and reporting standards, frameworks, or requirements. Findings include:

- Climate-related disclosure is ubiquitous. The number of S&P 500 companies mentioning climate-related information in their 10-K remained consistent at 494 companies in both 2023 and 2024.

- Most S&P 500 companies that provide climate-related disclosure do so in their Form 10-K in Item 1A (Risk Factors) or Item 1 (Business). Sections of Form 10-K in which climate-related information appears less frequently include Item 7A (Quantitative and Qualitative Disclosures About Market Risk), Item 3 (Legal Proceedings), and Item 2 (Properties).

- Disclosure of a net zero or carbon neutral commitment decreased 16 percent (from 142 companies to 119 companies) in fiscal 2024 compared with 2023. Seventy-four companies, 19 percent fewer than in the prior year, reported a GHG emissions reduction goal.

- Climate-related disclosures in the financial statements increased by approximately 18 percent from the prior year. Most mentions of climate-related information in Item 8 (Financial Statements) appear in one of four types of footnotes – significant accounting policies, commitments and contingencies, debt or borrowing arrangements, or income taxes.

- Approximately 13 percent of S&P 500 companies disclosed using specific sustainability reporting standards or frameworks in their Form 10-K, a decrease of four percent from the prior year. The most frequent standards or frameworks were those of the Task Force on Climate-related Financial Disclosures, the Sustainability Accounting Standards Board, and the Global Reporting Initiative. Roughly 21 percent of S&P 500 companies mentioned the European Union’s Corporate Sustainability Reporting Directive, up nine percent from the prior year.

Analysis of AI-Related Information

The CAQ found that AI is transforming business operations and that Form 10-K reporting is beginning to reflect that change. AI reporting highlights include:

- The CAQ observed that 448 S&P 500 companies, or 90 percent, mentioned AI-related information in their 2024 Form 10-K. This was an increase of almost 25 percent from the 359 companies that did so in 2023.

- The S&P 500 companies that disclosed AI-related information in their Form 10-K did so most frequently in Item 1A (Risk Factors) or Item 1 (Business). References to AI also appeared in Item 7 (MD&A), Item 8 (Financial Statements), and Item 1C (Cybersecurity). An increasing number of companies also mentioned AI-related information in their Cautionary Note Regarding Forward Looking Information.

- While the type of AI information disclosed varied, there were some common themes. For example, when discussing AI-related topics in Risk Factors, companies were largely focused on legal, regulatory, cybersecurity, ethical, and reputational risks. In the Business item, companies discussed their use of and investments in AI-related technologies and often indicated how they incorporated AI into new or existing products or services or into internal operations. In MD&A disclosures, companies often discussed AI-related acquisitions, investments in AI-related products or services, or AI-related enhancements to internal operations and infrastructure.

- AI-related disclosures in the financial statements increased by more than 50 percent from the prior year. The greatest increase in these disclosures related to acquisitions, description of business, and significant accounting policies.

Analysis of Digital Asset-Related Information

The CAQ observes that, as digital assets "continue to influence financial systems and corporate strategy, companies are beginning to address them in their public filings." Examples of digital asset disclosures in the CAQ's study included mentions of cryptocurrency, Ethereum, and Bitcoin. CAQ findings on digital asset disclosures include:

- Only 47 S&P 500 companies, or approximately nine percent, mentioned digital asset-related information in their most recent Form 10-K. Thirty-seven of those companies mentioned digital assets in Item 1A (Risk Factors). Some companies also referenced digital asset-related information in Item 8 (Financial Statements) (15 companies), Item 1 (Business) (14 companies), and Item 7 (MD&A) (ten companies). A smaller number of companies included digital asset information in Item 1C (Cybersecurity).

- While the type of digital asset information disclosed varied, there were common themes. For example, in Risk Factors companies discussed regulatory risks, market volatility, and technological risks associated with digital assets. Most companies that included digital asset disclosure in the Business section were financial institutions, exchanges, or payment processors. These companies discussed platforms and products that enable customers to buy, sell, and hold digital assets. In MD&A disclosures, most companies discussed digital asset-related platforms and products or referred to digital assets in discussing revenue or other income.

- Most mentions of digital asset-related information in the financial statements appeared in notes discussing the company's significant accounting policies. While less common, some companies also discussed digital asset-related matters in footnotes on commitments and contingencies, fair value measurement, goodwill and other intangibles, segments, and revenue.

Implications for Auditors

As noted above, Desiré Carroll, CAQ's Senior Director, Professional Practice, published a blog post on the CAQ's S&P 500 disclosure study. She describes as a "key takeaway" of the report the fact that "much of what companies are disclosing about AI, digital assets, and sustainability is largely being disclosed in sections of the 10-K that are not the financial statements. This means that the information is not being audited as part of the financial statement audit." Professional standards only require the auditor to "read and consider" Form 10-K disclosures that are not part of the financial statements.

Although most climate, AI, and digital disclosures appear outside the financial statements, it is becoming more common for companies to voluntarily obtain third-party assurance over nonfinancial statement disclosures. Ms. Carroll states that "73% of S&P 500 companies that report standalone sustainability information already obtain assurance over certain of that information in an assurance engagement that is separate and apart from the audit of the financial statements."

Audit Committee Takeaways

The CAQ's findings show that disclosures on climate, artificial intelligence, and digital assets, although generally voluntary, are important aspects of S&P 500 company Form 10-K reporting. Despite some backlash against climate disclosure, many investors remain interested in the topic, and companies continue to provide this information. The one exception appears to be climate-related commitments, where disclosure has slipped. On the other hand, Form 10-K disclosures regarding AI and digital assets are, not surprisingly, growing rapidly compared to previous years' 10-K filings.

Audit committees may want to use the CAQ's study as an opportunity to review their company's disclosures on these three topics and consider whether they should be enhanced. As the CAQ states, "It's critical that companies clearly communicate how these topics are impacting operations, from potential risks to possible financial statement impacts, to foster investor and public trust in their disclosures."

PCAOB Investor Advisory Group Has Suggestions to Improve CAMs

Members of the Public Company Accounting Oversight Board's Investor Advisory Group (IAG) have published The Second Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters For 2024. The report discusses four topics: a brief history of critical audit matters (CAMs), the IAG's activities related to CAMs, the findings of the IAG's CAM evaluation process, and suggestions for improving CAMs. For audit committees, the IAG report provides insight into how investors view CAM reporting and how they would like it enhanced. Below is an overview.

History of CAMs

The PCAOB adopted the CAM requirement in 2017. See PCAOB Adopts New Auditor's Reporting Model, May-June 2017 Update. A CAM is any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that relates to accounts or disclosures that are material to the financial statements and involves especially challenging, subjective, or complex auditor judgment. Under the PCAOB's auditing standards, an audit report must identify each CAM and describe the principal considerations that led the auditor to determine that the matter is a CAM, describe how the CAM was addressed in the audit, and refer to the relevant financial statement accounts or disclosures.

The International Standards on Auditing (ISAs), which govern most audits outside the U.S., incorporate a similar requirement. Under the ISAs, the auditor's report must include key audit matters (KAMs), defined as those matters that were communicated to those charged with governance and that, in the auditor's professional judgment, were of most significance in the current period audit of the financial statements. The auditor's report must describe the most significant assessed risks of material misstatement (whether or not due to fraud); summarize the auditor's response to those risks; and, where relevant, discuss key observations with respect to those risks.

IAG Activities Related to CAMs

Since 2024, the IAG has annually requested nominations from the general public (including public company issuers, auditors, financial analysts, and investors) for the most decision-useful CAM or KAM in an audit report filed with the SEC as part of a Form 10-K or Form 20-F for the prior fiscal year. See Read Any Good CAMs Lately? The PCAOB's Investor Advisory Group Wants to Know, May-June 2024 Update. The IAG selects the top three CAMs/KAMs from among the public nominations. In 2025, the three CAMs/KAMs that received the most IAG votes were:
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- "Cost Estimates for Fixed-Price Development Contracts," which appeared in Deloitte & Touche LLP's audit report on the 2024 financial statements of The Boeing Company. (Deloitte conducted this audit under the PCAOB's auditing standards, including the CAM requirement.)

- "Long-term contract accounting and associated provisions," which appeared in PricewaterhouseCoopers LLP's audit report on the 2024 financial statements of Rolls-Royce Holdings plc. (PwC conducted this audit under the U.K.'s version of the ISAs, including the KAM requirement).

- "Uncertain direct tax provisions," which appeared in KPMG LLP's audit report on Compass Group PLC. (KPMG conducted this audit under the U.K.'s version of the ISAs, including the KAM requirement).

IAG Findings and Analysis

Two of the three most useful 2024 CAM/KAM reports were prepared under the U.K.'s ISAs, and the IAG report opines that the U.K. "continues to lead the world in the quality of Auditor Reports, and likely overall audit quality." The report cites two reasons for its belief in the U.K.'s leadership:

- U.K. KAMs are "better formatted in that they contain conclusions and more quantitative information, explaining to the investors what the auditors have found, in addition to what they have done."

- U.K. KAMs often explore lesser-known areas, such as the effect of tax provisions. "Exploring lesser-known topics of investors' interest is important, and it distinguishes value-added CAMs from those that are merely fulfilling regulators' expectations * * * ." The IAG adds that the purpose of CAM reporting is "to remediate against the information asymmetry between investors and management and help investors make more prudential investment decisions," but that, at present, many CAM disclosures simply repeat matters addressed in prior years.

Suggestions for Improvement

The IAG report concludes with three recommendations for improving CAM reporting:

- CAMs should include what the auditors found. "To facilitate communication, auditors should present their findings by including a detailed conclusion." The IAG recommends that the PCAOB amend the CAM standard to require the auditor to describe its conclusions. Currently, the PCAOB standard merely states that the auditor "may describe" such matters as the outcome of the audit procedures performed and key observations with respect to the CAM.

- CAMs should explore non-routine topics that are more likely to provide decision-useful information. The report states: "Perhaps fearing that unique CAMs will reveal information that the management would prefer not to be disclosed, many auditors use the same topics for their CAMs every year. However, repeating CAM topics may offer little additional information to investors." The IAG encourages auditors to use CAMs "as an opportunity to actively explore more unique, lesser-understood topics, such as tax provisions, to communicate with investors."

- The number of CAMs reported should increase. The number of CAMs has decreased over time. See Most Audit Reports Contain a CAM, But Only One, November-December 2025 Update. The IAG report recommends that auditors consider increasing the number of CAMs in their reports.

In addition to these steps to improve CAM reporting, the IAG members also suggest adding quantitative information to CAM disclosures, providing more description of the audit procedures performed, using more bullet points, and increasing coverage of CAMs on investment research platforms.

Audit Committee Takeaways

In the near term, it is unlikely that the PCAOB will expand the CAM requirement or encourage firms to expand their CAM reports. However, if users remain dissatisfied with the scope of CAMs, audit firms may come under investor pressure to voluntarily implement the IAG's recommendations, particularly those relating to the number of CAMs and the tendency to repeat the same CAMs each year. Audit committees may want to discuss these ideas with their auditor and make sure they understand the reasons for the auditor's approach to CAM reporting. Audit committees may also want to obtain input from the company's investor base on possible improvements to CAM reporting.

E.U. Approves Sustainability Reporting and Diligence Simplification

On December 16, the European Parliament approved Omnibus I, a package of amendments to the E.U.'s Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD or CS3D). These reforms, proposed by the European Commission in February 2025, reduce sustainability reporting burdens, simplify the CSRD and CSDDD, and narrow the scope of companies subject to the directives. See E.U. is Dialing Back Sustainability Reporting and Due Diligence, March-April 2025 Update. For U.S. companies with E.U. sales or subsidiaries, Omnibus I may change whether the company is in scope, and when and how E.U. sustainability rules apply.

CSRD requires in-scope companies to include in their annual report a standardized sustainability statement that discloses how sustainability matters affect the business and how the business affects people and the environment. The statement, which is subject to third-party assurance, must comply with the European Sustainability Reporting Standards and cover governance, strategy, risks, metrics, and targets environmental, social, and governance topics. CSDDD requires in-scope companies to conduct a risk-based human rights and environmental due-diligence process across their operations, subsidiaries, and key business partners. The objective of the process is to identify, prevent or mitigate, and remediate adverse human rights and environmental impacts.

Omnibus I will affect the application of CSRD and CSDDD to both E.U. and non-E.U. businesses. Some U.S. public companies with activities in the E.U. will no longer be subject to the directives, and those that remain subject may have new compliance timelines and disclosure obligations. Below is a high-level overview of some of the key changes.

- Omnibus I refocuses CSRD on larger businesses. In practice, E.U. company and group CSRD reporting will be limited to larger companies -- typically those with more than 1,000 employees and a worldwide net turnover of at least €450 million. Previously, these thresholds were 250 employees and €50 million in worldwide net turnover. Non-E.U. groups will be in scope only if the ultimate parent company generates turnover of more than €450 million in the E.U. during each of the last two years and has at least one E.U. subsidiary or branch with more than €200 million of E.U. turnover. The previous threshold for non-E.U. parent companies was €150 million E.U. net turnover and a subsidiary or branch generating €40 million in net turnover. These changes should eliminate from coverage roughly 90 percent of entities that previously anticipated being in scope. As a result, many U.S. companies with only limited E.U. operations that were previously expecting to be subject to CSRD requirements will now fall outside the directive.

- The "Stop-the-clock" directive adopted last year extends most companies' CSRD compliance deadlines. Apart from large E.U. public interest entities that have already begun CSRD reporting for 2024, E.U. companies and groups will start CSRD reporting with fiscal years beginning on or after January 1, 2027. Non-E.U. ultimate parent companies will start reporting with fiscal years beginning on or after January 1, 2028.

- Omnibus I simplifies CSRD reporting. It places greater emphasis on quantitative information, rather than narrative. Sector-specific disclosures will be voluntary. In addition, Omnibus I postpones the deadline for obtaining third-party limited assurance over CSRD reporting to 2027 and eliminates the requirement to move eventually from limited to reasonable assurance.

- CSDDD now applies only to E.U. companies with more than 5,000 employees and worldwide net turnover above €1.5 billion, up from €450 million and 1,000 employees. Non-E.U. companies will be subject to the CSDDD if they generate E.U. net turnover above €1.5 billion; the prior threshold was €450 million. These changes will mean that only very large companies with substantial E.U. revenue will be covered and will likely reduce in-scope entities by about 70 percent.

- Omnibus I replaces the prior CSDDD requirement that in-scope companies map human rights and environmental risks throughout the company's value chain with a two-step approach that relies on reasonably available information and focuses on areas where severe adverse impacts are likely. CSDDD will require companies to perform in-depth risk assessments only in the areas where they identify the most serious risks. When an in-depth assessment is required, a company can limit information requests to business partners with fewer than 5,000 employees to situations in which the company cannot reasonably obtain the necessary information by any other means.

- CSDDD will no longer require companies to adopt and implement a climate transition plan.

- CSDDD will no longer require member states to create a civil liability scheme for the recovery of damages from companies that fail to comply with CSDDD due diligence risk mitigation obligations. Each member state may decide whether to impose a civil liability.

Audit Committee Takeaways

Audit committees of companies with any level of contact with the E.U. should ensure that management considers how Omnibus I affects the company's CSRD and CSDDD obligations. Audit committees should discuss with management the need to refresh the company's analysis of whether it meets the thresholds or whether the company may no longer be in scope. Such an analysis should focus on E.U. turnover, headcount, and E.U. subsidiary/branch structure.

For companies that remain in scope, management should update its CSRD/CSDDD implementation plan to reflect the new timelines and simplified requirements and discuss with the committee the company's revised compliance resource needs. Many in-scope U.S. companies also do business in California and will be subject to California's climate disclosure requirements. Although the status of California's rules is in flux, audit committees may want to explore with management opportunities to coordinate CSRD/CSDDD and California compliance. See Court of Appeals Pauses California Climate Disclosures, November-December 2025 Update.

On the Update Radar: Things in Brief

SEC is Rethinking its Disclosure Requirements. Securities and Exchange Commission Chair Paul Atkins has announced that the Commission will undertake a comprehensive review of Regulation S-K, which contains the core public company disclosure requirements. See Statement on Reforming Regulation S-K. In his January 13 statement, Chair Atkins said that during the past 40 years, the requirements of Regulation S-K have "grown from the size of a gym locker to the size of an artificial-intelligence data center" and that the disclosure companies provide in response "does not always reflect information that a reasonable investor would consider important in making an investment or voting decision."

The Regulation S-K review process in effect began in May 2025, when the SEC solicited public comments and held a roundtable on the executive compensation disclosure requirements in Item 402 of Regulation S-K. At Chair Atkins's direction, the staff will now focus on other aspects of the Regulation "with the goal of revising the requirements to focus on eliciting disclosure of material information and avoid compelling the disclosure of immaterial information." The Commission has invited comment from the public on Regulation S-K reform through April 13, 2026. Submissions will be available here on the SEC's website.

The SEC is likely to be receptive to changes that reduce or simplify the disclosure requirements, and companies and their audit committees may want to consider submitting suggestions for Regulation S-K reform. Comments concerning currently-required disclosures that the committee views as burdensome or duplicative, or as requiring information that is immaterial, would be of particular interest to the SEC staff. Any specific proposals that result from the Regulation S-K review will be subject to public comment, and audit committees should stay informed of the SEC's work on this project.

Most public companies would of course regard disclosure simplification as a positive development. At the same time, a reduction in required disclosures may increase the need for management and the audit committee to make difficult judgments about whether particular information is material and should be disclosed, notwithstanding the absence of a specific line-item disclosure requirement.

SEC Chief Accountant Sends Signals on PCAOB Priorities. In early 2026, the Securities and Exchange Commission will appoint a new PCAOB Chair and, in all probability, a new slate of Board members. Given the SEC's deregulatory priorities, the new PCAOB is likely to make significant changes to the Board's agenda. During the AICPA's December 2025 Conference on Current SEC and PCAOB Developments, SEC Chief Accountant Kurt Hohl offered hints as to what that agenda may include.

Mr. Hohl's statement touched on a wide range of accounting and financial reporting issues. With respect to SEC oversight of the PCAOB, he highlighted four points:

- The new PCAOB should take a fresh look at its inspection process. In particular, the Board should consider whether inspection reports provide meaningful information to stakeholders. "The PCAOB could consider whether shifting its inspection process toward the review of a firm's system of quality management, corroborated by engagement-level reviews, provides more relevant information about audit quality."

- The PCAOB should employ a more transparent and responsive audit standard-setting process. The Board should consider adopting an agenda consultation process "to solicit public comment on projects for which both an identifiable problem and feasible solutions exist." The Financial Accounting Standards Board uses such a consultation process.

- The PCAOB should more closely align its auditing standards with those of the International Auditing and Assurance Standards Board (IAASB) and look to the IAASB when considering its agenda and updating its rules and standards. (At present, while the PCAOB considers the IAASB's standards, there are significant differences between the two boards' standards.)

- The PCAOB should establish a consultation process to address questions related to the interpretation of audit standards. "Such a process could further enhance audit quality, serve to avoid unnecessary inspection findings, and foster a more collaborative regulatory environment."

While these changes would affect audit firms more directly than audit committees, they would have significant downstream effects on committee oversight of the auditor. The SEC is likely to appoint new PCAOB Board members soon, and audit committees should stay informed of their priorities.

In particular, changes to the inspection process that deemphasize engagement reviews and prioritize firm quality control processes would affect the information available to committee members and the way they evaluate their auditors' work. In addition, a more transparent process for setting the Board's audit standard-setting agenda could potentially give audit committees a more influential voice in standard-setting. As discussed in prior Updates, during the Bider/Gensler/Williams era, the PCAOB undertook several standard-setting projects that met with considerable resistance from audit committees. See, e.g., Audit Committee Members Weigh in on NOCLAR Proposal, August-September 2023 Update.

The Audit Blog

The Audit Blog provides commentary on developments in auditing and financial reporting, auditor oversight and regulation, and sustainability disclosure. Recent posts include –

- PCAOB Board Member Pay Cuts and What They May Mean for Audit Oversight (Dan Goelzer, January 25, 2026)

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An index to titles and topics in the Update beginning with No. 39 (July 2017) is available here.