

Financial reporting oversight

August 2026



A brief overview



Oversight of a company's financial reporting is one of the audit committee's most critical responsibilities. For public companies, that includes the quarterly Form 10-Q and annual Form 10-K filed with the SEC and also the earnings release, which may not be filed concurrently with the 10-Q and 10-K. But there can be challenges:

- The press release and the filing document can be long and the issues complex
- Audit committees typically have limited time to review the drafts and other materials prior to the audit committee meeting
- AI is making its way into financial reporting (**see the appendix**)

Are there techniques to help audit committees review draft reports effectively? Are there ways the entire process can be more efficient? The answer to both questions is yes. Here are some practices to help.

SEC proposals on semiannual reporting and filer status

At the time of this publication, the SEC has two open proposals that could affect audit committee oversight of financial reporting and disclosures:

- A proposal that would allow companies to elect semiannual, rather than quarterly, reporting
- A proposal that would revise filer status requirements for certain companies

While both proposals remain subject to the SEC rulemaking process, audit committees may wish to monitor developments and consider the potential implications for financial reporting processes, disclosure controls, and oversight responsibilities should either proposal be finalized.

For more information, see:

[Audit committee considerations for the SEC's proposal on semiannual reporting](#)

[Audit committee considerations for the SEC's proposal on filer status](#)

What should you know before you start reviewing?

Understanding the financial reporting process

To be better prepared to review financial information, having a firm understanding of the company's financial reporting process is important. Here are a few areas to consider:



Disclosure controls and procedures

Public companies are required to maintain disclosure controls and procedures (DC&P). The CEO and CFO are required to certify the effectiveness of DC&P quarterly. DC&P include all controls relating to the preparation of Exchange Act documents. They are broader than internal control over financial reporting (ICFR). For more information on DC&P, read our [Disclosure committee essentials](#) publication.

Audit committees should understand how management maintains DC&P and supports the quarterly certifications. This understanding can be particularly important when it comes to information not typically covered by the company's ICFR, such as non-GAAP measures that are not included within the financial statements. For more information about audit committee oversight of non-GAAP measures, read our [Non-GAAP measures: The role of the audit committee](#) publication.



The closing process—how difficult is it?

At the end of each reporting period, there are a series of processes to accumulate financial data across the company and transform it into financial information to be reported to the public. Highly automated processes may result in a faster close and have less risk of error, but committees still need to understand if overrides to the systems or processes are possible and where they might occur. Audit committees should ask about any significant adjustments (most likely through manual journal entries) management made late in the closing process. These can be red flags for higher risk of error or potential fraud. The audit committee should also ask about any changes in personnel key to the close process (e.g. controller) and how those changes (e.g. personnel may have been on vacation, changed roles in the company, or left the company) were managed to ensure that the closing process operated as designed.

The committee could also consider asking what adjustments management determined not to make (i.e. what was deemed immaterial).



Key estimates and complex accounting areas—taking the ‘deep dive’

Management uses varying degrees of judgment in developing estimates as inputs in scenario modeling or to record amounts that impact reported results. Audit committees should understand key estimates and how they were developed. This typically requires a robust discussion about the judgment/estimation process, key inputs to determining estimates, the sensitivity of changing an input, and management’s historical accuracy. Audit committees should also consider when and how the external auditors should be part of the discussion.

Certain areas of a company’s accounting and reporting may be more complex (e.g. revenue recognition, warranty liabilities, or accounting for income taxes). Companies should consider providing their audit committee with a ‘deep dive’ into higher risk areas periodically. Such a deep dive can also be helpful when onboarding new directors.



Materiality—what’s the big deal?

Management uses materiality in a number of ways, including evaluating the extent of disclosures and control deficiencies and determining whether a restatement needs to occur. Materiality also is important in how external auditors plan the audit, determine whether audit adjustments should be recorded, and evaluate control deficiencies. Because materiality often involves significant judgment, the audit committee should understand management’s and the external auditor’s materiality considerations and framework.



ICFR—worth a second look

The Sarbanes-Oxley Act requires certain public companies and their auditors to report on the effectiveness of ICFR each year. Any significant deficiencies or material weaknesses are required to be reported to the audit committee. Because companies’ internal controls are embedded in processes that generate the financial statements, the audit committee needs to be comfortable with management’s process, the results of management’s and the external auditor’s testing, and the evaluation of the significance of control deficiencies and management’s remediation plans.



Related party transactions—did any take place?

Typically, review of related party transactions occurs at the board level by the audit committee. No matter where it sits, directors should have a process and policy established to outline how related party transactions are identified and approved. Companies that are listed on the New York Stock Exchange (NYSE) also have to comply with specific requirements to review each related party transaction. NYSE suggests it be the “Audit Committee or another comparable body” in its Listed Company Manual. The PCAOB’s Auditing Standard 2410 requires auditors to evaluate the company’s process for identifying, accounting for, and disclosing related party transactions. Although auditors are required to look at the process for reviewing related party transactions, the audit committee should be performing its own review.



SEC comment letters—be aware

The SEC staff periodically reviews company filings and may send a comment letter with accounting or disclosure questions. Audit committees should be informed by management, or the external auditor can provide insights into the likely areas of focus by the SEC staff based on trends of comment letters received by others in the industry. If the company gets an SEC comment letter, management should communicate with the audit committee in a timely manner regarding questions raised and how management plans to respond.

Once resolved, the SEC staff’s comment letters and the company’s response letters are posted on the SEC’s website where investors, competitors, and the media can see them. Accordingly, management should respond in a measured, appropriate manner. Hurried or inadequate responses could generate additional comment letters and could even lead to an SEC investigation. Additionally, the audit committee should understand whether a comment letter the company received has not been closed by the SEC. This may impact the impending filings and delay a company from accessing the capital markets.

The topics which received most comments over the past few years include non-GAAP measures, management’s discussion and analysis, segment reporting, and revenue recognition. For a list of the top ten areas of SEC comment letters, read our [SEC comment letter trends](#).

Earnings releases of preliminary results deserve full attention



Typical earnings releases are more concise compared to SEC filings. They generally include the basics: balance sheet, income statement, and sometimes a statement of cash flows for the quarter and year-to-date, with comparisons to the relevant prior periods with no footnote disclosures. There is limited discussion of financial results; instead, the earnings release focuses on revenue, net income, earnings per share, key non-GAAP measures, ‘special items’ impacting the reported results, and sometimes forward-looking guidance or updates thereto, if applicable.

Analysts pay a great deal of attention to earnings releases; frequently, the company’s stock price moves if reported earnings vary from what ‘the Street’ expected. Once the stock price has reacted to the earnings announcement, there can be pressure not to adjust those reported results in the forthcoming SEC filing for the period.

Sometimes, an event occurs, or new information becomes known after the date of the earnings release, but before the actual SEC filing for the period. If this happens and it relates to facts and circumstances existing at the balance sheet date, management will need to evaluate whether to adjust the preliminary results in the SEC filing.

While not required, audit committees typically hold a meeting to discuss and approve the draft earnings release prior to its issuance. As part of its oversight, the audit committee should understand the status of management’s reporting process and inquire about significant estimates that were based on preliminary inputs that could change prior to the SEC filing. Audit committees also need to understand the status of the external auditor’s work: what procedures are still open, and what additional procedures still need to be performed after the earnings release but prior to the SEC filing.

What could cause earnings to change between the earnings release date and the SEC filing date?

Beyond an unforeseen event or transaction, there are a few common reasons estimates could change. For example, new material information could come to light, causing an adjustment to the financial statements. Or management may identify a more reliable source of information than what was used in the initial estimates. Material audit adjustments arising from the completion of work not yet finalized as of the earnings release, such as an impairment of an asset or adjustment of a liability, could also lead to changes in earnings after the earnings release date.

Once the stock price has reacted to the earnings announcement, there can be pressure not to adjust those reported results in the forthcoming SEC filing.

Astute audit committees do not wait until the SEC filing date to inquire about any potential issues associated with the preparation of the reported results. Why not? The earnings release is too significant to investors. Finally, forward-looking guidance is often included in earnings releases and is particularly important financial information to stakeholders. Audit committees of NYSE-listed companies are required to discuss forward-looking guidance provided to analysts and rating agencies, but all audit committees should consider doing so.



Reviewing actual filings



Although some areas of review may also happen earlier during a review of an earnings release, here are some suggestions for enhancing the review of filings but still keeping it efficient.

Consider the impact of current developments in the business

Many CEOs regularly communicate with directors about the current state of the business. This includes developments in the competitive and economic environment and how they are impacting the company. Such communications can be helpful for audit committees to provide some context as they form their own expectations of the current period's financial results. Audit committees should then compare their expectations to the reported financial results and disclosures—much like auditors do.

The audit committee should develop a process with the company for communicating its comments on the draft SEC filing document. Some audit committees delegate this to the chair, while others have each member submit comments. The process should also address when the committee needs to see revised copies of the filing (e.g. material changes only or all changes?).

Focus on changes to enhance efficiency and effectiveness

Some management teams do a great job helping audit committees understand what has changed in the current SEC filing. They also emphasize how significant new events and developments are reflected in the filings. We've seen this done in a few ways. One is to highlight disclosures and accounting policies that are new or different within the filing. Another is to provide a summary of material, unusual, special, or nonrecurring items each quarter with explanatory comments and their quantitative impact and referencing the page in the filing that includes the new or altered disclosures. For additional examples on dashboard reporting, read our [Audit committee dashboard reporting](#).

Sample audit committee meeting reporting document summarizing key accounting and reporting matters

Significant accounting and reporting matters

Highlights and cross-reference to 10-Q reporting

Item	Description	10-Q reference
Acquisition of XYZ Company	• Provided summary of acquisition • Outlined purchase price • Overview of potential litigation in connection with the transaction	Page 7 - Footnote #3 and page 24 MD&A
Refinancing	• Increased borrowing base by \$500m • Disclosed new terms and conditions	Page 9 - Footnote #5
Restructuring	• \$46m charge for the quarter • Outlined overall restructuring plan and charges that will be coming	Page 10 - Footnote #6 and page 27 MD&A
Legal settlement	• Disclosed legal settlement with XYZ Corporation of \$350m including payment terms	Page 12 - Footnote #9 and page 30 MD&A
Risk factors	• Updated for geopolitical risks	Page 24 - Item 1A

Be aware of significant unusual or nonrecurring transactions

Quarterly results might include significant transactions that are not of an ongoing or recurring nature. Although these transactions may or may not be included in the analysts' models, the audit committee should understand the impact of these items on the period's results. This helps it evaluate the appropriateness of disclosures and better understand management's performance compared to expectations. To help facilitate the audit committee's review, management can provide a summary of significant, unusual, special, or nonrecurring items each period with explanatory comments and the quantitative impact of the items.

Remember that changes to estimates can significantly impact reported results

Even if the audit committee understands how key accounting estimates and judgments are developed—through periodic deep dives or other means—management should inform the committee of any changes to key assumptions or the process(es) by which the assumptions are derived. This includes discussing the reason for the change(s) and when the information became available that indicated the need for the change(s). It is helpful to include a summary of the impact of such changes, including their impact on period-over-period earnings and earnings per share, in the audit committee materials.

How does the audit committee meet the challenge?

The high volume of information and ever-changing and highly technical rules may make oversight of financial reporting a daunting task for audit committees. Yet oversight by audit committees is an essential element to building trust with stakeholders in reported financial information.

Here are some ways audit committees can effectively and efficiently exercise this oversight.

Ask management for help in better understanding what has changed in the current filing

Have management prepare a summary memo highlighting areas of change (e.g. risk factors, disclosures, accounting policies, new events and developments) from the prior period. Consider having management highlight these areas within the draft filing document(s) as well. Request schedules quantifying the impact of both unusual transactions and significant changes in estimates impacting the current period.

Pay attention to ‘special items’ and non-GAAP measures—particularly in the earnings release

Transparent disclosure of non-GAAP measures can be useful to investors. In particular, audit committees should ensure that both positive and negative adjustments are included. But recent focus and interpretive guidance by the SEC staff warrant additional focus to ensure management’s use of non-GAAP measures is appropriate. Refer to [Non-GAAP measures: The role of the audit committee](#).

If the company maintains a disclosure committee, understand how it functions and who attends the meetings

Have management describe significant transactions or events that were discussed in the quarterly disclosure committee meeting, as well as the issues that were discussed and a conclusion made that additional disclosure was not warranted—this could be part of the summary memo described above.

Understand any nonstandard representations in management’s letter of representation to the external auditors

In addition to normal ongoing representations, external auditors sometimes add nonstandard items to address unusual transactions or events that occurred during the period. Request that these special representations be highlighted and explained by management.

Discuss the status of the external auditors’ work before the earnings release

External auditors may indicate that they are ‘comfortable’ with the results the company is about to release, but the reality is that auditors cannot provide final approval until their work is completed—so understanding what work is left to be completed is important.

Assess the risk that some event or finding could come to light before the actual filing date that could impact the preliminary results to be reported in the earnings release

Audit committees should consider the company’s history, management experience, and the facts and circumstances. Some companies are focusing on decreasing the gap between earnings release and SEC filing dates—narrowing the possibility of something coming up. That might mean moving back the release or moving forward the SEC filing.

Consider having the audit committee do a deep dive on a particular area of significant judgment on a rotational basis

Many audit committees have periodic deep dives on specific accounting focused topics—for example, tax, significant estimates/exposures, intangibles.

Appendix— Audit committee considerations for oversight of AI adoption in financial reporting

AI adoption across financial reporting is not linear. Some companies may already be using AI-enabled tools in close, consolidation, reconciliation, forecasting, disclosure preparation, or control execution. Others may be experimenting in limited areas, while some may not yet have implemented AI directly within financial reporting. In many cases, AI may enter the environment gradually through third-party software updates, automation tools, analytics platforms, or informal use by employees.

For audit committees, the oversight objective is not to assume broad AI adoption, but to understand how management is identifying, evaluating, and governing AI as it begins to emerge in financial reporting processes. While supporting management's innovation and adoption efforts, the audit committee should understand how these efforts are pursued through a measured, risk-managed approach that preserves financial reporting reliability, ICFR, data governance, documentation, and audit readiness.

Understand where AI may be entering financial reporting

Audit committees should understand whether AI is currently being used, piloted, or contemplated in areas that support financial reporting. This may include journal entry preparation, account reconciliations, variance analysis, revenue recognition support, estimates, forecasting, disclosure drafting, management reporting, internal controls, or audit support. In some sectors, the use of AI in operational areas is also relevant for ICFR. Even if management believes AI is not yet formally used in financial reporting, the audit committee should understand management's broader AI strategy and adoption plans, including related governance such as how the company identifies AI embedded in third-party applications, new software features, automation tools, or employee-driven use cases. The broader strategy, adoption plans, and governance will likely impact financial reporting in similar ways.

Encourage an AI inventory and risk classification process

As adoption begins, management should maintain an inventory of AI use cases that may affect financial reporting as a subset of the broader risk-based inventory and evaluation approach. The inventory should capture the business process, system or tool used, owner, purpose, data inputs, degree of human involvement, whether the use case is in production or pilot stage, and whether it has potential relevance to ICFR. Not every AI use case will carry the same level of risk. The audit committee should encourage management to classify use cases based on complexity, reliance on outputs, sensitivity of data, third-party involvement, and regulatory implications.

Integrate AI into existing financial reporting and ICFR governance

AI governance does not need to sit outside existing risk and control frameworks. As AI is adopted, management should determine whether current risk assessments, policies, and controls are sufficient or whether they need to be updated, including those related to the development and deployment of systems and user-developed tools. For AI-enabled processes that affect financial reporting, management should consider whether process narratives, flowcharts, risk-control matrices, and control descriptions need to reflect the role of AI, and whether such role introduces new risks or is part of risks that have already been identified. This is particularly important where AI generates, analyzes, summarizes, or supports information used in financial statements, disclosures, or key judgments.

Focus on human accountability and review

Audit committees may wish to emphasize that while AI can support the financial reporting process, management remains responsible for the related judgments. Where AI outputs are used, management should define who reviews the output, what evidence supports the review, how the performance of the AI is monitored, what constitutes an exception or unexpected result, and how those matters are identified, evaluated, and resolved. Management should also establish clear thresholds for when escalation or intervention is required, including who is responsible for intervening, how the matter is documented, and how the conclusions are supported. This is especially important for agentic AI use cases, such as drafting disclosure language, summarizing financial results, or preparing analyses. Management should have procedures to review AI-generated content and outcomes for accuracy, completeness, consistency, tone, compliance with disclosure requirements, and alignment with underlying books and records.

Consider data quality, security, and access risks

AI outcomes are only as reliable as the data, logic, and controls supporting them. Audit committees should understand how management evaluates the quality, completeness, and appropriateness of data used by AI tools, and how it is governed during the entire AI lifecycle. They should also understand how sensitive financial, customer, employee, or confidential business data is protected when AI tools are used. This includes access controls, data retention, vendor terms, cybersecurity considerations, privacy implications, and restrictions on uploading confidential information into external tools.

Assess third-party and software vendor implications

AI may be introduced through enterprise resource planning systems, consolidation tools, close management platforms, analytics applications, or other third-party software. Audit committees should understand how management evaluates AI-enabled functionality provided by vendors, including changes introduced through software updates. Management should also understand whether vendor-provided AI features are optional or default, what data they use, how outcomes are generated, what controls exist, and whether service organization reports or other assurance information address the relevant risks.

Prepare for evolving audit expectations

As AI adoption in financial reporting increases, external auditors may ask more detailed questions about where AI is used, how management evaluates risks, how controls are changing or evolving to respond to those risks, and, where applicable, what evidence supports the activities of humans involved in assessing the reliability of AI-assisted outcomes. Audit committees should understand whether management is prepared to explain AI use cases and provide documentation supporting governance, review, and control activities. For more on external audit use of AI in the audit, see the appendix in our [Overseeing the external auditors](#) publication.

Internal audit may also play an important role in assessing AI governance, identifying emerging risks, and evaluating whether controls are keeping pace with adoption.

Questions the audit committee may want to ask

- How does management's overall AI strategy address the use of AI in financial reporting and ICFR, the AI technologies made available for potential use, and the governance framework designed to maintain effective control over the use of AI?
- How has management identified whether AI is currently being used, piloted, or considered in any financial reporting, close, consolidation, disclosure, forecasting, reconciliation, or control activities?
- How does management maintain an inventory of AI use cases that could affect financial reporting or ICFR, including vendor-enabled functionality?
- How are AI use cases risk-ranked based on factors such as potential financial reporting impact, level of reliance on outcomes, data sensitivity, complexity, and current or planned degree of human oversight?
- For AI-enabled financial reporting activities, how have the risks been reassessed, and how have controls changed? In addition, should process narratives, control descriptions, risk-control matrices, and SOX documentation be updated where appropriate?
- What human review and approval procedures exist before AI-generated outcomes are used in financial statements, disclosures, management reporting, or control execution?
- How does management validate the accuracy, completeness, and reliability of AI-generated analyses, summaries, calculations, or draft disclosures?
- How does management evaluate AI functionality provided by third-party vendors, including new features added through system updates?
- How does management assess the availability of resources, both within management and internal audit, with the appropriate skill sets to effectively understand, assess, and manage risks related to the use of AI?
- What role should internal audit play in assessing AI governance, AI-enabled financial reporting processes, and management's readiness for external auditor inquiries?



Where to go for more audit committee insights:
Governance Insights Center library: audit committees

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