Approaching the 2024 year-end financial reporting season

Your guide to year end reporting developments

December 2024

pwc

New administration, new tax policy outlook (but don't forget about current rules and emerging matters)

What the audit committee needs to know

With President-elect Trump taking office soon, tax policy is again at the top of many executives' and boards' priorities. With Republicans winning majorities in the House and the Senate, a unified Republican government will provide President-elect Trump an opportunity to pursue some of the tax and trade policies he proposed during his campaign. They include policies such as:

- Preserving the **21%** corporate tax rate
- Implementing a new **15%** corporate tax rate for companies that make their products in the US
- Reinstating **100%** bonus depreciation
- Imposing a **10%** tariff on foreign-made goods
- Imposing a **60%** tariff on goods imported from China

The outlook for enactment of President-elect Trump's legislative proposals will remain uncertain, due to the slim margins of Republican control in each chamber of Congress. Historic levels of projected federal debt are also expected to play a significant role in the tax policy debate next year. Republican control of both the House and Senate is expected to allow "budget reconciliation" procedures to be used to enact tax legislation with only Republican votes. This would be similar to when The Tax Cuts and Jobs Act (TCJA) was enacted in 2017. With that said, intraparty disagreements could still delay legislative action until late 2025.

Next year will be significant for federal tax legislation, as key individual provisions from TCJA are set to expire at the end of 2025 and several significant business tax provisions will change. Failure to act before December 31, 2025 would bring income tax increases on nearly all individual taxpayers and automatic increases in some business taxes. Companies will need to plan for different scenarios if Congress fails to act or negotiations result in some business tax increases. Furthermore, the potential for a claw-back of certain energy credits passed under the Inflation Reduction Act of 2022 (IRA) could increase as lawmakers seek to raise revenue to pay for President-elect Trump's policy proposals.

President-elect Trump is less likely to rely on congressional action to implement the proposed tariffs. In his previous administration, he used authority granted to the president under existing laws to impose new tariffs on imported goods.

But that's not all…

Other existing tax considerations

While the potential for tax reform is top of mind for businesses, there are existing tax matters to consider as companies wrap up 2024 and head into 2025.

- **Tax credits:** The IRA significantly expanded the availability of climate and energy-related tax credits. In 2024, many companies benefited by generating tax credits through their own activities, buying credits from other companies, or investing in tax credit structures. The related accounting depends on the terms of the specific credit and may have impacts beyond the company's income tax provision. Monetization of credits can also vary and impact cash flow in different ways.

- **Global minimum tax – Pillar Two:** Several dozen countries around the world, mostly in Europe, have adopted the OECD's Pillar Two provisions. Pillar Two provides for a minimum level of tax, a threshold effective tax rate of 15% on adjusted financial reporting income. The legislation has the potential to result in incremental tax and has driven changes in processes and controls, added a substantial compliance burden on companies and requires yet another set of books to track compliance with the rules. In 2024 some companies may be availing themselves of certain safe harbors which may delay the impact while still leaving them with a compliance burden. While adoption of Pillar Two in the US remains unlikely, US companies with operations in countries that have enacted Pillar Two are subject to the requirements in those jurisdictions. Also, 2025 will bring the last leg of Pillar Two into law in many places around the world keeping it top of mind as we close out 2024 and head into the new year.

- **Income tax disclosures:** The FASB's income tax disclosure standard goes into effect in 2025 for many companies. The level of disaggregation for both the effective tax rate and cash taxes paid is significant. Preparing now for adoption through modeling the new disclosures will allow companies to assess any gaps in data, adapt or create processes and controls as needed, and importantly prepare for discussions with stakeholders.

- **Developments in the courts:** Developments at the Supreme Court in 2024 may be impacting companies' assessment of tax positions taken, potentially impacting the accounting for uncertain tax positions. In June the US Supreme Court released its opinion in *Loper Bright Enterprises v. Raimondo* overturning the Chevron doctrine's deference to agency regulations. Following this development, in August the US Tax Court released its opinion in *Varian Medical Systems Inc. and Subsidiaries v. Commissioner* regarding provisions from TCJA. The decision in *Varian* is the latest case in which a court has held that statutory language enacted by Congress is clear and unambiguous and therefore cannot be overridden by a Treasury regulation, even when that regulation carries out Treasury's interpretation of overarching policy concerns. Further, this decision is the first challenge to a Treasury regulation to apply *Loper Bright Enterprises v. Raimondo* and may provide a framework for other ongoing challenges to tax regulations. We expect that in the future the SEC and other federal agencies may need a more specific directive to do rulemaking. Climate would be a good example of that; if the SEC has not been directed by Congress to come up with that rulemaking, does the SEC have the authority to do so?

Why is it relevant to the audit committee?

The one constant in taxes is change, and 2024 is no exception. The potential for US tax policy changes in 2025 presents several accounting and financial reporting challenges, but audit committees should confirm that management does not lose sight of the core “blocking and tackling” relating to exiting requirements. The audit committee will want to confirm management has processes to monitor tax developments (both internationally and domestically) and are prepared to account for the impacts of changes appropriately. The audit committee will also want to understand how management is addressing the benefits and risks of significant tax developments going forward.

What questions should the audit committee ask?

- How has management considered the impact of potential cost increases arising relating to President-elect Trump’s tariff proposals? Similarly, how has management considered potential retaliatory actions from trade partners?
- How has management considered the potential impacts on the company from possible corporate tax reform? What are the provisions that would have the most impact on the company’s business operations, cash taxes and/or effective tax rate?
- Has the company benefited from tax credits? What were the significant financial statement effects of these benefits? What are expectations for 2025?
- What impact did Pillar Two have on the company in 2024? Did the company rely on any safe harbors, delaying the impact of Pillar Two? What significant judgments or estimates were considered in those determinations?
- How has management assessed resource needs, including specialist knowledge and adequacy of the technology to support the finance and tax teams’ data and reporting needs?
- What is management’s process for monitoring evolving tax laws and emerging accounting standards?
- How has management prepared for the adoption of the new income tax disclosures? What, if any, data quality concerns has management identified and addressed?

Where to go for more information

- PwC: Trump re-election signals need for businesses to prepare for impending global trade shifts
- PwC: Republicans on track to keep House for 2025 tax bill action
- PwC: OECD Pillar Two: Time to act on the global minimum tax
- PwC: Accounting for Pillar Two: Frequently asked questions
- PwC: FASB issues guidance on income tax disclosures

SEC comment letter trends

What the audit committee needs to know

The SEC Division of Corporation Finance's filing review process plays a crucial role in how the SEC staff oversees the important accounting and disclosure decisions made by companies. By analyzing SEC comment letters related to Form 10-K and Form 10-Q filings, we can identify the frequency and focus of the topics addressed by the SEC staff as well as observe how these focus areas evolve over time. Interestingly, non-GAAP measures have consistently remained the top focus, mirroring the trend we saw during the same period last year. Following closely behind are Management's Discussion and Analysis (MD&A) and segment reporting, which took second and third place, respectively. When it comes to non-GAAP measures, the SEC staff often commented on:

- Presentation with equal or greater prominence of the most directly comparable GAAP financial measure
- Reconciliation to the most comparable GAAP financial measure
- Appropriateness of adjustments to eliminate normal, recurring cash operating expenses or items identified as nonrecurring, infrequent or unusual
- Use of individually tailored accounting principles
- Disclosure of why management believes the non-GAAP presentation provides useful information to investors

We also observed a noticeable uptick in comments related to goodwill impairments over the past year. This trend was largely driven by market downturns, which were driven by higher capital costs and inflation. These factors, in turn, adversely affected the value of both tangible and intangible assets, including goodwill, leading to impairments.

An area likely to receive increased scrutiny going forward is segment reporting. Public companies are now required to adhere to new segment reporting standards for fiscal years beginning after December 15, 2023. For calendar year-end companies, this means the new disclosures will need to be included in the 2024 Form 10-K. Given the novelty of these requirements, we expect an increase in comments related to segment reporting as companies navigate the new disclosures.

Topics receiving the most comment letters

Current Period (10/01/2023 to 09/30/2024)[1]	Relative change in number of letters compared to the Prior Period[2]	Absolute change in number of letters compared to the Prior Period[3]
1. Non-GAAP measures	↔	↑
2. Management's discussion and analysis	↔	↓
3. Segment reporting	↔	↓
4. Revenue recognition	↔	↑
5. Business combinations	↓	↓
6. Inventory and cost of sales	↔	↑
7. Fair value measurement	↔	↑
8. Goodwill and other intangibles	↑	↑
9. Debt, quasi-debt, warrants and equity	↔	↔
10. Disclosure controls and ICFR	↔	↓

1. This analysis was performed based on topical areas assigned by research firm Audit Analytics for comment letters publicly issued in the 12 months ended September 30, 2024 (Current Period) and the 12 months ended October 1, 2023 (Prior Period) in relation to Form 10-K and Form 10-Q filings.
2. Compares the change in percentage of each type of comment letter relative to the total population of comment letters in the Current Period and Prior Period of 1,296 and 1,359, respectively.
3. Compares the number of each type of comment letter in the Current and Prior periods as defined in (1) above.

Why is it relevant to the audit committee?

The top areas of SEC comments pertain to recognition and disclosure matters in regulatory filings. The audit committee will want to stay abreast of the areas in which the SEC is providing comment letters, which may help the committee refine its oversight efforts and support the company's financial reporting transparency.

What questions should the audit committee ask?

- Has the company received a comment letter and, if so, what are the issues raised by the SEC? How does management plan to respond?
- What is management's process for monitoring comment letters issued to other companies in its industry?
- What is management's process, if any, to benchmark key disclosures in the company's regulatory filings with those of peer companies or other sources to seek out areas in which to enhance transparency?
- How has management considered whether additional disclosures in the areas of the top comment trends are appropriate?
- How does management stay abreast of financial reporting updates and other required disclosure developments and trends?
- How is management's disclosure committee informed by SEC comment letter trends?

Where to go for more information

- PwC: SEC comment letter trends
- PwC: To GAAP or to non-GAAP
- PwC: Non-GAAP measures: The role of the audit committee
- SEC: Non-GAAP financial measures: Compliance & Disclosure Interpretations

Overseeing fraud risk during uncertain times

What the audit committee needs to know

Fraud is often at its most virulent during crises and economic downturns, so companies should remain on high alert in the current environment. Today's global, interconnected environment — marked by increasing geopolitical tension, global economic uncertainty and rapidly changing technology — may provide the pressures, opportunities and rationalizations that motivate and enable people to carry out fraud schemes. Therefore, management, boards and audit committees should be aware of an increased risk of fraud (both from internal and external parties).

> Fraud is often at its most virulent during crises and economic downturns, so companies should remain on high alert in the current environment.

There are a variety of leading practices that companies employ to mitigate fraud risks, including establishing robust internal controls, promoting a culture of ethical behavior, exhibiting a strong tone at the top, providing regular training to employees on recognizing and reporting fraudulent activities, leveraging internal audit, establishing and maintaining an effective whistleblower program, and supporting thorough internal investigations of whistleblower claims.

As context, the SEC's Whistleblower program activity remained strong during its fiscal year 2024, awarding payments of over $255 million, the third highest annual amount for the program. The most common complaint categories reported by whistleblowers were manipulation (37%), offering fraud (21%), initial coin offerings and crypto asset securities (8%), and corporate disclosures and financials (8%).

Why is it relevant to the audit committee?

Since the audit committee is charged with oversight of management's fraud prevention program, it may want to add focus to this area given the continuing volatile and evolving business environment. Confirming an understanding of the robustness of management's anti-fraud programs, including its fraud risk assessment process, and how management is using technology to evaluate, measure and mitigate fraud risks should be a keen focus area. The audit committee will also want to understand how management has updated internal controls to address risks associated with suppliers and other third parties. Further, the audit committee will want to seek additional insights from internal audit and the external auditor.

What questions should the audit committee ask?

- What is management's process for confirming that internal controls are in place to prevent and detect fraud? What is the process for reviewing and testing these controls for effectiveness?
- What is management's process for benchmarking the company's anti-fraud program against leading practices?
- What is management's process for educating and training employees about fraud risks and the importance of ethical behavior?
- What is management's protocol for responding to suspected fraud incidents?
- What is management's process to confirm that unethical behavior is appropriately addressed?
- What is management's process for reviewing third-party contracts and policies? Do third-party contracts include "right to audit" provisions and are they being exercised?
- What is internal audit's process for staying updated on emerging fraud risks and trends?
- What steps are being taken by the external auditor to assess and address the risk of fraud in the current audit?

Where to go for more information

- PwC: Audit committee effectiveness: practical tips for the chair
- PwC: Audit committee oversight checklist
- PwC: Overseeing internal investigations
- SEC: Securities and Exchange Commission Office of the Whistleblower – Annual Report to Congress for Fiscal Year 2024

Compliance with laws and regulations

What the audit committee needs to know

In the current environment, compliance with legal and regulatory requirements is characterized by heightened regulatory scrutiny, more stringent enforcement actions and rapidly changing laws. Governments and regulatory bodies worldwide are increasingly focused on corporate accountability and transparency, leading to the introduction of new regulations and the tightening of existing ones across various sectors. Key areas of challenge for companies, particularly multinationals operating in various jurisdictions across the globe, include data privacy and protection regulations such as the General Data Protection Regulation (GDPR), evolving cybersecurity standards, anti-money laundering (AML) directives, anti-bribery and corruption laws, and environmental, social and governance (ESG) standards. Companies are now required to maintain more comprehensive compliance programs that not only adhere to current regulations but must also anticipate and adapt to future changes. Continuous education and training for employees on compliance matters are crucial to supporting these efforts.

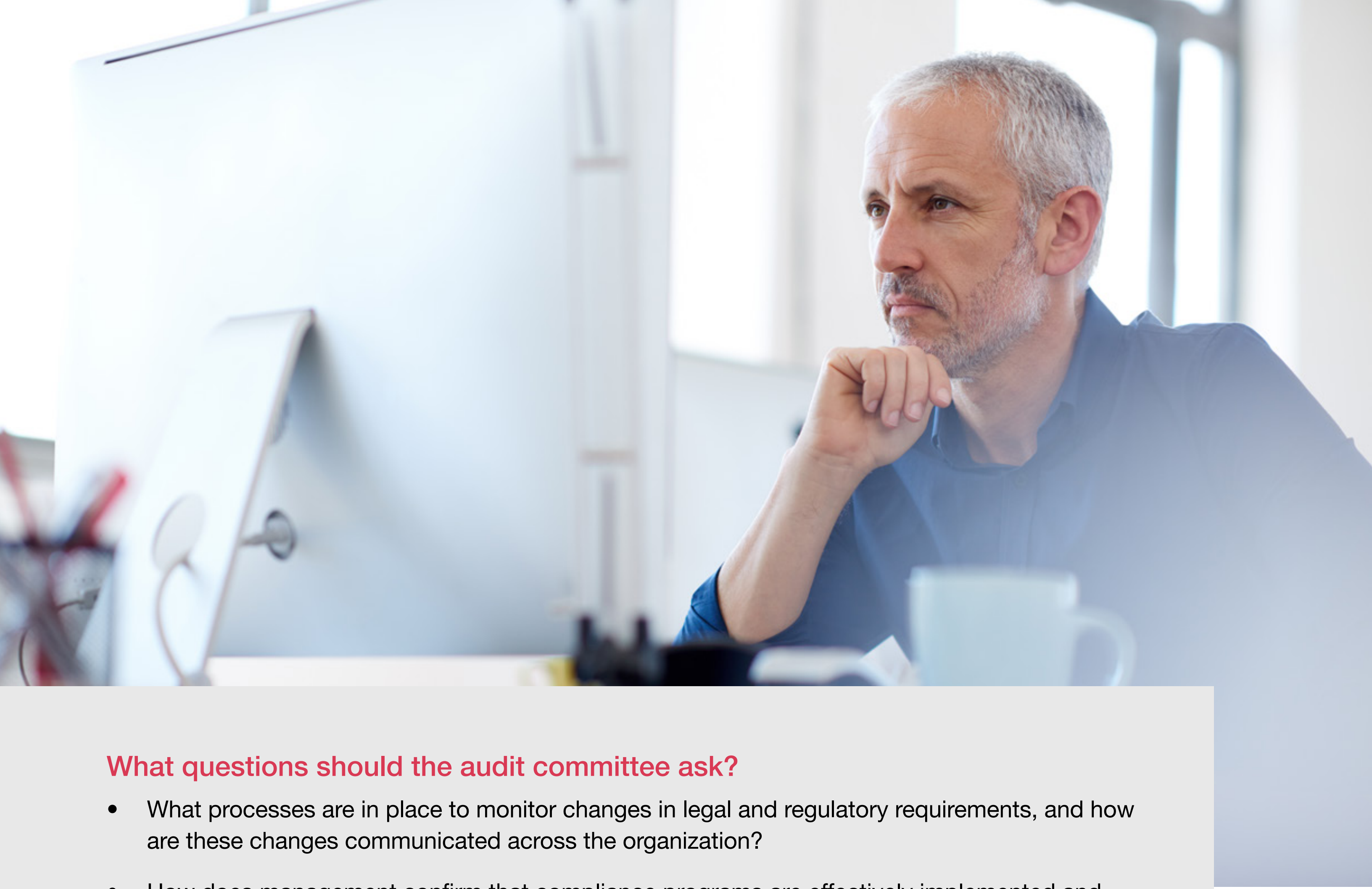
Failure to comply with legal and regulatory requirements can result in severe financial penalties, legal actions and reputational damage, which can significantly impact a company's bottom line and market position. In recent years, the SEC has increased enforcement, bringing actions against a broad group of offenders. For its 2024 fiscal year, the SEC filed 583 enforcement actions resulting in $8.2 billion in financial remedies ($6.1 billion in disgorgement and prejudgment interest and $2.1 billion in civil penalties), the highest amount in SEC history.

At the same time, having robust compliance programs can enhance a company's operational efficiency and risk management, leading to better decision-making and increased trust from stakeholders. And, as stakeholders continue to seek increased transparency, more companies are aiming to demonstrate a strong commitment to ethical practices and regulatory compliance.

Why is it relevant to the audit committee?

Audit committees have a critical oversight role in ensuring the integrity of financial reporting and adherence to regulatory standards. With the increasing complexity and scope of regulations, audit committees must confirm that their organizations have robust compliance frameworks in place to understand its requirements, mitigate risks, and avoid potential legal and financial repercussions. Effective compliance programs help to maintain investor confidence, protect the company's reputation and support long-term sustainable growth. Further, the audit committee's oversight helps support management in proactively addressing compliance matters and confirm internal controls are effective in preventing and detecting violations.

As the business environment continues to evolve, audit committees may want to allocate more agenda time to discussing regulatory compliance matters. Audit committees may also want to request more frequent updates from, and meetings with, the company's general counsel and chief compliance officer to discuss the company's compliance programs and reporting systems.



What questions should the audit committee ask?

- What processes are in place to monitor changes in legal and regulatory requirements, and how are these changes communicated across the organization?
- How does management confirm that compliance programs are effectively implemented and regularly updated?
- What measures has management taken to foster a culture of compliance and ethical behavior within the company?
- What is internal audit's process for assessing the effectiveness of the company's compliance programs and internal controls related to regulatory requirements?
- What are the most significant compliance risks identified by management's enterprise risk management process?
- What is internal audit's process for determining the nature and frequency of compliance-related audits?
- How does the external auditor evaluate the company's risk of compliance with legal and regulatory requirements during the audit?
- What insights or recommendations has the external auditor provided regarding the company's compliance framework and related controls?

Where to go for more information

- PwC: Trends in SEC enforcement actions
- PwC: Audit committee oversight checklist
- PwC: Audit committee effectiveness: practical tips for the chair

Focus on audit committee effectiveness heading into 2025

What the audit committee needs to know

In today's evolving business environment, companies are navigating a complex, interconnected landscape characterized by heightened geopolitical tensions, economic uncertainty, emerging regulations, transformative technological advancements and other matters. The geopolitical climate, marked by trade disruptions, shifting alliances and regulatory changes, can significantly impact global supply chains and market stability. In addition, companies face inflationary pressures and fluctuating interest rates. Moreover, evolving risks such as cybersecurity threats and those associated with the increasing use of AI continue to expand the risk landscape. All of this means the audit committee's responsibilities continue to expand, its deliberations become more complex and the implications of its actions (or inaction) are more consequential. And all of this is occurring when agenda time is becoming harder to find.

Why is it relevant to the audit committee?

In our conversations with audit committee members, we often hear about the challenge of staying efficient and effective while taking on more and more responsibilities. Given the current business landscape as a backdrop, this is a great time of the year for an audit committee to consider taking a fresh look at its oversight responsibilities to validate that its remit is appropriate given current challenges and opportunities, that it has the right competencies represented among its members and the annual agenda provides for the right amount of attention on priority matters.

Additionally, audit committees should critically evaluate how they are operating and explore opportunities to drive efficiency. Key actions the audit committee may want to consider to support optimal performance include:

- Evaluate the annual agenda plan against the charter for completeness and any other priorities of the committee
- Create time in the agenda plan to allow for deep dives on priority topics throughout the year
- Consider implementing a consent agenda
- Meet ahead of time with the CFO, external auditor, internal audit and other management team members reporting to the audit committee to confirm appropriate time for agenda items and discuss any emerging matters
- Implement pre-meeting executive sessions to provide an opportunity for candid discussion among audit committee members without members of management present and to get consensus on the critical matters that may need additional focus during the meeting
- Consider ways to leverage internal audit beyond traditional areas, such as enterprise resiliency, culture assessments and data protection

What questions should the audit committee ask?

- Does the charter include all significant responsibilities (including those specific company risks) that the audit committee oversees?
- Should oversight responsibilities be shared with or reassigned to other committees or the full board?
- What is management's process for streamlining and enhancing the effectiveness of pre-read materials and presentations?
- How can internal audit be leveraged in new and different ways to help the audit committee effectively execute its oversight responsibilities?
- Which key risk areas could the committee benefit from additional education/training or from external specialists?
- Are the necessary skillsets represented on the committee to properly oversee the company risks for which it is responsible?

Where to go for more information

- PwC: Audit committee oversight checklist
- PwC: Audit committee effectiveness: practical tips for the chair
- PwC: Audit committee dashboard reporting
- PwC: Getting the most out of internal audit

FASB standard-setting developments

What the audit committee needs to know

The segment reporting standard issued last year is effective for 2024 calendar year-end companies. In early November, the FASB issued a new standard on its disaggregation of income statement expenses ("DISE") project. In addition, the FASB has continued to move forward several other projects including accounting for internal-use software, accounting for government grants, accounting for environmental credits and hedge accounting, with exposure drafts issued already or expected to be issued before year end. The FASB is also expected to initiate an agenda consultation process in early 2025.

Segments guidance

The segments reporting standard requires incremental disclosures, including disclosure of significant expenses for each reportable segment, but does not change the definition of a segment or the guidance for determining reportable segments. The standard allows disclosure of multiple measures of segment profit or loss in the segment footnote if they are used by the chief operating decision maker (CODM) for assessing performance and allocating resources. However, if a CODM uses multiple measures of a segment's profit or loss, the reporting entity is required to disclose, at a minimum, the measure of profit or loss that is most consistent with the amounts included in the financial statements. The SEC staff has expressed a view in several public forums that any additional measures of segment profitability included in the segment footnote that are not consistent with GAAP would be considered non-GAAP financial measures. In a discussion in August 2024, SEC staff clarified the permissibility and disclosure requirements when considering inclusion of non-GAAP measures of segment profit/loss. The segments guidance is effective for calendar year-end public companies in the 2024 annual period and in 2025 for interim periods. Early adoption is permitted.

DISE

The new standard requires additional disclosure about specific types of expenses included in expense captions presented on the face of the income statement as well as disclosures about selling expenses. We expect that nearly all public business entities will be required to disclose more information about income statement expenses upon adoption of the new standard. The guidance is effective for fiscal years beginning after December 15, 2026 and interim periods within fiscal years beginning after December 15, 2027. Companies can adopt the guidance on either a prospective or retrospective basis, and early adoption is permitted.

We expect that nearly all public business entities will be required to disclose more information about income statement expenses upon adoption of the new standard.

Why is it relevant to the audit committee?

The audit committee should be aware of accounting standards developments and their potential impacts on the company's financial reporting. As part of its oversight role, the audit committee should understand management's processes for monitoring, evaluating and implementing new accounting standards. As new standards are proposed, the audit committee should understand management's process for assessing the impact, including any systems or financial reporting process changes, incremental resource needs and additional disclosure requirements. The audit committee will also want to understand management's rationale and the process for early adoption of a standard.

The audit committee will want to understand management's process for determining and disclosing significant segment expenses. If management has established a disclosure committee, the audit committee may want to understand how the disclosure committee considered the new disclosure requirements and how interim reporting may change for the first quarter of 2025.

What questions should the audit committee ask?

- What is management's process for monitoring, evaluating, and implementing emerging and new accounting standards?
- What challenges might the company face (e.g., data quality concerns) as it prepares for the required adoption of new standards (e.g., DISE)?
- Does management intend to early-adopt any eligible accounting standards for the current year-end period? If so, what are the expected impacts to financial reporting processes and the financial statements?
- How is management considering the impact of the final DISE standard on the company's financial statements and footnotes?
- What is management's process for evaluating the adequacy of internal controls to ensure accurate disaggregation of expenses?
- How is the CODM using measures of profit or loss in making capital allocation decisions and what measure(s) should be disclosed?
- If the CODM uses multiple measures of segment profitability to assess segment performance and allocate resources, what is management's process for disclosing those multiple measures?
- What is management's plan for monitoring the effectiveness of its new segment reporting processes?

Where to go for more information

- PwC: Guidance effective for calendar year-end public companies
- PwC: FASB issues new disaggregated expense disclosure requirements (DISE)
- PwC: FASB updates segments guidance
- PwC: SEC provides greater clarity on new segments guidance
- PwC: Financial statement presentation guide (Chapter 25)

New internal audit standards on the horizon

What the audit committee needs to know

In January 2024, the IIA issued new *Global Internal Audit Standards,* which will become effective on January 9, 2025. The Standards aim to help internal auditors define and fulfill their mandate and provide a framework of principles, requirements, considerations and examples for the professional practice of internal auditing globally. The standards introduce the concept of "essential conditions" that are necessary for the internal audit function to be effective. These conditions require active dialogue and collaboration between the audit committee, the chief audit executive (CAE) and senior management. The standards also call for the CAE to be more transparent with the board (i.e., audit committee) in its communications on areas such as its mandate, strategic plan, capabilities, budget and key performance metrics.

Why is it relevant to the audit committee?

The audit committee plays a critical role in overseeing the internal audit function and supporting its effectiveness. Understanding the new standards is critical for the audit committee in enhancing its oversight of the internal audit function and to be able to more effectively leverage it. While many internal audit functions may have already assessed, or are in the process of assessing, their current practices against the new standards, it is critical for the audit committee to maintain oversight of any changes in processes resulting from adoption. The audit committee should also confirm the internal audit function has the resources it needs to adopt the standards, support communication and collaboration with internal stakeholders, and monitor progress and performance.

Whether the internal audit function has historically conformed with the IIA's Standards or not, the Standards can support the audit committee in driving greater value from internal audit. The new standards present an opportunity for the audit committee to confirm its expectations of the internal audit function and lay the foundation to evolve internal audit's focus beyond traditional areas of support (e.g., performing routine operational or compliance audits) to more contemporary areas of focus, such as assessing culture, reviewing controls involved in systems implementations, and reviewing AI-related risks, policies and procedures.

What questions should the audit committee ask?

- What is the status of internal audit's process for aligning the function to the new standards?
- What is management's process for supporting the concept of "essential conditions" to enhance internal audit's effectiveness?
- What processes has internal audit developed to measure its performance and effectiveness against the standards?
- What is the CAE's process for confirming that the internal audit function has the qualifications, skills and experience needed to address both current and emerging risks?
- What is the CAE's process for supporting internal audit's ongoing training and professional development needs to keep staff updated on the latest industry trends and regulatory requirements?
- What is the CAE's process for aligning internal audit's activities with the organization's strategic objectives and risk profile?
- What is the CAE's process for identifying opportunities to transform internal audit's reporting, such as refining the level of detail presented, implementing visualizations and dashboards, and utilizing AI?

Where to go for more information

- PwC: A chance to reframe Internal Audit: the new Global Internal Audit Standards
- PwC: Global Internal Audit Study 2023
- PwC: Getting the most out of internal audit
- IIA: Global Internal Audit Standards

Enhancing proxy disclosure

What the audit committee needs to know

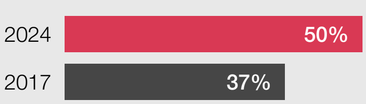
As companies continue to face emerging and expanding risks, the work of the audit committee continues to evolve as well. The audit committee's oversight responsibilities have expanded to accommodate risks associated with implementing new technologies, increased cyber threats, a changing business environment, and geopolitical and economic uncertainty, among others. At the same time, audit committee disclosure in the proxy has continued to progress in response to stakeholder expectations for enhanced transparency.

In recent years, audit committees have expanded disclosure across a number of areas, including oversight of the external auditor, cybersecurity and ESG. And while there are positive long-term trends in disclosure across these areas, audit committees have an opportunity to continue to drive enhanced disclosure even further. And, in a positive development, CAQ's 2024 study found that 85% of S&P 500 companies disclosed the board's skills matrix in the proxy statement.

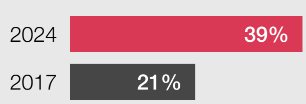
The charts that follow highlight relevant disclosure trends within the proxy statement relating to audit committee oversight responsibilities among S&P 500 companies:

Oversight of the external auditor

% disclosing audit committee's considerations in the appointment of the company's audit firm



% disclosing evaluation of the external auditor is at least an annual event



% disclosing the audit committees' involvement in audit partner selection

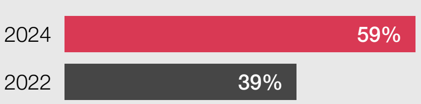
Cybersecurity oversight

% disclosing that the board of directors has a cybersecurity expert

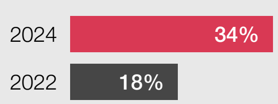
% disclosing that the audit committee is responsible for cybersecurity risk oversight

ESG oversight*

% disclosing that the board of directors has an ESG or sustainability expert



% disclosing that the audit committee is responsible for ESG oversight



* These were new questions in 2022

Source: Center for Audit Quality and Ideagen Audit Analytics, *2024 Audit Committee Transparency Barometer,* November 2024.

Why is it relevant to the audit committee?

Disclosures in the proxy of the audit committee's responsibilities and how it executes on its oversight can provide important information to investors and other stakeholders. And while significant progress has been made in audit committee disclosure, it is imperative that audit committees continue to articulate how they meet their oversight responsibilities. As 2024 comes to a close, now is a good time for audit committees to confirm that disclosures in the proxy statement reflect not just the level of transparency their stakeholders expect but also the audit committee's commitment to oversight.

What questions should the audit committee ask?

- How does the company's current disclosure compare to that of its peers?
- What is management's process for benchmarking disclosure in the proxy against leading practices?
- How has management used feedback from investors and other stakeholders to enhance disclosure in the proxy?
- How has management considered incremental disclosure in the proxy statement to reflect the current state of audit committee oversight responsibilities or processes?

Where to go for more information

- CAQ: 2024 Audit Committee Transparency Barometer

How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner or a member of PwC's Governance Insights Center.

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