

EY Center for Board Matters

How audit committees can prepare for 2023 Q3 reporting



Presented by the EY Audit Committee Forum

In this edition of our quarterly review of issues affecting audit committees, we summarize key developments for audit committees to consider. The audit committee role continues to grow more demanding and complex amid fast-paced change, and this report will assist audit committees as they proactively address recent and upcoming developments impacting Q3 reporting and beyond.

In brief

- ▶ In a rapidly evolving risk landscape, audit committees continue to focus on supporting enterprise resiliency and enhancing oversight.
- ▶ Leading audit committees are focused on how management is preparing for potential regulatory changes – including the recently finalized SEC cyber rules.
- ▶ It is important for audit committees to understand the implications of tax policy changes in response to the OECD's impending Pillar Two tax model.

Risk management

Boards and audit committees continue to face sharper challenges in navigating a risk environment that has become more expansive, complex and interconnected. We recently surveyed 500 global directors to uncover how leading boards are overseeing enterprise risk management and actions boards can take to improve risk oversight.

Some notable highlights from our Global Board Risk survey include:

- ▶ Resilience – the ability to anticipate, prepare for, respond and adapt to a changing environment – continues to be a crucial area of focus for boards and management teams. Boards can continue to add value by supporting management in horizon scanning and scenario planning to identify and capitalize on changes in the business environment before they become risks.
- ▶ We find that highly resilient boards behave differently in five key areas: emerging risks, talent and culture, sociopolitical issues, sustainability, and technology.
- ▶ Nearly 60% of boards agree that emerging risks are insufficiently addressed in risk management frameworks. This suggests that the risks with the biggest increase in concern are also some of the most difficult to identify, track and manage. Integrating risk management with strategy and performance management by embedding risk into core strategic processes will be key to addressing the challenge.
- ▶ Directors rank geopolitical events, supply chain disruption and cyber attacks/data breaches as the top three risks that will have a severe impact on the business during the next 12 months. Additionally, the risks associated with new market entrants, misaligned culture and increased remote/distributed working are noted as the top three risks that have grown in importance since the prior survey.

- ▶ The survey findings clearly reflect the growing importance of environmental sustainability in building resilience and enabling future organizational success. Two-thirds of boards believe that being environmentally sustainable is integral to the resilience of the business. Additionally, a majority of boards reported more scrutiny from investors around overall environmental, social and governance (ESG) performance, and recognize that it will increasingly be a factor in accessing capital markets.
- ▶ A majority of boards agree that addressing sociopolitical issues builds trust with employees and customers. Accordingly, boards are extending oversight over responses to sociopolitical issues.
- ▶ Only 31% of boards say their oversight of the risks arising from digital transformations is very effective. Education and upskilling will be crucial for boards to balance tech adoption and risk exposure in this ever-changing area – and to help their organizations to capitalize on the opportunities.

As companies build enterprise resiliency and revisit their risk management practices, audit committees and boards should continue to monitor the risk landscape and assess implications to the company. Refer to our 2023 Global Board Risk Survey for additional insights into what leading boards are doing to improve risk oversight and drive long-term growth and transformation.



Key trends in public company board practices and oversight

The National Association for Corporate Directors (NACD) recently released its 2023 NACD Public Company Board Practices and Oversight Survey Report, which provides an overview of boardroom practices in several critical areas, including ESG, artificial intelligence (AI), and human capital.

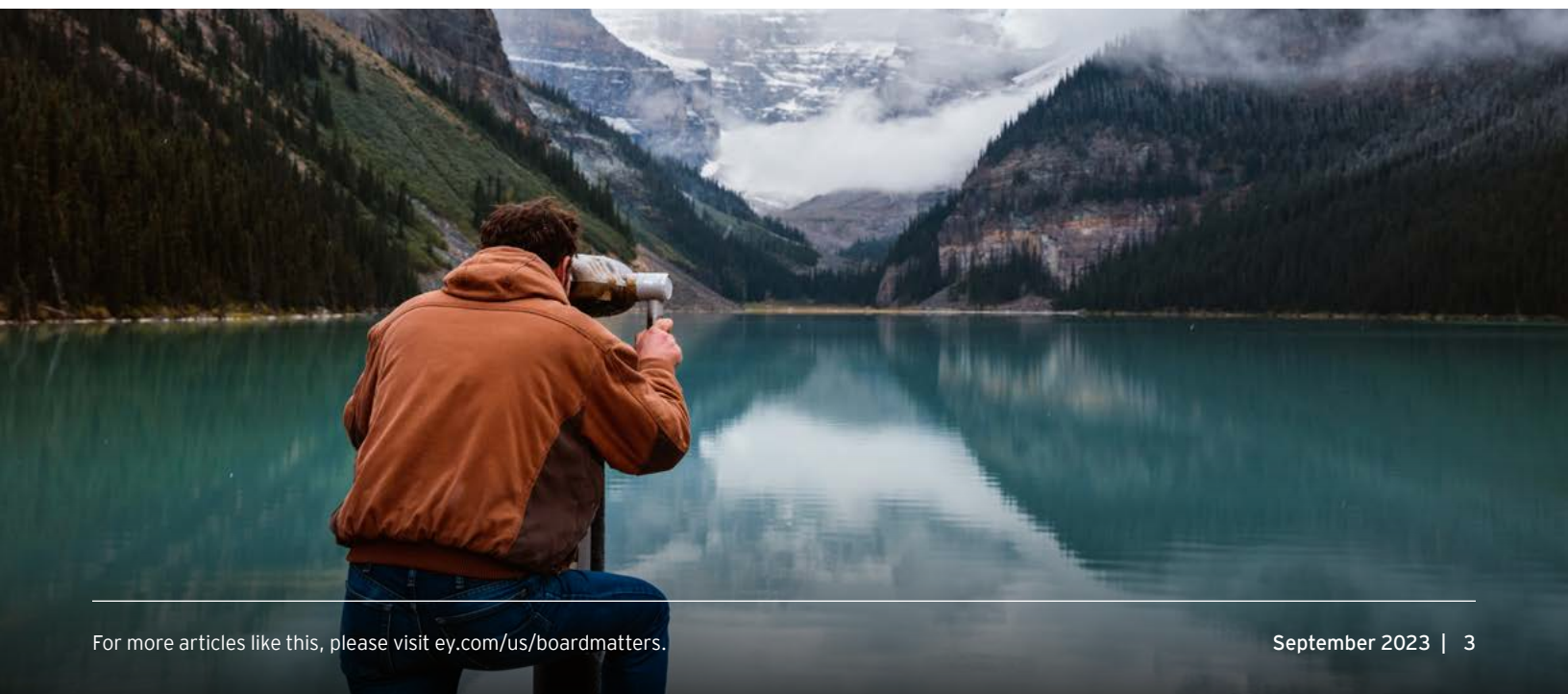
We've excerpted and highlighted the key findings from that report below:

- ▶ **Board focus on artificial intelligence is in its early stages:** Ninety-five percent of directors believe that the increased adoption of AI tools will impact their businesses, but it is not yet discussed regularly. Only 28% of respondents indicate that the topic of artificial intelligence features regularly in board conversations.
- ▶ **Boards steadfast in focus on ESG, but challenged by unclear standards:** Despite growing debates about ESG, more than half (58%) indicate that ESG issues have actually increased in priority. Their main governance challenge is a lack of uniform disclosure standards, which complicates measurement and reporting of ESG-related activities. In fact, 46% of respondents cite the lack of uniform standards as the most challenging aspect of providing oversight to ESG issues.
- ▶ **Climate issues increasingly feature in board discussions:** Forty-four percent of respondents indicate that the frequency of climate change-related board discussions has increased over the past two years. This increase in board focus coincides with a slight increase in more concrete action by the

companies these respondents oversee. Forty-six percent of respondents indicate that their company now has established climate targets, and that they are on track or ahead of schedule in reaching these targets.

- ▶ **As board engagement on human capital grows, more formal oversight practices are emerging:** Boards are just starting to formalize their oversight of human capital issues. Only 34% have delegated specific human capital oversight elements to relevant committees and only 52% have discussed human capital strategy as a recurring agenda item. Boards are starting to apply the same rigor to human capital oversight as they do to financial reporting and strategy. For example, 36% assess how human capital drives performance and 44% evaluated the effectiveness of the chief human resources officer (CHRO).
- ▶ **Board culture can be undermined by problematic individuals and group dynamics – and virtual meetings:** Thirty percent of respondents considered problematic individuals to be among the most significant barriers to sustaining an effective board culture, underlining the impact of each individual director. Many boards have gained efficiencies through the use of virtual meetings, but excessive use of such meetings may exacerbate these barriers. A quarter of directors indicate that the lack of in-person interactions during virtual meetings has diminished the quality of discussion (26%) or board collegiality (26%).

Sourced and adapted from: 2023 NACD Public Company Board Practices and Oversight Survey, July 2023



Accounting and disclosures

We expect audit committees will continue to evaluate evolving impacts stemming from the uncertain economic environment and ongoing changes in the business environment on their financial reporting processes. Below is a summary of some of the latest developments in financial reporting.

SEC chief accountant's statement on importance of a comprehensive risk assessment:

SEC Chief Accountant Paul Munter issued a statement discussing the importance of management's and auditors' risk assessments for the financial reporting process and the effectiveness of internal control over financial reporting. The statement noted that the SEC has been troubled by instances in which there was a narrow focus on information and risks that directly impacted financial reporting and internal controls and there was less emphasis on broader entity-level issues that may also impact financial reporting and internal controls. Audit committees should verify that management is maintaining effective risk assessment processes and determining whether control deficiencies identified indicate a broader, more pervasive deficiency at the entity level.

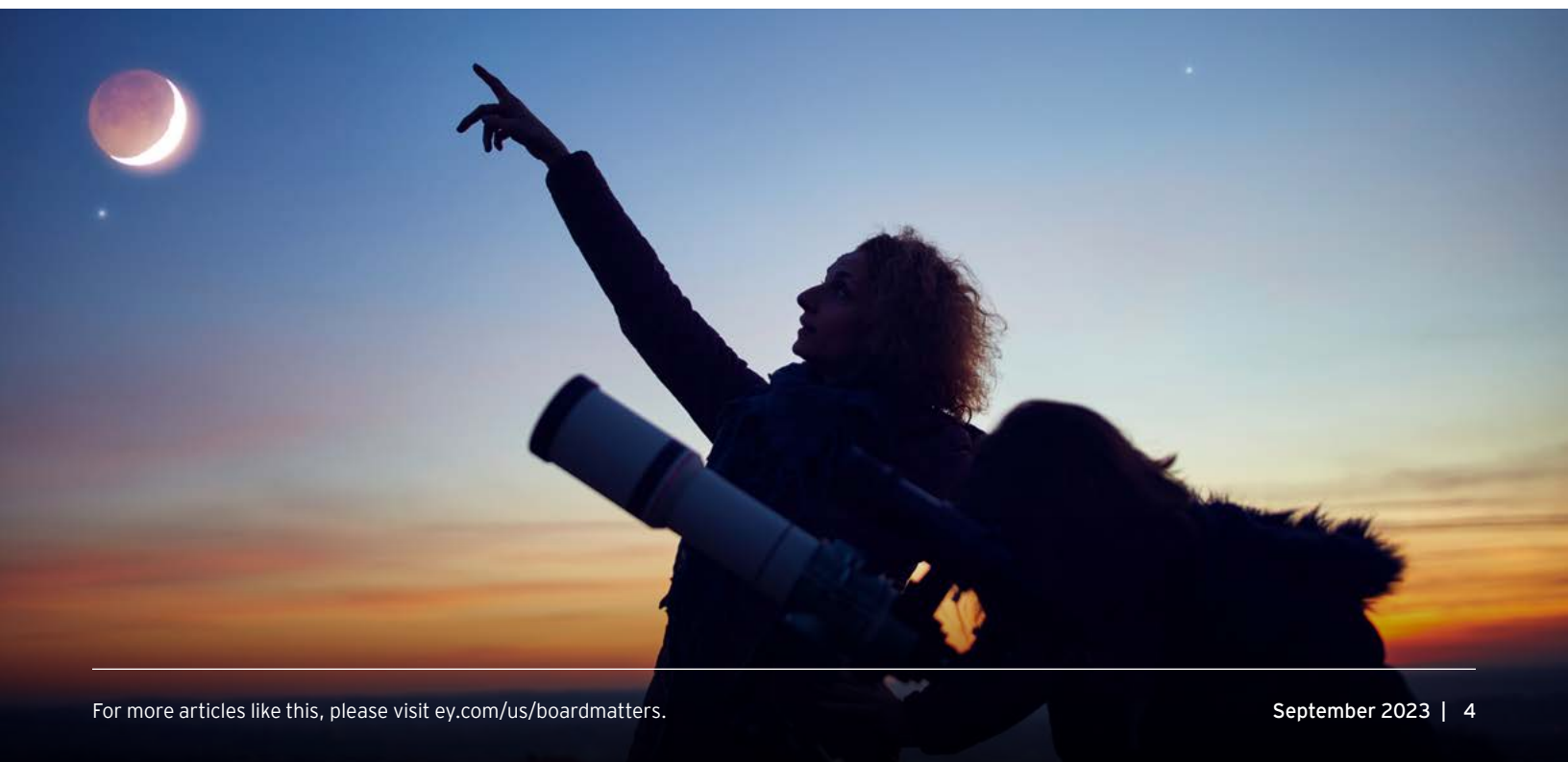
EC adopts sustainability reporting standards:

The European Commission (EC) adopted its first set of European Sustainability Reporting Standards (ESRS) for use by all companies subject to the Corporate Sustainability Reporting Directive (CSRD) of the European Union (EU). The ESRS require entities to make sustainability disclosures, including certain climate disclosures.

The ESRS require an entity to disclose in its management report how material climate-related risks and opportunities have affected its current financial performance, financial position and cash flows and the material risks and opportunities for which there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next annual reporting period.

An entity is also required to disclose how it anticipates financial performance, financial position and cash flows will change over the short, medium and long term under the effects of material climate-related risks and opportunities. Compliance with the final standards will be mandatory after the CSRD is included in the local law of each EU Member State, which is required by July 2024.

While the CSRD is binding on EU Member States, the states have some authority to choose the form and methods to achieve the required result as they incorporate the directive into local law. Audit committees should verify that management teams are monitoring the local laws of relevant EU jurisdictions.



What audit committees need to know about the impending global minimum tax under the OECD's Pillar Two GloBE model rules

More than 135 jurisdictions (including the United States) participating in the OECD Inclusive Framework have agreed on a new global minimum tax mechanism under Pillar Two of the Base Erosion and Profit Shifting (BEPS) Project. Pillar Two consists of the Global Anti-Base Erosion (GloBE) model rules designed to ensure that all large multinational enterprises (MNEs) pay at least 15% income tax in all countries of operation.

The mechanism is structured to give countries the right to impose "top-up taxes" on low-taxed foreign income earned by MNEs to which they have a connection, up to the agreed 15%.

Countries have begun enacting their Pillar Two regimes. The new global minimum tax rules will take effect for years beginning after 31 December 2023.

Entities should begin preparing by making sure that they have the appropriate processes and controls in place. We would expect that most external audit teams will plan to review management's processes and preliminary controls prior to the end of 2023.

Expected number of companies affected: ~4,000

- ▶ Pillar Two is applicable to public and private companies alike.
- ▶ It is applicable to companies that have revenues >EUR750 million (USD825 million based on 1.1 f/x) = 3,958 public companies.¹

Potential impacts: ~\$220b in estimated tax revenue

- ▶ OECD estimates Pillar Two will yield USD220 billion² (7.1%) of additional corporate tax revenue per year.

¹ Companiesmarketcap.com, 10 May 2023.

² OECD Economic Impact Assessment of the Two-Pillar Solution, 18 January 2023.

Key considerations:

- ▶ Pillar Two is calculated by jurisdiction, not legal entity, based on modified book income and modified book tax expense amounts combined for all "constituent entities" operating in each jurisdiction. Accordingly, many companies with book effective tax rates (ETRs) <15% will be subject to Pillar Two top-up tax.
- ▶ Companies will require new data for unique/complicated calculations and should address the IT systems implications immediately. Companies completing finance transformation

or system upgrades should include plans for Pillar Two data requirements. Additionally, companies should begin to consider any disclosures if the impacts of Pillar Two are expected to materially impact their tax exposures.

- ▶ Due to the complexity involved, companies expect significant additional time spent by tax department resources.
- ▶ Auditing income taxes will require additional substantial procedures at the jurisdictional level, which include validating the historical legal entity scope and testing of IT controls within the tax provision process.



SEC rulemaking and other reporting considerations

Both the SEC and the US Public Company Accounting Oversight Board (PCAOB) have recently taken actions impacting public companies, including a long-awaited final SEC rule to require disclosure of cybersecurity incidents and related risk management, strategy and governance matters and a proposed PCAOB standard regarding noncompliance with laws and regulations (NOCLAR).

SEC: The SEC adopted [rules](#) requiring registrants to disclose information about material cybersecurity incidents on Form 8-K within four business days of determining that the incident is material. The rules also require nearly all registrants to describe the processes they use to assess, identify and manage cybersecurity risks, as well as the board's oversight of such risks and management's role in assessing and managing such risks in their annual reports. The SEC modified the final rule in several areas compared with the proposal, including by eliminating a proposed requirement to disclose director expertise in cybersecurity, as well as the name and description of the relevant experience of those directors. The SEC said the rules are intended to make sure that registrants disclose material cybersecurity information and provide investors with more consistent, comparable and decision-useful information.

The SEC remains focused on companies' use of non-GAAP financial measures in earnings releases and SEC filings and whether such metrics could potentially mislead investors. The volume of SEC staff comment letters on this topic increased close to 50% for the year ended 30 June 2023 as compared with the prior year. Registrants should be mindful of the SEC rules and staff guidance when presenting non-GAAP financial measures that must comply with Item 10(e) of Regulation S-K and Regulation G, which requires significant judgment. When considering the impact of economic conditions on the business, it would generally be inappropriate to disclose a non-GAAP measure of operating performance that normalizes operations or eliminates recurring operating expenses. Audit committees should understand the use and purpose of non-GAAP financial measures, including the adjustments and any judgments made by management, and review related disclosures to ensure clear explanations of these measures are provided.

Audit committees should also understand management's plans to update, as necessary, existing policies and compensation plans as a result of the SEC's [final rule](#) on erroneously awarded compensation (also known as clawbacks) issued in October 2022. The final rule requires exchanges to establish listing requirements to mandate that issuers develop, implement and disclose their

policies on recovering incentive-based compensation received by current or former executive officers when there is an accounting restatement of the financial statements due to an error. The SEC has approved the listing standards finalized by the NYSE and Nasdaq to implement the clawback rule. The standards are effective on 2 October 2023, and registrants listed on those exchanges are required to adopt compliant clawback policies by 1 December 2023 and disclose those policies in an exhibit to the annual report filed thereafter.

SEC Chair Gary Gensler has called attention to AI in recent [remarks](#), stating that AI is "the most transformative technology of our time." He outlined a series of risks relating to AI's use in the capital markets, including conflicts of interest, disruption of financial stability, opportunities for fraud and loss of privacy, and intellectual property, observing that these issues "are not necessarily new to AI but are accentuated by it." Audit committees may want to discuss with management areas where the company's AI use could intersect with the securities laws.

PCAOB: In June, the PCAOB voted to propose a new [NOCLAR standard](#) that could significantly impact issuers. The proposal would expand auditor requirements to identify, evaluate and communicate possible or actual noncompliance with laws and regulations. In issuing the proposal, the PCAOB stated that the proposal would facilitate auditors with finding instances of noncompliance earlier, which would help protect investors. Both CPA members of the PCAOB Board (Duane DesParte and Christina Ho) voted against the proposal, though, raising concerns that it would result in expanded audit scope and cost. Issuers and business groups have raised similar concerns. Audit committee members may want to discuss the potential impact of the standard with their auditor and the company's general counsel.

In July, the PCAOB issued a [staff spotlight on 2022 inspection observations](#) stating that the staff expects a higher number of audit engagements with inspection deficiencies in 2022 than in 2021. In an accompanying [statement](#), PCAOB Chair Erica Williams said that the increase is "completely unacceptable" and asked audit committees to help hold their independent auditor accountable by asking for information about any PCAOB inspection of the audit engagement, any findings resulting from the inspection, and what the audit firm is doing to address overall increased inspection findings.

Audit committees should consider how their companies are preparing for potential regulatory changes that could impact reporting requirements, disclosures, and enforcement trends.

Key actions for the audit committee may include:

- ▶ Discuss with management the company's cybersecurity risk management and disclosure controls and procedures around determining the impact of a cybersecurity incident, including the time it takes to do so. Refer also to the recently issued EY publication on cybersecurity disclosures: [What cyber disclosures are telling shareholders in 2023](#).
- ▶ Discuss with management any use of AI by the company and how associated risks are being assessed.
- ▶ Ask the auditor whether the company's engagement has been inspected, whether there were any findings, and what the audit firm is doing to address the overall increase in inspection findings.
- ▶ Consider discussing with the auditor the potential impact of the proposed NOCLAR standard.
- ▶ Evaluate how the company is communicating to shareholders regarding the board's oversight of key risks, including geopolitical developments, economic conditions, cybersecurity and climate.
- ▶ Continue to monitor how the company is addressing existing requirements for disclosures about human capital resources as well as how those disclosures may evolve. Additionally, inquire as to ways management can enhance data and information-gathering practices to further enhance the overall quality of these disclosures.
- ▶ Consider the company's plans to revise disclosures, establish related disclosure controls, and evaluate share repurchase policies and procedures to comply with the SEC's final share repurchases rule.
- ▶ Evaluate changes to the company's insider trading policies, procedures and disclosures in response to previously finalized [rule amendments](#) relating to Rule 10b5-1 on insider trading plans and related disclosures.
- ▶ Be aware of a company's use of non-GAAP financial measures, including any changes made to such measures, and consider sufficiency of disclosures to provide the rationale behind the measures.
- ▶ Evaluate the company's plans to update existing clawback policies and compensation plans for changes that may be required in light of the finalized rule.
- ▶ Evaluate the implications arising from SEC rulemaking related to ESG matters, including climate and how the board oversees these risks.
- ▶ If the company has operations in other countries, be aware of sustainability reporting requirements that may apply, such as the EU Corporate Reporting Sustainability Directive.
- ▶ Evaluate existing climate-related disclosures and related disclosure controls and procedures to understand any gaps or additional requirements to comply with any final rule by the SEC.

Additional resources

- ▶ [What cyber disclosures are telling shareholders in 2023](#)
- ▶ [Technical line: a closer look at the SEC's new rules on cybersecurity disclosures](#)
- ▶ [SEC in Focus - July 2023 | EY - US](#)
- ▶ [To the Point - PCAOB proposes expanding auditor's responsibilities for considering noncompliance with all laws and regulations](#)
- ▶ [To the Point - SEC adopts rules to require 'clawback' policies and disclosures | EY - US](#)
- ▶ [Four key SEC priorities in 2023 | EY - US](#)
- ▶ [Technical Line: How the climate-related disclosure proposals from the SEC, EFRAG and ISSB compare](#)
- ▶ [How to approach the SEC's proposal on climate-related disclosures](#)
- ▶ [To the Point - SEC proposes enhancing and standardizing climate-related disclosures | EY - US](#)

PCAOB's list of suggested questions for audit committees

In June 2023, the staff of the PCAOB released its "Spotlight: Audit Committee Resource," which provides 38 suggested questions for audit committees to consider asking themselves or in discussions with their independent auditors. We've highlighted a sample of suggested questions below:

- ▶ Did the auditor identify any new risks of fraud in the current-year audit? If not, what procedures did the auditor perform to identify risks of fraud, and were any procedures different from the prior year?
- ▶ How did the auditor gain a sufficient understanding of the business and management's strategy?
- ▶ How has the auditor considered the economic environment, including recent significant economic, accounting or other developments, in its determination of whether an identified risk is a significant risk? What unique risks did the auditor find applicable to the public company?
- ▶ How did the auditor consider potential management bias in developing significant estimates and assumptions? What observations, if any, did the auditor make about potential management bias during the audit?
- ▶ How did the auditor evaluate risks, if any, concerning mergers and acquisition activities? If the public company has been involved in a de-SPAC (special purpose acquisition company) transaction, what were the auditor's key considerations in evaluating management's determination of the accounting acquirer?
- ▶ Does the auditor utilize any specialized technology-based tools with respect to digital assets in its audit? How has the use of these tools affected the nature, timing and extent of audit procedures performed to address risks of material misstatement related to digital assets?
- ▶ How does the lead auditor ensure that the work is being performed by other auditors that understand the requirements of the applicable financial reporting framework and the PCAOB's auditing and related professional standards?
- ▶ What are the audit firm's policies or procedures for identifying, evaluating and addressing any threats to independence, in fact or appearance? What processes are in place to ensure all relationships that may reasonably be thought to bear on independence are properly communicated to the audit committee?
- ▶ Did the Great Resignation cause the audit firm to experience difficulties recruiting and retaining staff? If so, what is the audit firm doing to attract and retain talent to ensure that all engagement team members have appropriate levels of competency, proficiency, training and supervision?
- ▶ How has the auditor considered whether there is any audit matter that involved challenging, subjective or complex auditor judgment? What preliminary determinations were made that ultimately did not result in the reporting of a critical audit matter?
- ▶ How did the auditor's identification and assessment of possible risks of material misstatement consider changes to the cyber threat landscape?

Source: PCAOB's Spotlight: Audit Committee Resource, June 2023.



Inquiries with management, compliance personnel and auditors

In discussions with management, compliance personnel and internal and external auditors, audit committees should consider the following in addition to standard inquiries:

Risk management-related inquiries:

- ▶ How strong are the organization's capabilities to be highly informed about the internal and external environment, and risks, events and opportunities that may influence or compromise enterprise resilience?
- ▶ How effective is the board's oversight of emerging risks and other evolving external risks, such as geopolitical developments, uncertain economic conditions, and climate risk? Does it have the information, expertise and professional skepticism it needs to challenge management in these areas?
- ▶ Does the organization perform stress tests to confirm that its financial reserves can absorb distress in the economy? Does the organization have confidence in the financial strength of its counterparties?
- ▶ In light of recent bank failings, has the board and/or appropriate committee re-evaluated the company's capital structure, cash management policies, liquidity needs and other related areas? Has the company assessed the potential knock-on effects that may arise from this risk event?
- ▶ Does the organization deploy future scenario planning to inform its long-term planning process to enable rapid adaptation during changing circumstances?
- ▶ How effective is the organization's capability to leverage consumer data, analytics and insights to inform product innovation and development?
- ▶ What impact is generative AI expected to have on the overall business strategy and long-term goals, and how is the company preparing for these changes? What are the potential risks associated with using generative AI and how is the company managing these risks?¹
- ▶ How is the company addressing ethical concerns related to the use of generative AI, such as bias or privacy issues?¹
- ▶ How robust is AI governance? Does the company's AI governance framework sufficiently address key attributes to sustain trust in addition to defining roles and responsibilities, policies and procedures, standards and guidelines, and oversight and accountability mechanisms?
- ▶ How is the company preparing its employees for the changes that AI may potentially bring to employee roles and responsibilities? What additional training or re-skilling will be needed for the workforce?¹
- ▶ Have appropriate and meaningful cyber metrics been identified and provided to the board on a regular basis and given a monetary value?
- ▶ What information has management provided to help the board assess which critical business assets and partners, including third parties and suppliers, are most vulnerable to cyber attacks?
- ▶ How does management evaluate and categorize identified cyber and data privacy incidents and determine which ones to escalate to the board?
- ▶ Has the board participated with management in one of its cyber breach simulations in the last year? How rigorous was the testing?
- ▶ Has the company leveraged a third-party assessment to validate that the company's cyber risk management program is meeting its objectives? If so, is the board having direct dialogue with the third party related to the scope of work and findings?
- ▶ How is management understanding and monitoring the effectiveness of risk management of critical third parties with respect to financial and operational resiliency, IT security, data privacy, culture and environmental, social and governance factors?
- ▶ Is there an appropriate level of robustness and redundancy provided for critical third parties to minimize service disruption?
- ▶ Is the organization equipped to respond to any crisis scenario and operate/deliver services at the minimum acceptable levels? Does the organization test/flex its resilience against a range of operational and strategic scenarios?
- ▶ How has the company identified the environmental and social factors that are material to the business? Has it conducted a recent sustainability materiality assessment and disclosed the results?
- ▶ How has the company integrated material ESG factors into strategy development and enterprise risk management? Do company communications successfully tie those ESG factors to strategic and financial results?
- ▶ What has management done to plan for tax policy changes in response to the OECD Pillar Two global minimum tax model to which 135 countries (including the US) have agreed thus far? In particular, is management monitoring proposed tax legislation as companies are adopting Pillar Two rules throughout the rest of 2023 (which will be effective 1 January 2024)? What plans does management have to disclose expected material impacts to the 2024 estimated worldwide effective tax rate in the third- and fourth-quarter disclosures and what discussions has management had with their audit firm around readiness assessments to be conducted before year-end?

¹ Adapted from Tapestry Networks Audit Committee Leadership Network Summary of Themes, March 2023

Inquiries with management, compliance personnel and auditors

- ▶ What is being done to address any expected increase in worldwide effective tax rates and the systems and control enhancements that will be required to track new tax regimes as they are legislated? Is management planning any internal restructuring transactions to mitigate the increased worldwide taxes that may occur once any country represented within the consolidated reporting entity legislates the Pillar Two principles triggering the accounting for the entire group?
- ▶ Does management have the resources within the tax function to keep pace with, and evaluate the impacts to, the company of the new corporate alternative minimum tax (CAMT) (if applicable), OECD global minimum taxation, and new environmental/carbon taxes being legislated globally on a quarterly basis?
- ▶ Have there been any meaningful changes to the company's key policies, any material exceptions granted or any unusual allowances to any compliance provisions?
- ▶ How is the organization proactively assessing the opportunity to enhance stakeholder communications, including corporate reporting to address changes in operations and strategies as well as changing stakeholder expectations?
- ▶ Given the impending effective date of tax years beginning after 31 December 2023 for top-up taxes to be assessed by countries enacting the Pillar Two tax regime, is the company prepared to calculate any top-up taxes to be included in the effective tax rate for fiscal years beginning in 2024? Has management instated necessary internal controls to make the calculations on a jurisdictional basis? Has management considered appropriate S-K disclosures in the current year?
- ▶ Have there been any material changes to internal controls over financial reporting or disclosure controls and procedures to address the changing operating environment? Have any cost-saving initiatives and related efforts impacted resources and/or processes that are key in internal controls over financial reporting? If so, has management identified mitigating controls to address any potential gaps?

Accounting, disclosures, and other financial reporting-related inquiries:

- ▶ What are the nonrecurring events and circumstances that have transpired and what are the related financial reporting and disclosure implications?
- ▶ In light of the current environment (including the macro market conditions), has the company evaluated how current market developments may change the value of assets and whether there are impairment indicators for assets such as property, plant and equipment; definite and indefinite-lived intangibles; inventory; receivables; debt; and equity investments? Have the valuation technique(s), inputs and assumptions been appropriately revisited and updated?
- ▶ Are the company's nonfinancial disclosures fit for purpose given current investor stewardship priorities, investing trends and related investor data needs?
- ▶ Does the company have sufficient controls and procedures over nonfinancial data? Is internal audit providing any type of audit coverage on ESG-related data or is the company obtaining any external assurance?
- ▶ If ESG-related matters are being discussed in more than one place (e.g., SEC filings, earnings releases, analyst communications, annual report and shareholder letter, corporate social responsibility report), is there consistency in the disclosures?
- ▶ Has the company evaluated its disclosures in light of Institutional Shareholder Services' addition of 11 cyber-specific inquiries related to cyber risk?

Inquiries to auditors:

- ▶ External auditors: What changes are expected with regard to materiality, scope, and additional procedures in light of changes in the current business environment? How has the engagement team considered changes to the incentive, opportunity and rationalization of the fraud triangle? What plans does the auditor have to assess the company's readiness to account for Pillar Two taxes during the 2023 calendar year, and are there any disclosures necessary in the 2023 financial statements the company should be making?
- ▶ Internal auditors: How should audit plans be adjusted to address changes in risk appetite and tolerances as identified from the company's enterprise risk management (ERM) program? Are there any audit plans that are not being executed, or has the scope of the work been changed? If the company will be subject to the CAMT, what processes and controls will it need to adequately capture the data needed to calculate the taxes under the new regime?

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