EY Center for Board Matters

How audit committees can prepare for 2023 Q2 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 Q2 reporting and beyond.

In brief

- Artificial Intelligence and related applications are increasingly a growing focus of risk discussions for audit committees.
- Audit committees remain focused on understanding the impacts of the continued uncertain economic environment on financial reporting.
- It is important to track expected SEC rulemaking and prepare for potential changes to reporting requirements and disclosures.

Risk management

Given the ongoing significant changes in the business environment, it remains essential for audit committees to stay on top of critical drivers of risk (e.g., political, economic, societal, technological, legal, and environmental) and changing macroeconomic conditions to better assess the near- and longer-term risk implications to companies, including resilience challenges.

Enterprise risk management (ERM), geopolitics, macroeconomic conditions, talent, and cybersecurity continue to be ongoing focus areas for audit committees. Artificial intelligence (AI) and generative AI applications, such as ChatGPT, are also becoming emerging priorities and areas of greater board discussions. As the use of AI and machine learning proliferates, AI technologies are rapidly outpacing the organizational governance and controls that guide their use.

Tapestry Networks recently convened audit committee chairs of global Fortune 100 public companies to exchange views on how AI technology has progressed and its implications to companies. Tapestry Networks summarized the key points arising from this discussion in its recently released report.

We've highlighted some notable themes included in this report, along with other key takeaways and considerations:

- **Generative AI capabilities are outpacing its developers' goals.** Generative AI is a subset of the technology that uses machine learning methods to create new, original content (such as languages or images), increasingly mimicking what have long been considered human behaviors. While the underlying research and development have been going on for years, the capabilities of new generative AI applications are vastly exceeding expectations while also creating some unintended consequences and impacts for organizations.
- **What lies ahead remains uncertain, because even the experts don't fully grasp some aspects of the technology (including its implications and unintended consequences).** There appears to be a fundamental uncertainty about what is being created, with many unsure of all that is at stake.

  The European Parliament's Internal Market and Civil Liberties committees recently approved a draft proposal of the AI Act with the aim of promoting AI systems that are ethical, safe, transparent, traceable, not discriminatory, environmentally friendly, and overseen by humans. It also provides a risk classification framework that determines the level of risk an AI technology could pose, with four risk tiers: unacceptable, high, limited, and minimal. The proposal also calls for steep fines for noncompliance, with fines up to 30 million euros or 6% of global profits, whichever is higher. This potential landmark act could be a signal of more regulatory actions in the near future. Accordingly, it will be important that boards plan for multiple scenarios at different magnitudes of disruption and time horizons.

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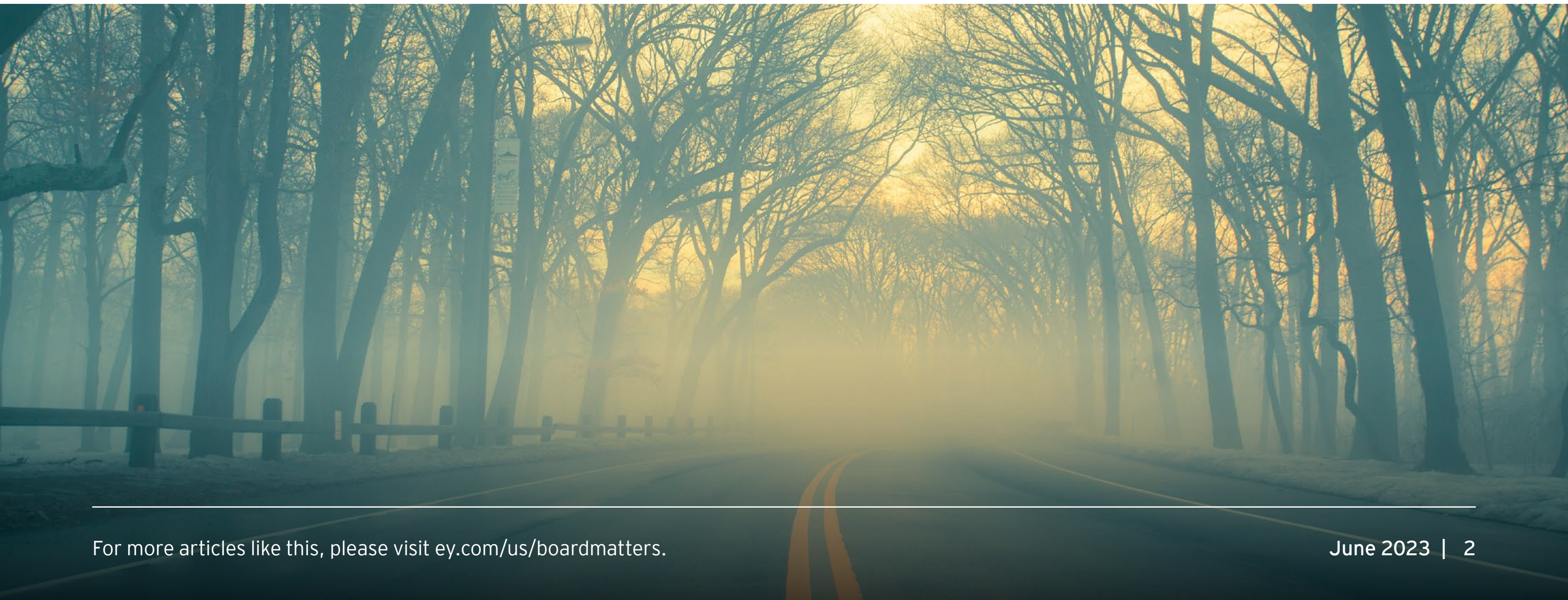

- **Be aware of risks, including early-stage commercialization risk.** The more people use AI technologies, the faster those technologies develop and improve, which sets up a powerful first-mover advantage. However, there may be a host of risks, including those relating to premature commercialization. Audit committees should inquire with management and internal audit regarding risk assessments around AI and related AI governance, including how risks around ethical use of AI, accuracy of outputs, plagiarism, copyright, trademark violations, and protections of company IP were considered. Additionally, audit committees should ask management whether and how AI is used within the financial reporting processes, including any related internal control impacts.

  The potential societal impact of the AI system should also be carefully considered, including its impact on the financial, physical and mental well-being of humans and our natural environment. For example, potential impacts might include workforce disruption, skills retraining, discrimination, and environmental effects. Further, as employees adopt generative AI tools such as ChatGPT for use in the workplace, companies should consider implementing a corporate policy governing usage of such tools in the workplace to mitigate risks associated with data privacy laws, confidentiality, and other potential legal risks (e.g., intellectual property ownership issues) associated with the misuse of AI tools.

- **Prepare for generative AI's involvement in geopolitical issues.** There is significant risk of AI models becoming tools of political actors and potentially amplifying geopolitical risks. The use of the technology for rapid, large-scale communication, including disinformation risk, may become more prevalent in future campaigns and election cycles.

- **Consider adopting a zero-trust approach.** Many leaders are asking how to build more trust in AI technologies as companies begin experimenting and implementing more advanced forms. Companies should consider a "zero trust attitude" whereby the burden is placed on the machine to prove accuracy of outputs. Audit committees should inquire regarding how controls and processes can evolve as quickly as the technology does.

- **Consider the opportunities.** Boards should explore opportunities for deploying generative AI (including ways to leverage AI to enhance risk sensing capabilities and bolster risk management efforts within the organization), especially given a tight market for knowledge workers.

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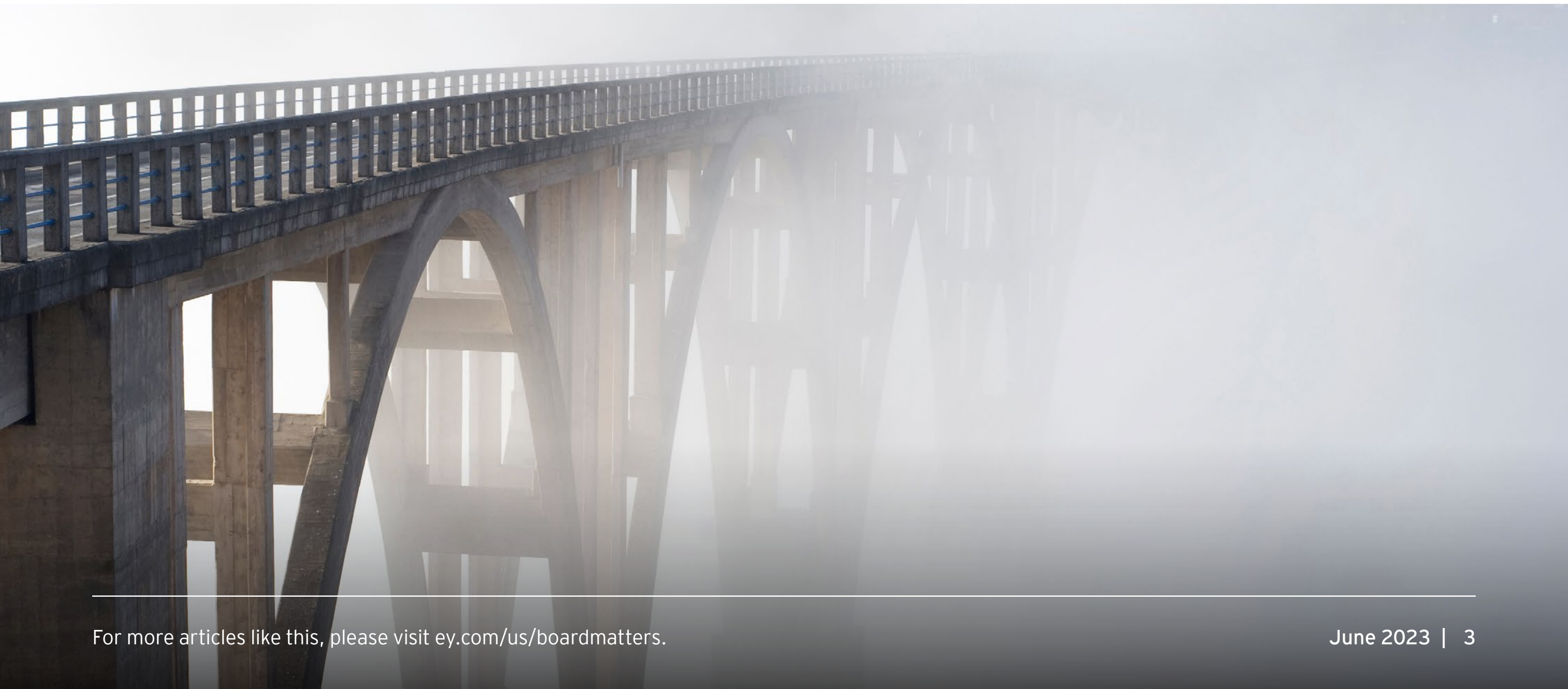
Adapted from: *Tapestry Networks Audit Committee Leadership Network March 2023 Summary of Themes document*

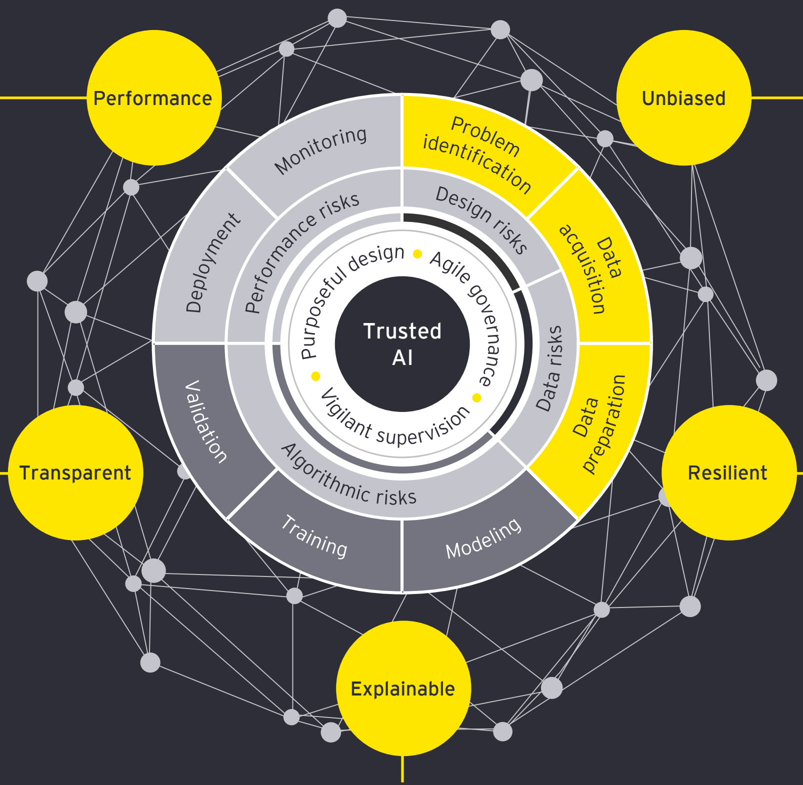


Additional AI governance and risk management considerations

Key actions to take when deploying AI:

- **Evaluate regulatory landscape:** scan new and changing legal and regulatory requirements in the AI space across relevant jurisdictions globally
- **Assess governance and operating model:** review existing AI governance elements and ways of working to assess how effectively they enable the company to innovate in ethical and compliant ways
- **Evaluate AI compliance and risk management approach:** evaluate existing compliance and risk management approaches, tools, processes, and capabilities in the AI space
- **Design compliant AI program:** develop governance and operating model, including a detailed framework for AI Impact Assessment and Compliance risk management; integrate with existing compliance and enterprise risk structures, methodologies and frameworks (e.g., data privacy, ESG, cybersecurity)

An AI framework should emphasize the following five attributes necessary to sustain trust:



Performance
The AI's outcomes are aligned with stakeholder expectations and perform at a desired level of precision and consistency.

Unbiased
Inherent biases arising from the development team composition, data and training methods are identified and addressed through the AI design. The AI system is designed with consideration for the need of all impacted stakeholders and to promote a positive societal impact.

Transparent
When interacting with AI, an end user is given appropriate notification and an opportunity to select their level of interaction. User consent is obtained, as required for data captured and used.

Resilient
The data used by the AI system components and the algorithm itself is secured from unauthorized access, corruption or adversarial attack.

Explainable
The AI's training methods and decisions criteria can be understood, are documented and are readily available for human operator challenge and validation.

Accounting and disclosures

We anticipate 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. We've highlighted below some key accounting and reporting-related considerations that audit committees may want to consider with respect to the current economic environment:

- Verify that companies have the processes and controls in place to make sure management can appropriately consider how changes in the economic environment affect their accounting and financial reporting.
- Continue to assess changes in the business, trends or uncertainties and the implications for financial reporting. Known trends or uncertainties may include inflation, rising interest rates, the war in Ukraine, and supply chain disruptions that affect the relationship of costs to revenue.
- Revisit other disclosures included in SEC filings, such as risk factors, critical accounting estimates, liquidity, and capital resources to address certain risk concentrations (e.g., customer, supplier, geographic) and other known trends, events, and risks and uncertainties that have had or are reasonably expected to have a material effect on the business.
- When a company is considering selling or transferring debt securities to meet its liquidity needs, it may have to change the classification of those securities. To classify debt securities as held to maturity, a company has to assess for each reporting period whether it has both the positive intent and the ability to hold them to maturity.
- Companies that assert their intent and ability to indefinitely reinvest foreign earnings should challenge whether they can continue doing so in their operations that have been affected by rising interest rates and inflation. This assertion should be supported by projected working capital and an assessment of long-term capital needs in the locations in which those earnings are generated (or other foreign locations) and by an analysis of why those funds are not needed upstream. The analysis should also consider the increasing cost of capital in today's high interest rate environment.
- Companies that have reported significant increases in year-over-year inventory balances may need to consider whether to record a charge for any decline in value of inventory they cannot sell in the short term. In today's environment, it is also important to determine which costs can be included in inventory. For example, higher-than-expected inflation in the cost of materials can be included in inventory and capitalized, because cost inflation is an element of actual inventory cost. In contrast, if a variance is driven by excess capacity, rework or other costs that cannot be included in inventory, those costs are accounted for as an expense.
- In addition, companies may need to revise their estimates of how much variable consideration they will be entitled to under a contract with a customer if they change their expectations about returns of goods, contract volume and whether they will meet contractual conditions for performance bonuses or penalties. Companies that accept partial payment or extend payment terms need to consider the implications, such as whether the contract has been modified or includes a significant financing component.

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What audit committees need to know about the new guidance on internal control over sustainability reporting

With sustainability and ESG reporting becoming a greater area of focus for CEOs, senior management, boards, investors, regulators, customers, and other key stakeholders, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) recently published guidance on applying its internal control framework to sustainability reporting. COSO's report, *Achieving Effective Internal Control Over Sustainability Reporting (ICSR): Building trust and confidence through the COSO Internal Control — Integrated Framework*, provides guidance on how the 17 principles in COSO's Internal Control-Integrated Framework (as revised in 2013) apply to sustainability reporting.

In many jurisdictions, public company sustainability reporting traditionally has not had the same kinds of controls over accuracy and completeness that are routine with traditional financial disclosures. As regulators and investors become more focused and rely more on sustainability information in their decision-making, audit committees should evaluate how COSO's framework could be extended to the company's sustainability reporting.

Per COSO's report, some key actions audit committees can take to enhance audit committee oversight of sustainability business information include:

- Revising charters to include oversight of external reporting of sustainability information
- Revising charters to include oversight of disclosures regarding the effectiveness of the organization's system of ICSR
- Conducting educational sessions on recent developments regarding sustainable business
- Overseeing the internal audit function and review of sustainable business information
- Developing processes to operationalize oversight of external reporting, such as determining:
  - The frameworks, standards and guidelines to follow for external ESG reporting
  - The means for delivering ESG information externally
  - A proposed timeline for review and delivery of ESG reports
  - Processes that will be utilized to review disclosure prior to release
- Evaluating the effectiveness of the reporting process as designed
- Reviewing external ESG reports before issuance
- Determining the extent to which ESG information is subject to independent assurance or verification
- Determining the appropriate outside firm to perform independent assurance or verification. In some cases, an organization may look to the same firm that performs the audit of its financial statements. In other cases, it may be more appropriate to look to other specialist firms.

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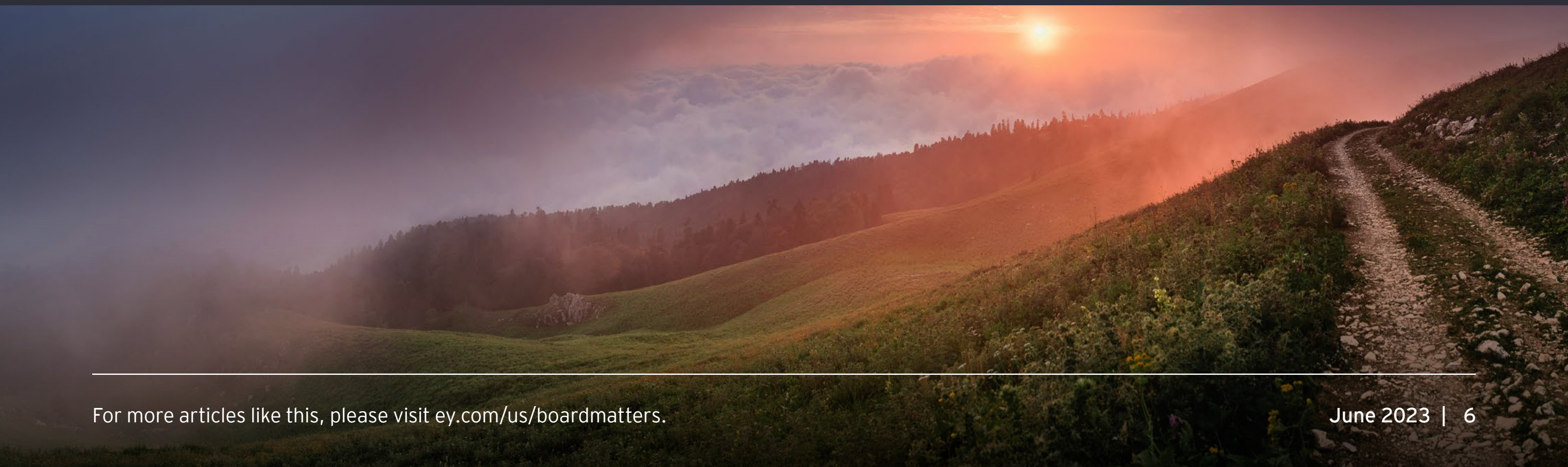

COSO also provides the following top 10 takeaways:

- Be committed to establishing that the organization has effective internal control over sustainability-related matters, including operations, compliance, and various types of reporting (external, internal, non-financial, and compliance).
- The end game is effective internal control over key sustainability activities and reporting, however defined in terms of boundaries. Effective internal control is achieved when the 17 principles are present and functioning. This will differ to some degree at each organization based on maturity, industry, resources, and requirements. Customization and adaptation are key.
- Work with others to determine the best organizational structures, roles and responsibilities to create the desired results, achieve appropriate internal and external efficiencies, and achieve effective internal control.
- Educating oneself on new topics like sustainability is critical. Take advantage of seminars, new publications and certificate programs. Collaborate and learn from sustainability professionals, both those inside your organization and outside consultants.
- Take advantage of other relevant COSO materials on subjects such as ERM and ESG, cloud computing, and others.
- Internal assurance and confidence in sustainability reporting need to exist before external assurance. Take advantage of your internal audit function in this regard to provide objective assurance and other advice.
- ESG reporting, both internal and external, is not an "annual and manual" activity. Encourage the management team to make it automated, efficient and continuous.
- This is a fast-moving area, and there is bound to be lots of change over the next several years. Monitoring activities are key in terms of evaluating progress and knowing when to make corrections and enhancements.
- COSO is not just for large, private-sector publicly listed companies. All organizations, including privately owned, nonprofit, and public-sector entities need effective internal controls to meet their objectives, manage risk, evolve, and succeed in all areas of their business and activities.
- Encourage management to form cross-functional teams consisting of experts in sustainable business (such as corporate social responsibility, integrated reporting, legal, public relations, and human resources) and in internal controls and reporting (finance and accounting).

Sourced from: *Achieving Effective Internal Control Over Sustainability Reporting (ICSR): Building Trust and Confidence through the COSO Internal Control–Integrated Framework*, 2023

SEC rulemaking and other reporting considerations

While the timing has continued to slip, several rule-related actions are expected in 2023 from the SEC, including a proposed rule on human capital management disclosure and final rules on climate and cybersecurity risk governance and disclosure. Although SEC Chair Gary Gensler faced skeptical questions about the extent of the SEC's rulemaking agenda by some members of the House Financial Services Committee in an April hearing, he gave no indication that he plans to pull back.

In May, the SEC adopted a final rule on share repurchase disclosures, which requires most issuers to disclose daily quantitative share repurchase information on a quarterly basis. It also requires narrative disclosure to discuss share repurchase objectives, criteria used to determine the amount of the repurchase, and policies and procedures related to trading of securities during a repurchase program by its officers and directors. According to the rule, issuers also must disclose information about their adoption and termination of Rule 10b5-1 trading arrangements.

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. While no new guidance has been released, the SEC staff updated their Compliance and Disclosure Interpretations on this topic in December 2022 to reflect views the staff had previously communicated. Audit committees should understand the use and purpose of non-GAAP financial measures disclosed in filings with the SEC and review related disclosures in order to confirm that 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. Both the NYSE and Nasdaq have finalized rules to implement the clawback rule which are expected to be approved by the SEC before the end of Q2. Companies are required to adopt a compliant policy no more than 60 days after the applicable listing standards are effective and begin to provide required disclosures.

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

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Key actions for the audit committee may include:

- Evaluating how the company is communicating to shareholders regarding the board's oversight of key risks, including geopolitical developments, economic conditions, cybersecurity, and climate
- Continuing to monitor how the company is addressing existing requirements for disclosures about human capital resources as well as how those disclosures may evolve. Additionally, the committee should inquire as to ways that management can enhance data and information gathering practices to further enhance the overall quality of these disclosures
- Considering the company's plans to revise disclosures, establish related disclosure controls, and evaluating repurchase policies and procedures to comply with the final share repurchases rule
- Evaluating changes to the company's insider trading policies, procedures, and disclosures in response to previously finalized rule amendments relating to Rule 10b5-1 insider trading plans and related disclosures
- Being aware of a company's use of non-GAAP financial measures, including any changes made to such measures, and considering sufficiency of disclosures to provide the rationale behind the measures
- Evaluating the company's plans to update existing clawback policies and compensation plans for changes that may be required in light of the finalized rule
- Evaluating the implications arising from SEC rulemaking related to ESG matters, including climate and cybersecurity risk and how the board oversees these risks
- If the company has operations in other countries, it should be aware of sustainability reporting requirements that may apply, such as the EU Corporate Reporting Sustainability Directive
- Evaluating 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

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> If the company has operations in other countries, it should be aware of sustainability reporting requirements that may apply.

Additional resources

- *Four key SEC priorities in 2023 | EY - US*
- *SEC in Focus – April 2023 | EY - US*
- *To the Point – SEC adopts rules to require 'clawback' policies and disclosures | 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*
- *SOX at 20: the enduring legacy of the Sarbanes-Oxley Act*
- *To the Point – SEC proposes enhancing and standardizing climate-related disclosures | EY - US*
- *To the Point – SEC proposes requiring more cybersecurity disclosures | EY - US*
- Refer to the EY publication *Technical Line – Revisiting the SEC's guidance on climate change disclosures in today's environment* for additional discussions aimed at helping registrants apply the commission's 2020 climate change guidance today and respond to any inquiries from the SEC staff about their disclosures.
- See also the Financial Accounting Standards Board (FASB) staff's recently issued document *Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards*, which highlights the connection between ESG matters and their direct and indirect effect on the financial statements.
- Refer to the EY publication *How do you value your social and human capital?* for our analysis of the first human capital disclosures made by public companies to satisfy the SEC requirement adopted last year.

Notable PCAOB updates

In April 2023, the PCAOB released its *Spotlight: Staff priorities for 2023 Inspections*, which provides discussion of the PCAOB's focus areas in the current inspection cycle. The 2023 inspection plan will primarily cover the review of 2022 fiscal year-end audits. Some of the key excerpts and highlights include:

The PCAOB's 2023 inspection plan considered overall business risks present in 2022, such as:

- Disruptions in supply chains
- Volatility in financial and commodity markets due to such things as inflation, interest rates and currency fluctuations
- The trend of deal cancellations and redemptions related to special purpose acquisition companies (SPACs)
- Mergers and acquisitions (M&A) activities, including de-SPAC transactions
- Ongoing impact of the remote/hybrid work environment

In 2023, the planned inspection focus includes:

- Risk of fraud
- Key auditing and accounting risks: select financial statement focus areas that are material in amount, are complex in nature, require significant judgement, and/or may be particularly susceptible to changes in economic conditions for both financial reporting and internal controls
- Risk assessment and internal controls, including considerations around the auditor's response to uncertainties in the economic and geopolitical environment that may cause modifications to the company's operating structure and business processes that may affect its flow of transactions, financial reporting processes, etc.
- Financial services specific considerations (including impacts arising from matters such as interest rates, inflation, and uncertainty and volatility in the digital assets markets)
- M&A, including de-SPAC transactions
- Use of work of other auditors
- Quality control
- Talent and its impact on audit quality

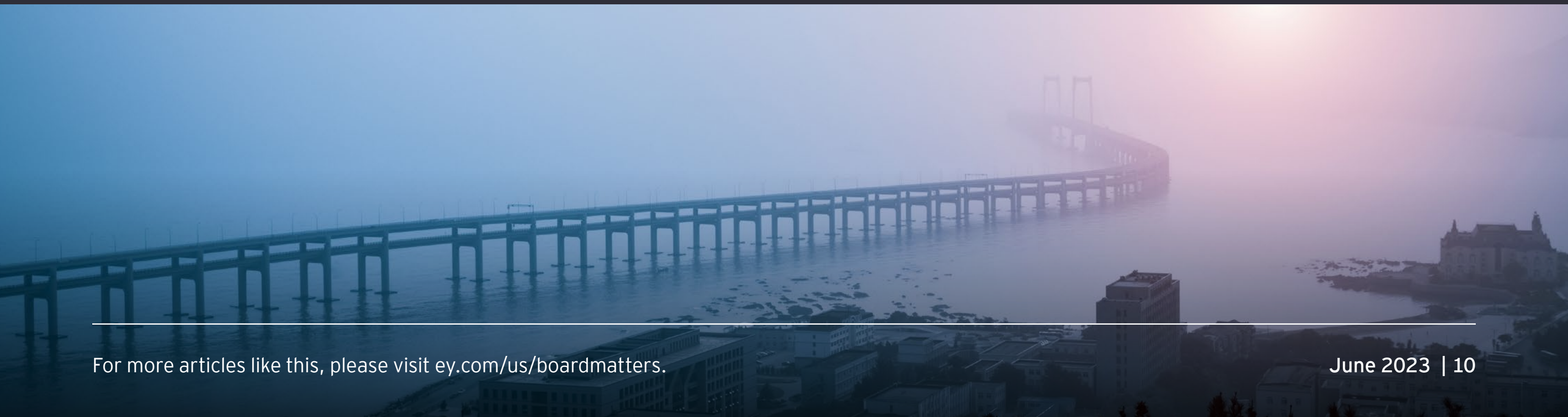
Other noted focus areas include: broker-dealer specific considerations, independence, critical audit matters (CAMs), and technology (in particular — auditing digital assets, responding to cyber incidents, use of data and technology in the audit).

The Spotlight document may be useful to audit committees, as it highlights some of the anticipated financial reporting and audit risks and issues that may be challenging in the current environment. It may also provide audit committees insights into the external auditor's work plan for the upcoming audit cycle.

Additionally, the PCAOB recently proposed amending auditing standards related to the auditor's responsibility for considering a company's noncompliance with laws and regulations, including fraud. The proposal would strengthen auditor requirements to identify, evaluate and communicate possible or actual noncompliance with laws and regulations. Comments on this proposal are due by 7 August 2023.

> "Additionally, the PCAOB recently proposed amending auditing standards related to the auditor's responsibility for considering a company's noncompliance with laws and regulations, including fraud.

Sourced from: PCAOB's *Spotlight: Staff priorities for 2023 Inspections*, April 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 the financial reserves of the company 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]

> "Does the organization deploy future scenario planning to inform its long-term planning process to enable rapid adaptation during changing circumstances?

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

- 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 reskilling will be needed for the workforce?[2]
- 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 2 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 2 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?
- 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 2 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 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?

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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?

[2] Adapted from Tapestry Networks Audit Committee Leadership Network Summary of Themes, March 2023

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?
- 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?
- 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?

Inquiries to auditors:

- **External auditors**: What changes are anticipated with 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 2 taxes during the 2023 calendar year?
- **Internal auditors**: How should audit plans be adjusted to address changes in risk appetite and tolerances as identified from the company's 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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