EY Center for Board Matters

How audit committees can prepare for 2023 Q1 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 Q1 reporting and beyond.

Risk management

Given the ongoing 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. Complex macroeconomic and geopolitical forces, including high inflation, geopolitical tensions and economic volatility, continue to heighten business risks and remain an ongoing focus for audit committees.

Tapestry Networks recently convened audit committee chairs of global Fortune 100 public companies to exchange views on top concerns keeping them up at night. Tapestry summarized the key points arising from this discussion in its recently released report *Top concerns for audit committees*.

We've highlighted some notable themes included in this report, along with other key takeaways from conversations we've had with various audit committee chairs.[1]

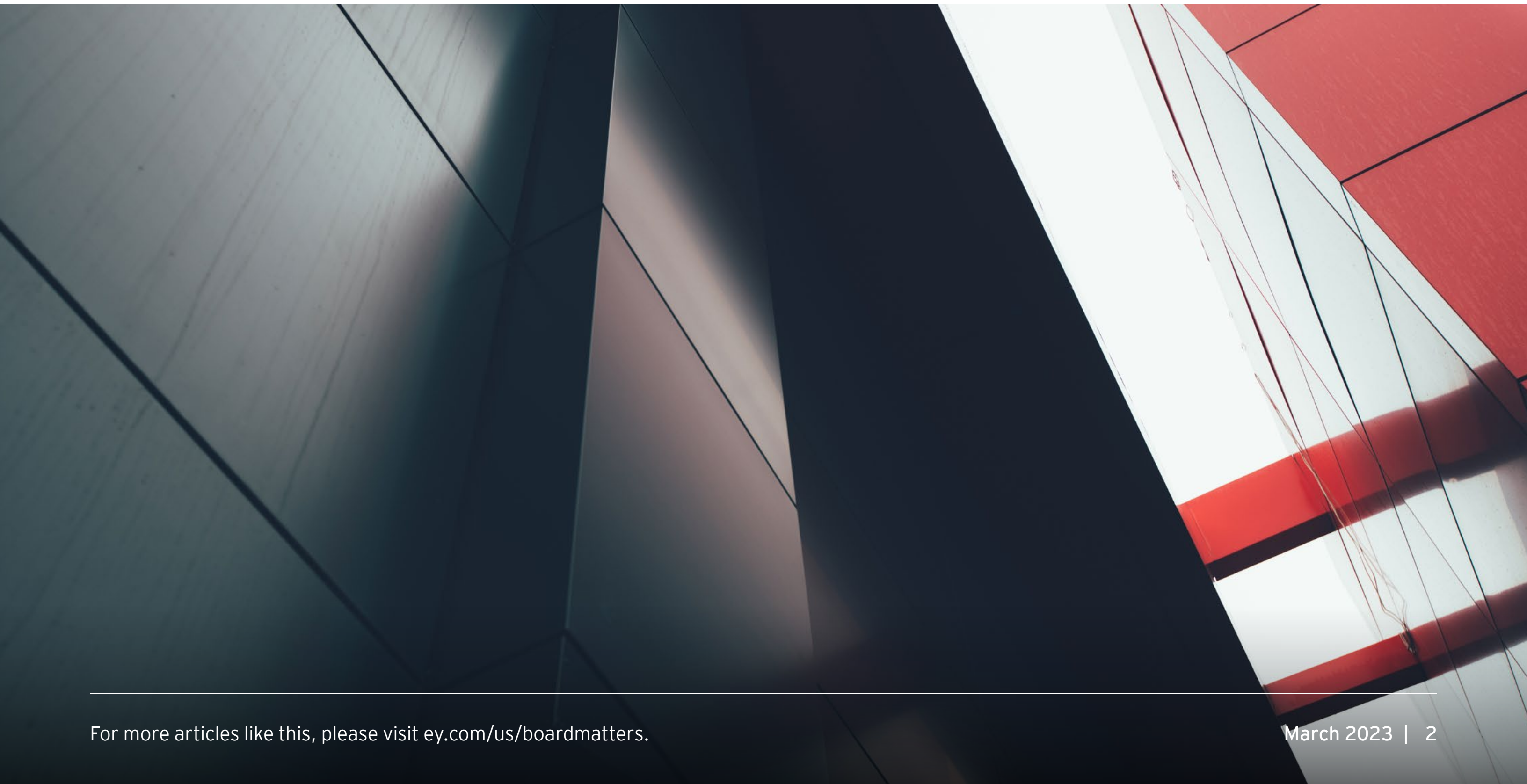
Compounding risks and unprecedented uncertainty are creating new oversight challenges for boards and audit committees

In particular, counterintuitive risk impacts now being observed are adding another layer of complexity. This, along with unprecedented levels of uncertainty and the increasing scope, scale and interconnectedness of risks, continues to be a challenge for audit committees.

[1] "Top concerns for audit committees," Audit Committee Leadership Network, *ACLN ViewPoints*, December 2022, accessed March 2023 via www.tapestrynetworks.com/publications/top-concerns-for-audit-committees-0.

The most concerning risks for audit committee chairs

- **Economic conditions**
  Heading into 2023, several signals pointed to a potential global recession. However, there was very little consensus on its likely length, depth and severity. The cooling economy with persistent inflation, rising borrowing costs, deteriorating private sector sentiment and rapidly slowing global economic activity is warranting more attention from boards. Continued cost pressures, weakening demand and elevated uncertainty are prompting some companies to proactively realign operations and judiciously sharpen investment- and talent-related strategies.
- **Geopolitical**
  Geopolitical tensions are a top concern, especially around China. Increasingly, boards are spending more time on China during board meetings — what was once a huge opportunity is now viewed as a big risk, with a growing number of boards and audit committees performing a deep dive on this particular risk.
- **Supply chains**
  Energy supply and geopolitical turmoil create supply chain concerns. "De-risking" supply chains, including decreasing dependence on China, as well as re-examining European supply chains in light of potential energy shortages this winter and beyond, were top of mind for audit chairs.
- **Cyber**
  Cybersecurity is a "never-ending struggle" for many audit committees. Continuously evolving cyber risks and a heightened threat environment have many audit chairs questioning whether they are doing enough, allocating sufficient resources, and putting the right questions to executives.
- **Energy**
  While audit chairs do not expect the US to have near-term energy shortages, the European energy crisis has them contemplating the implications for their companies. Some audit chairs believe that companies should prepare for the long-term issues presented by the energy challenge, and potential new shortages across the world.
- **Unknowns**
  Audit chairs worry about "black swan theory" and "gray rhino theory" events, which are especially challenging to plan for. Although risks such as a pandemic had been on many companies' risk maps, very few were prepared for a shutdown of global supply chains. Accordingly, building capabilities to anticipate, assess and manage risk impacts and upside opportunities has come into greater focus.



As historical risk oversight practices may no longer be fit for purpose, useful practices highlighted by audit chairs and observed by us include:

- **Break down silos and integrate enterprise risk management (ERM) processes**. Decentralized ERM models can fall short if they take a siloed view of risks and fail to go beyond the enterprise (e.g., ecosystem-wide and the system risks). Consideration of how a risk may impact or intensify another is also a shortcoming. Audit committees can play an important role in driving an integrated approach to risk, especially when it comes to the non-obvious interconnected risks. One practice we heard from a company is the creation of a risk council of senior leaders throughout the company to gain a broader view of risks and their implications.
- **Incorporate external data sources to develop an informed point of view on the risk landscape**. The board should verify that the organization is incorporating both internal and external data points in its risk identification process and continuously monitoring risks and trends for any material changes.
- **Increase scenario planning and incorporate tabletop exercises to enhance preparedness**. Audit chairs noted that putting a lot of thought into potential scenarios and having such a framework is helpful in reacting quicker. Companies can undertake tabletop exercises to practice responding to potential scenarios (e.g., environmental, social and governance (ESG)-related risks such as extreme climate-related scenarios, geopolitical risks and cyber events) to enhance risk responses and overall preparedness. Additionally, leveraging technology (such as artificial intelligence) to scan the horizon for outside-in risk perspectives, and utilizing data analytics will lead to fewer surprises by providing more insightful data to help detect weak signals of an atypical threat before it materializes.
- **Seek ways to incorporate diverse perspectives and specialized expertise**. A diverse board with a range of perspectives can provide valuable insight for risk oversight. Some boards are recruiting directors who bring different elements of diversity in thought and experience to broaden and strengthen the collective range of perspectives and insights. Leveraging external expertise from advisors, analysts and independent subject-matter experts to bring outside-in perspectives may also enhance risk oversight.
- **Be transparent with stakeholders**. Directors are seeing the importance of informing investors and other stakeholders about current levels of risk and uncertainty on a timely basis.
- **Continue to build resiliency and sustainability while staying vigilant to cyber risks**. With respect to cyber, directors underscored the importance of a regular cadence of updates from management and outside experts. Some audit committees are also using cyber-rating agencies for cybersecurity assessments of the company. Audit committees are monitoring ratings as well as security scoreboards based on what regulators and investors are looking for. Additionally, some chairs noted the importance of learning and applying any such learnings from cyber situations at other companies to help identify less common weaknesses.

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What we're hearing from investors: investor views on risks and other growing areas of focus in 2023

The EY Center for Board Matters recently spoke to governance specialists from more than 60 institutional investors representing over US$48 trillion in assets under management to better understand investor priorities. A key theme that emerged from those conversations was the investors' continued and growing interest in the resilience of a company's business model.

Investors want to know how companies are strengthening supply chains, innovating to meet changing stakeholder demands, thriving through the energy transition, retaining and developing talent with flexible policies, stewarding the natural resources the business relies on, and more. As resilience continues to be tested by compounding external challenges beyond directors' control, investors look to boards to control what they can, which includes keeping the long-term strategy in focus as management contends with more immediate pressures.

At the same time, directors may be more vulnerable this year. New universal proxy rules, along with challenging economic conditions, may drive a higher volume of proxy contests. Meanwhile, investors continue to evolve their director voting approaches to highlight their intention to hold board members accountable for ineffective oversight, and pending SEC rulemakings on climate and cybersecurity are driving increased focus on director qualifications.

Our 2023 report provides data and insight into what we learned in four key areas from our investor discussions. Some other notable considerations are:

- In a dynamic risk landscape, nearly half of investors identified people issues as a top threat to companies over the next three to five years, citing a host of challenges in this area. Despite some recent high-profile layoffs and a cooling labor market, companies across different industries are competing for the same talent, in particular technology talent, during a labor shortage. At the same time, they are navigating new workforce expectations for flexibility, upskilling, compensation and purpose, and new stakeholder expectations for how employees should be treated.
- Geopolitical turmoil jumped from the bottom to near the top of the most pressing company risks from investors' perspective. Noting the continuing global disruption from the war in Ukraine, investors raised concerns about what potential scenarios could play out next. They want to know how companies are monitoring and managing those geopolitical risk exposures, which investors view as encompassing supply chain issues, cybersecurity risk and consumer expectations.
- Around one-third of investors put economic conditions among the three biggest threats to companies, up from 19% last year, with different investors highlighting different areas of focus. Some will be watching how companies support and retain employees through a potential global recession of unclear scope and magnitude. Some will be paying closer attention to how executive compensation aligns with shareholder returns and satisfaction levels. Other key areas of focus are how companies are navigating capital strategy and mergers and acquisitions (M&A) under current liquidity constraints and related conditions, and how boards are working with management through the uncertainty and investing for the long term while managing near-term constraints.

- Institutional investors are staying the course in their conviction that ESG factors can materially impact long-term financial value and expect companies to adhere to stated ESG commitments. Sixty percent of these investors said that the articulation and integration of material ESG opportunities and risks into strategy will be among the biggest drivers of companies' success in the next three to five years.
- Most investors continue to point to the Sustainability Accounting Standards Board standards (now a resource of the IFRS Foundation that will be leveraged for the International Sustainability Standards Board (ISSB) standards) as reflective of baseline materiality. Investors are asking companies about the materiality assessments they have used to identify ESG topics that are material to the business, and they are encouraging companies to make a stronger connection between ESG goals and strategic and financial outcomes.
- There is a continued shift in investor voting to bring a more nuanced assessment to the director vote and elevate board accountability, including related to oversight of material environmental and social factors. Half (52%) of investors told us that ESG oversight will be a more important factor in how they evaluate and vote on directors in the 2023 proxy season, down from 73% last year. None of the investors said they would be relaxing their expectations of directors in this regard. Whatever the content of any final SEC rulemakings, investors will continue to demand transparency in disclosures and active, engaged board oversight of material ESG matters.
- As for top investor engagement priorities for 2023, even with enhanced attention to geopolitics and economic conditions, investors expect ongoing engagement with businesses around multiyear stewardship priorities, including climate risk and the energy transition, workforce and board diversity, and broader human capital management issues. Corporate political and lobbying spending will likely receive increased attention this year, and other notable issues to watch include biodiversity and unequal voting rights. While these engagement priorities remain fairly consistent compared with prior years, the nuances around investor views and expectations continue to evolve.

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Accounting and disclosures

As noted in our report *Americas board priorities 2023: How to build resiliency in uncertain times*, directors ranked navigating the challenging economic conditions as the top board priority for 2023. 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. We've highlighted below some key accounting-related considerations that audit committees may want to consider with respect to the current economic environment:

- 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.
- With persistent inflation making more interest rate hikes seem likely, companies may need to determine whether there are indicators of impairment for long-lived assets; goodwill; and indefinite-lived assets, equity method investments, or certain financial assets measured at amortized cost as a result of company-specific actions or circumstances, or due to one or a combination of macroeconomic factors. For companies that update impairment assessments, audit committees should inquire with management whether consistent assumptions were used in each of their analyses and public statements (e.g., SEC filings, news releases).
- Companies that have announced or implemented layoffs, furloughs and/or other restructuring costs/activities will need to determine how to account for such actions. This may be challenging since there are several accounting standards that address these topics, and the recognition and measurement requirements depend on which standard applies. For example, companies will need to determine whether termination benefits are provided under a one-time benefit arrangement in accordance with Accounting Standards Codification (ASC) 420, *Exit or Disposal Cost Obligation*, or under an ongoing benefit arrangement in accordance with ASC 712, *Compensation — Nonretirement Postemployment Benefits*, or ASC 715, *Compensation — Retirement Benefits*, both of which have liability recognition criteria that differ from those in ASC 420. Judgment may be required to determine whether an ongoing benefit arrangement exists, especially when there is no written policy on termination benefits.
- Rising interest rates may affect lease accounting since they generally increase a lessee's incremental borrowing rate (IBR), which is used to measure the lease liability for new leases, certain lease modifications and events requiring remeasurement. Since this rate is entity-specific and considers the lease terms, rising interest rates may affect each lease and each lessee differently.
- Persistent inflation and rising interest rates may lead to liquidity issues for borrowers, and debt covenant violations. Higher interest rates may require borrowers to amend the terms of existing debt agreements or obtain waivers if they no longer satisfy debt covenants.

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- In the current environment, entities may also need to consider the effects on revenue recognition under ASC 606, *Revenue from Contracts with Customers*. Entities should consider whether inflation and rising interest rates have led to contract modifications or terminations. They also should consider how rising inflation may affect the measure of progress for contracts under which an input method (e.g., costs incurred relative to total expected costs) is applied to measure progress toward completion to recognize revenue over time. For contracts subject to the loss contract guidance, entities should consider when losses on onerous contracts should be recognized. If a loss needs to be recognized, the entity should consider how to measure it in light of the potential for increasing costs.
- In addition, companies that use supplier finance programs to manage their liquidity and working capital in a rising-interest-rate environment need to evaluate whether they can continue to classify payables subject to a supplier finance program as trade payables or need to reclassify them as debt. Companies will also need to consider the new requirements under Accounting Standards Update 2022-04 to disclose the key terms of supplier finance programs they use in connection with the purchase of goods and services, along with information about their obligations under these programs.

The recent bank failures and other related challenges have raised concerns about potential weakness in the banking sector in today's high-interest-rate environment. While many business customers of banks are reconsidering their strategies for managing cash and interest rate risk, they will also need to consider the effects of the current events on their financial reporting. Some key considerations stemming from these bank failures may be:

- Disclosures about subsequent events and risks and uncertainties that are broadly resulting from the disruption
- Whether any assets are impaired or whether current events will trigger violations of debt covenants or other provisions in credit agreements that would require the company to classify debt as current rather than noncurrent
- Whether any changes made in agreements with customers or vendors (e.g., modifications to extend payment terms) need to be reflected in financial statements
- Whether any of these events affect a company's going concern evaluation

Lastly, for any material matters, companies should also consider making disclosures to comply with Regulation S-K (e.g., disclosures about liquidity and capital resources, risk factor disclosures, management's discussion and analysis of financial condition, and results of operations).

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Other notable tax-accounting-related considerations

Tax considerations related to certain IRA and CHIPs Act provisions

Companies are facing several tax challenges this year as certain provisions of the Inflation Reduction Act (IRA) and the CHIPS and Science Act (CHIPs Act) go into effect. We've summarized some of the key highlights below:

- **Corporate alternative minimum tax**
  The 15% corporate alternative minimum tax (CAMT) created by the IRA is effective for 2023 and applies to certain corporations with average annual adjusted financial statement income exceeding $1 billion over the three tax years preceding the current tax year.

  The new CAMT brings added complexity for potentially affected companies. Companies will first need to determine whether the tax applies to them, and then if so, how much they should pay. This requires two separate calculations to determine their tax liability. The Treasury Department has begun issuing guidance to provide more detail on when the tax applies, how to calculate it, and the CAMT foreign tax credit. However, some questions remain unanswered, so companies will need to determine their positions for calculating their tax and should open discussions with their auditors on how they will approach the unknown factors for estimates. Audit committees should inquire with their companies and external auditors whether the CAMT was appropriately considered and recognized under ASC 740.

- **Excise tax on stock repurchases**
  Another new provision enacted as part of the IRA is the excise tax on stock repurchases, which is also effective this year and applies to net stock repurchases by publicly traded US corporations and repurchases of stock of a publicly traded foreign corporation by its domestic affiliate. The tax equals 1% of the fair market value of the stock repurchased during the year, less the fair market value of stock issued during the tax year.

- **Government assistance**
  The various forms of government assistance introduced by the IRA and CHIPs Act each have their own requirements that need to be carefully evaluated to determine how to account for the assistance.

Audit committees should confirm that management has appropriately applied the required accounting treatment. Additionally, audit committees should know how management is both preparing for any new tax liability and determining the applicability of new incentives stemming from these legislative changes. Companies should be tracking new compliance obligations, as well as examining their supply chains and expansion plans where applicable, incorporating potential tax obligations and opportunities into future plans.

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Estimating the annual effective tax rate and reporting income taxes in an interim period

Calendar-year companies will need to consider the CAMT when setting the estimated annual effective tax rate for the first quarter of 2023. As a reminder, at the end of each interim reporting period, a company is required to make its best estimate of the annual effective tax rate for the full fiscal year and apply that rate to year-to-date ordinary income.

The calculation of the annual effective estimated tax rate can be affected by (1) operations in multiple jurisdictions, (2) expectations about whether current-year losses are realizable, (3) the tax benefit of an operating loss carryforward from a prior year that is realized because of current-year ordinary income, and (4) tax law changes enacted in the period that affect taxes payable or refundable for the current year.

Management should make sure that forecasts used for estimating income taxes are consistent with those used for other purposes and incorporate the effects of current economic conditions. Additionally, audit committees should verify that management has a process to monitor tax law changes in the US and other jurisdictions.

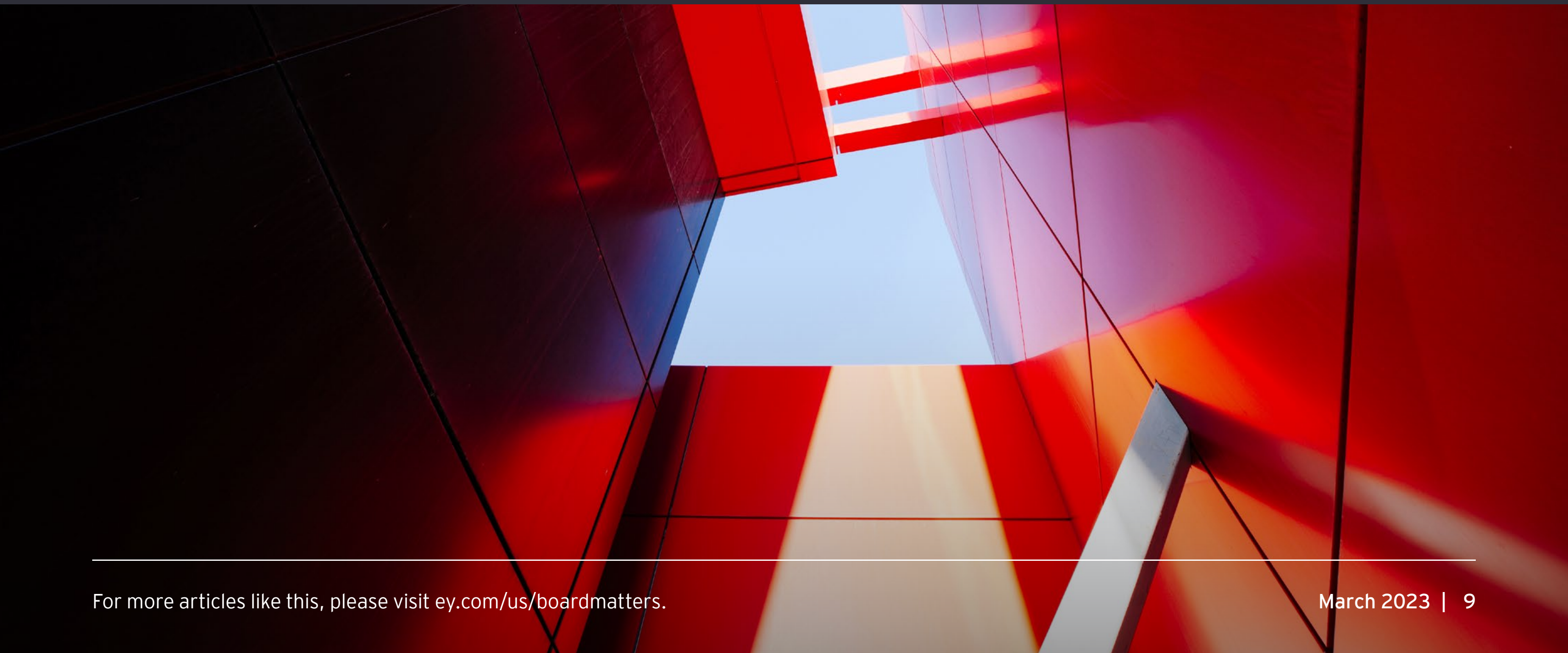
Global minimum tax under the OECD's Pillar Two GloBE model rules

The Pillar Two Global Anti-Base Erosion (GloBE) model rules issued by the Organisation for Economic Co-operation and Development (OECD) introduce a global minimum tax of 15% that would apply to a multinational enterprise (MNE) group with consolidated financial statement revenue of more than EUR750 million.

Multinational entities with consolidated financial statement revenue of more than EUR750 million need to monitor legislation in the jurisdictions they operate in, because OECD member countries are expected to enact the GloBE rules in 2023, with effective dates beginning on 1 January 2024. Currently, South Koreas has enacted legislation consistent with the GloBE rules. However, many others are expected to enact throughout the spring and summer.

Under the GloBE rules, an MNE group would be required to determine a combined effective tax rate for all entities located in a jurisdiction. When the combined entities' jurisdictional effective tax rate is less than 15%, a top-up tax generally will be due to bring the jurisdictional effective tax rate to 15%.

In response to a technical inquiry, the Financial Accounting Standards Board (FASB) staff stated it believes that the GloBE minimum tax is an alternative minimum tax as discussed in ASC 740. Because of that, companies will need to consider the effects beginning in the period that includes the date the laws take effect.



SEC rulemaking and other reporting considerations

The SEC wrapped up 2022 with warnings about the risk of fraud in the current economic environment and revised rules on insider trading plans. In public remarks in December 2022, SEC and Public Company Accounting Oversight Board (PCAOB) leaders warned those involved in financial reporting that the current economic environment increases the risk of financial fraud and advised market participants to be vigilant against it. Also, the SEC adopted amendments relating to Rule 10b5-1 insider trading plans and related disclosures.

The amendments add conditions that must be met to assert the affirmative defense against insider trading liability in Exchange Act Rule 10b5-1, which allows trades based on a written agreement (known as a trading plan) that was adopted when the insider was not aware of material nonpublic information, among other things. Other new requirements include cooling-off periods before trading can commence under a trading plan; a condition that all persons entering into a trading plan under Rule 10b5-1 must certify they are acting in good faith and not aware of any material nonpublic information at that time; and related tabular and narrative disclosures in both periodic filings and proxy and information statements. Individuals will be required to comply with the amendments in beneficial ownership reports filed on or after 1 April 2023. Registrants will be required to comply with updated disclosure requirements in the first periodic report and proxy or information statements that cover the first full fiscal period beginning on or after 1 April 2023.

On 4 January, the SEC published its Fall 2022 Unified Agenda of Regulatory and Deregulatory Actions, which discloses the SEC's anticipated short- and long-term rulemaking actions. The agenda indicates SEC rulemaking will remain active and a number of the SEC's pending high-profile rulemakings are expected to be acted upon in the first half of 2023, although that timing could slip. This includes final rules on climate-related and cybersecurity disclosure, revised disclosure requirements for special purpose acquisition companies (SPACs) and enhanced disclosures on share repurchase modernization.

The SEC also expects to propose a rule on human capital management disclosure.

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 its 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 to ensure clear explanations of these measures are provided.

Audit committees should also understand management's plans to evaluate 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 released proposed rules to implement the clawback rule; these are subject to a public comment period and approval by the SEC. Companies are required to adopt a compliant policy 60 days after the applicable listing standards are effective and to provide required disclosures, meaning compliance will likely be required in 2024.

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

Key actions for the audit committee may include:

- Evaluate how the company is communicating to shareholders regarding the board's oversight of key risks, including relating to geopolitical developments, economic conditions, cybersecurity and climate change.
- Evaluate changes to the company's insider trading policies, procedures and disclosures in response to the finalized rule amendments relating to Rule 10b5-1 insider trading plans and related disclosures.
- Evaluate the implications arising from SEC rulemaking related to ESG matters, including climate and cybersecurity risk and how the board oversees these risks. Additionally, evaluate with management how commenting on SEC rule proposals may impact investors.
- Be aware of the 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.
- 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 disclosure controls and procedures to understand any gaps or additional requirements to comply with a final rule by the SEC.
- 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.
- Evaluate the company's plans to review existing clawback policies and compensation plans for changes that may be required in light of the proposed rule.

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Additional resources

- *Four key SEC priorities in 2023*
- *SEC in Focus – January 2023*
- *To the Point – SEC adopts rules to require 'clawback' policies and disclosures*
- *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*
- *To the Point – SEC proposes requiring more cybersecurity disclosures*
- 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 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.

Inquiries with management, compliance personnel and auditors

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

Risk management-related inquiries:

- How effective is the board's oversight of 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?
- How is the company planning for a range of economic scenarios, including those in which inflation and wage growth stay elevated for longer?
- How is the company investing to mitigate risk and create opportunity despite multiple headwinds?
- What is the company doing to stress-test its balance sheet and develop a crisis playbook that gives company leaders comfort in their ability to manage even the worst-case scenario?
- 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 recent risk events?
- How is the company building a resilient and sustainable pricing strategy? How is scenario planning supporting that strategy?
- How is the company evaluating labor costs and decisions in the context of the company's longer-term talent strategy?
- 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 ESG factors?
- How is the company evaluating supplier relationships for potential geopolitical complications and exploring alternative supplier networks attuned to the new geostrategic environment?
- 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?
- As it relates to the Inflation Reduction Act of 2022, has management fully vetted the landscape of federal incentive

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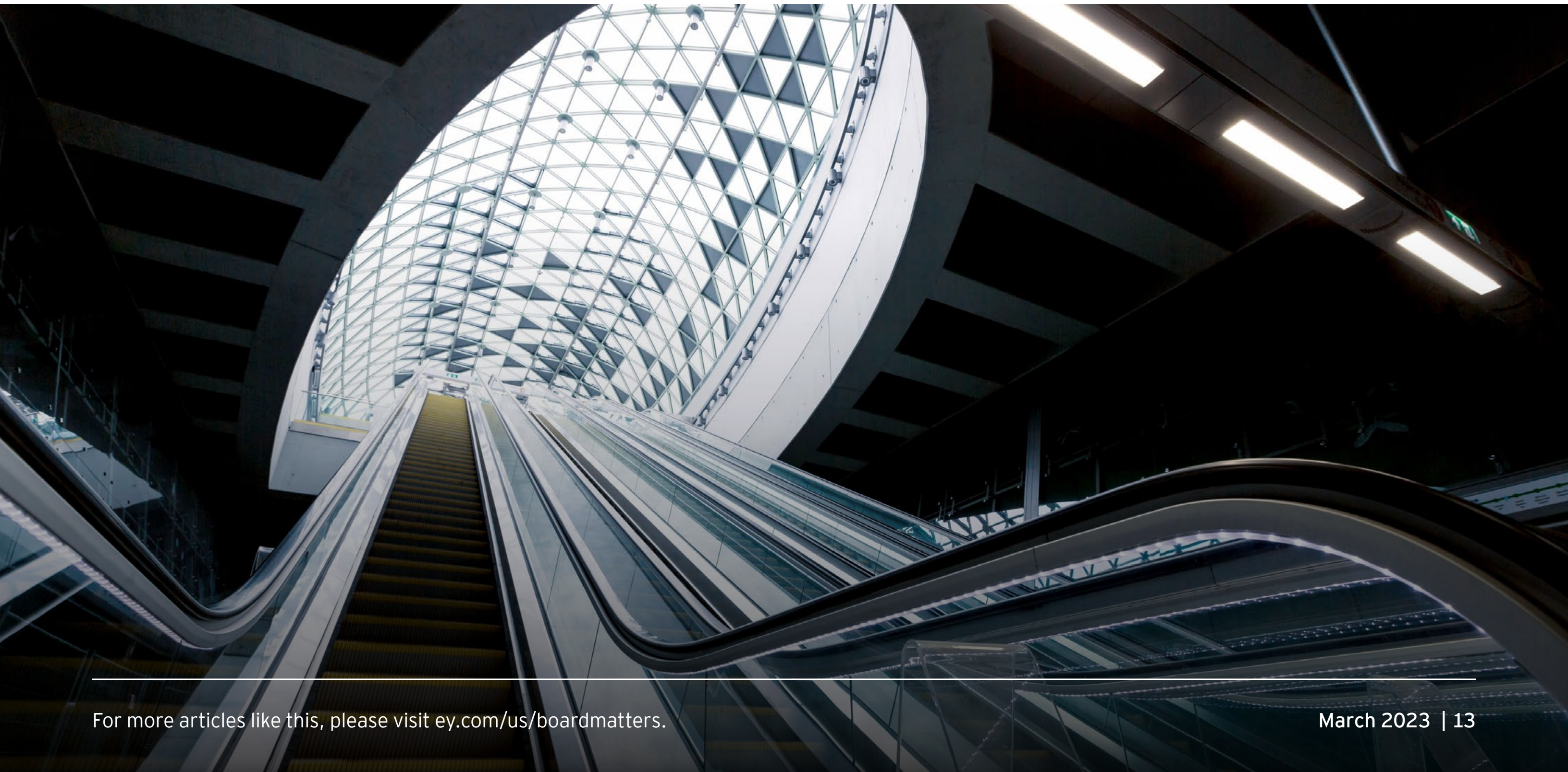
opportunities and how they apply to the company? What is the applicability, timing and process for disbursements of tax incentives offered under the new law(s)?

- What has management done to analyze the expected impact of the new CAMT on the entity and, if projected to be a CAMT payer, has the company modeled the impact on existing deferred tax carryovers for purposes of the quarter's valuation allowance assessment? Likewise, has the company considered the impact of the new 1% excise tax on stock repurchases? Finally, related to the IRA and the CHIPS & Science Act, has the company assessed the many tax credit incentives available for investment in production and green energy?
- What, if anything, is management doing to plan for potential tax policy changes in response to the OECD Pillar Two global minimum tax model to which 144 countries (including the US) have agreed thus far? In particular, is management monitoring proposed tax legislation to adopt the Pillar Two rules in the US and elsewhere? What is being done to address the expected increase in worldwide corporate 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 on a quarterly basis the impacts to the company of the new CAMT (if applicable), OECD global minimum taxation, and new environmental/carbon taxes being legislated globally?
- Have there been any meaningful changes to the company's key policies, any material exceptions granted or any unusual allowances to any compliance provisions?

Accounting, disclosures and other financial reporting related inquiries:

- What nonrecurring events and circumstances 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 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 expected 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?
- **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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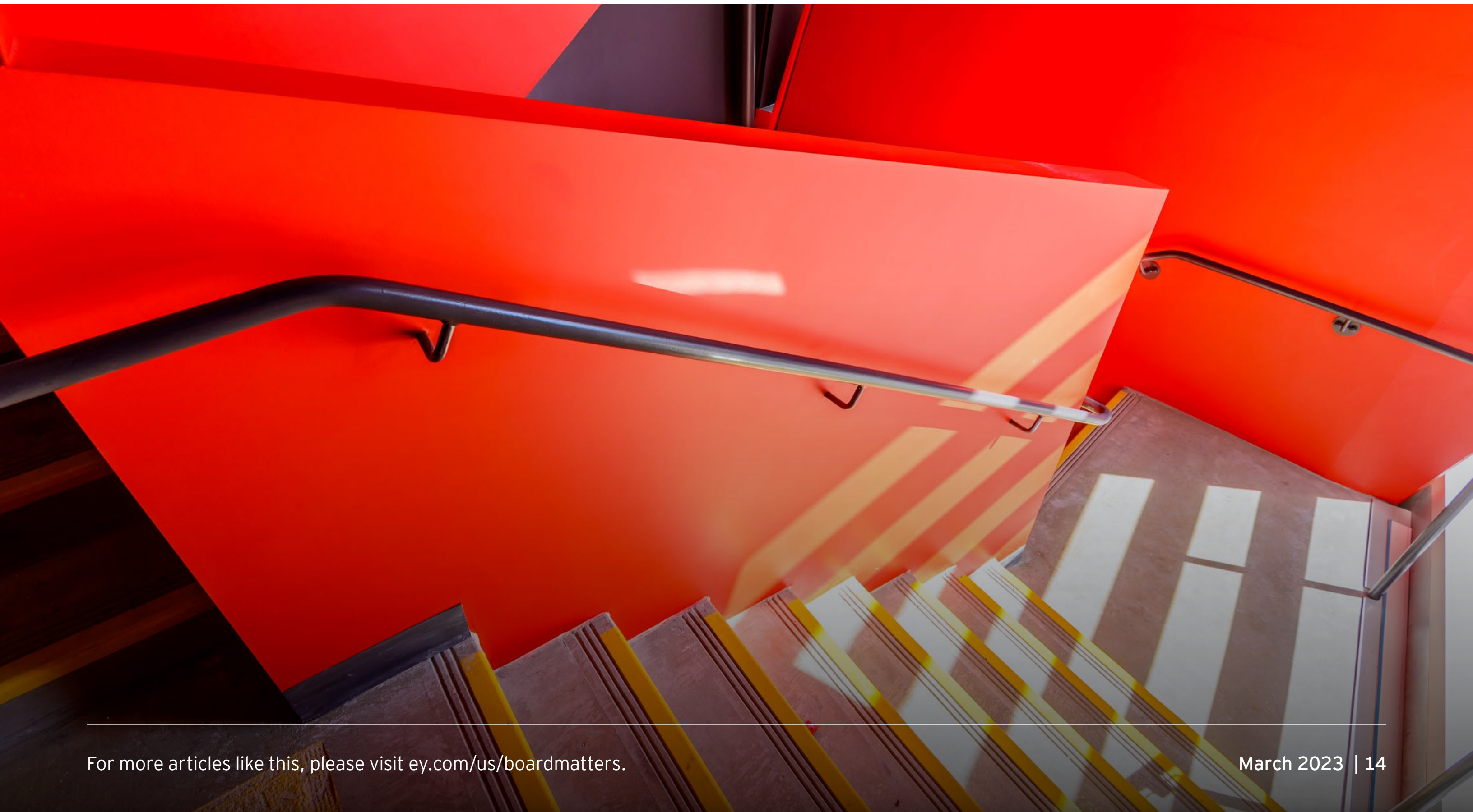
Is internal audit providing any type of audit coverage on ESG-related data or is the company obtaining any external assurance?



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