# On the 2026 higher education audit committee agenda

KPMG Board Leadership Center

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Audit committees at colleges and universities can expect their institution's reporting, compliance, risk, and internal control environment to be put to the test in 2026. Negative industry outlooks from Moody's and S&P for the year ahead reflect rising costs, operating pressures, and uncertainty amid unprecedented sector disruption from federal and certain state policy shifts, as well as other ongoing challenges—from managing cybersecurity and artificial intelligence (AI) to demographic changes and geopolitical instability.[1,2] As they continue to refine and monitor their risk-driven agendas, the focus and effectiveness of higher education boards and audit committees will be paramount to stakeholder confidence.

**Drawing on insights from our interactions with higher education audit committees and senior administrators, we've identified five key objectives to guide audit committees as they refine and execute their 2026 agendas in a dynamic environment:**

- **Understand how the institution is tracking federal policy changes and managing their impacts.**
- **Help ensure the institution's enterprise risk management (ERM) program is built for the rapidly changing environment.**
- **Clarify the audit committee's oversight of AI, cybersecurity, and data governance.**
- **Take a fresh look at the audit committee's agenda, workload, and capabilities.**
- **Help internal audit stay attentive to the institution's key risks and be a valuable resource for the audit committee.**

[1] Source: Higher Ed Dive: *Higher education outlook remains negative for 2026, Moody's says,* November 21, 2025.

[2] Source: S&P Global Ratings, *U.S. Not-for-Profit Higher Education 2026 Outlook,* December 2, 2025.

# Understand how the institution is tracking federal policy changes and managing their impacts.

In its 2026 Top Risks Survey, United Educators noted that Compliance (Non-Title IX/VAWA) had the biggest increase in its Top 10 Risks two years in a row, moving from the eighth-highest risk to the third-highest risk over that time and reflecting increased federal attention and regulatory complexity.[3] Indeed, our 2025 Agenda publication highlighted several anticipated federal policy shifts by the incoming administration that could reshape aspects of research, student aid, and other mission-related strategies in the sector. Changes to numerous federal policies have since been implemented with extraordinary speed, primarily through executive orders (EOs), and legislation affecting the sector was included in HR1 (Public Law 119-21), widely known as the One Big Beautiful Bill Act (OB3). These activities—many of which have faced legal challenges—have had significant effects on various institutions, including funding shortfalls from grant reductions and a drop in international graduate student enrollments, increased complexity in financial planning and regulatory compliance, and changes to organizational structures and operations.

Higher education boards and audit committees are already overseeing a variety of emerging compliance and legal issues. The urgency and potential impact of certain recent issues—including investigations of dozens of private and public institutions by the Department of Justice and other federal agencies—have only heightened the focus. These investigations, often centered on allegations of discrimination or other violations, have had significant consequences, such as terminations of federal grants, impositions of financial settlements, and monitoring agreements. Given the potential ramifications, senior officers, including general counsel, should keep the audit committee informed throughout the lifecycle of any federal investigation. Beyond this, the committee should be briefed on whether any of the institution's activities could run afoul of recent regulatory initiatives and what the institution is doing to proactively manage their impact.

Boards and audit committees should remain attentive to the evolving federal landscape. The following areas of focus may merit further consideration in the year ahead by the audit committee:

### *Grant funding and compliance*

Driven by policy directions from the Trump administration, the shift in federal scientific and other priorities has led to suspension or cancellation of specific research, e.g., clinical trials, and other grant programs, including grants and contracts managed by the U.S. Agency for International Development (USAID), as well as changes to grant administrative requirements. During 2025, a substantial decrease in new grant funding opportunities posted by the Department of Health and Human Services (HHS) prior to the government shutdown in October, compounded by the administration's proposal to deeply cut budgets at several agencies—including a 40% reduction for the National Institutes of Health (NIH)—signaled further declines in federal grant funding. However, a bipartisan funding package put forth by Congress in January 2026 would stave off proposed cuts at NIH, the National Science Foundation, Department of Energy, and other agencies and maintain or even increase certain scientific research funding.[4] As to administrative requirements, some EOs have introduced further constraints, e.g., more stringent regulations on "no-cost" grant extensions.

Given these developments, the board and audit committee should engage with the chief financial officer and other senior administrators to understand how potential changes to federally sponsored programs are being integrated into scenario planning, as well as institutional budget models and liquidity forecasts. The audit committee should also understand how policies and internal controls are evolving to address these financial uncertainties and compliance demands.

### *Indirect cost recoveries and emerging models*

Institutions with federally sponsored research have traditionally recovered a portion of their indirect costs—those necessary to support research infrastructure and administration—through rates negotiated with cognizant federal agencies, commonly known as indirect cost rates (ICRs). These negotiated rates have historically been vital for enabling institutions to sustain their research enterprises.

In 2025, NIH and other federal agencies issued supplemental guidance prospectively imposing a 15% cap on ICRs related to new and existing research awards. For most research institutions, this would lead to a significant decrease in amounts they could recover for indirect costs, posing substantial financial challenges. Although litigation has at least temporarily halted the implementation of such caps, a subsequent EO issued in August 2025 directed federal agencies to give preference to institutions with lower ICRs when awarding discretionary

[3] Source: United Educators, *2026 Top Risks Report: Insights for Higher Education,* December 2025.

[4] Source: Inside Higher Ed, *Again Defying Trump, Congress Proposes Increasing NIH Budget, Maintaining ED,* January 20, 2026.

grants. This policy shift has prompted concern across the sector, given its potential to alter the funding landscape for research institutions.

In response to these developments, the Joint Associations Group—a national committee representing academic, medical, and independent research organizations—has proposed a new model for indirect cost recovery: Financial Accountability in Research (FAIR). The traditional ICR model applies a uniform rate to all types of federally funded research, even though certain types of research, i.e., biomedical, have inherently higher cost structures. The traditional model also does not adequately account for the substantial growth in regulatory compliance costs in recent years and is constrained by various federal caps and budget limitations, often making effective recovery rates much lower. The FAIR model attempts to address these shortcomings by introducing three distinct cost categories, enabling a more nuanced and accurate allocation of both direct and indirect costs associated with different types of research activities. While this approach increases complexity, it attempts to more precisely reflect actual costs institutions incur when conducting federally funded research.

It remains uncertain when—or if—the FAIR model will be adopted. For now, the research funding legislation proposed by Congress in January 2026 seeks to leave the traditional ICR model in place and prevent the federal government from capping ICRs at 15%. Should a transition to FAIR eventually occur, institutions would need to establish new systems, policies, and internal controls to support the revised approach to cost attribution and recovery and compliance with related administrative requirements.

### *Foreign gift and contract reporting: Section 117 compliance and oversight*

Section 117 of the Higher Education Act of 1965 mandates that most public and private institutions report foreign gifts and contracts. Specifically, institutions must disclose any foreign gift or contract, whether individually or combined with other sources from the same foreign entity, that totals $250,000 or more within a calendar year. This requirement aims to ensure transparency regarding the flow of foreign funds into educational institutions.

The U.S. Department of Education (ED) oversees compliance with Section 117, managing collection and dissemination of data related to institutional disclosures. With growing concerns among Congress and federal agencies about potential foreign influence—particularly in institutions that receive substantial federal research funding—there has been an increased emphasis on the accuracy and transparency of these disclosures. To further support transparency, ED recently introduced the Section 117 Foreign Gift and Contract Public Transparency Dashboard. This online resource provides public access to each institution's foreign funding by country. As a result, stakeholders can more easily review and analyze the scope and nature of foreign financial relationships within higher education.

Given the increased scrutiny and reputational implications of Section 117 reporting, the audit committee should probe whether management's protocols for gathering, reporting, and validating information reported to ED are sufficiently robust.

### *OB3: Changes to federal student loan programs and institutional accountability*

Among other things, OB3 introduces substantial reforms to federal student loan programs, affecting both borrowers and institutions in terms of borrowing limits, repayment reforms, and institutional accountability. Most of the changes are scheduled to take effect for any period of instruction beginning on or after July 1, 2026. Highlights include:

- As to borrowing, the legislation eliminates Grad PLUS loans for graduate and professional students, removing a key borrowing option for those pursuing advanced degrees. In addition, OB3 establishes new loan limits: for example, parent borrowers may now access no more than $20,000 per student per year; graduate non-professional students are capped at $20,500 annually, and professional students are capped at $50,000 annually. Also, among other things, ED's Proposed Rule published in the Federal Register on January 30, 2026 (with comments due by March 2, 2026) would reclassify several degree programs previously classified as professional—such as nursing and occupational therapy—to non-professional, meaning they would be subject to the lower annual graduate cap of $20,500. These changes significantly alter the borrowing landscape and may require many institutions to reassess the availability and structure of financial aid packages for affected students.
- OB3 also enacts repayment reforms, replacing several income-driven repayment options previously available to student borrowers with a single option, the Repayment Assistance Plan, is designed to facilitate faster student loan payoffs and less loan forgiveness and may impact students' long-term financial planning and affordability.
- To strengthen institutional accountability, OB3 introduces a "do no harm" test. Under this provision, a degree-granting program's eligibility for federal student loans is revoked if the earnings of its graduates—whether associate, bachelor's, master's, doctoral, or professional programs, excluding undergraduate certificate programs—are determined to be too low. This measure places greater emphasis on post-graduation outcomes and the financial viability of academic programs. These changes are in addition to the existing complex data reporting requirements of ED's Financial Value Transparency and Gainful Employment regulations, which focus on transparency of program costs and outcomes.

Although ED's rulemaking on OB3's changes is still developing and implementation of the new regulations could be delayed, the audit committee should ask how management is assessing the potential financial, programmatic, enrollment, and compliance impacts of the new regulations.

### *OB3: Increased endowment tax and its implications*

OB3 introduces significant changes to the so-called "endowment tax" affecting applicable educational institutions. Originally implemented under the 2017 Tax Cuts and Jobs Act, the previous 1.4% excise tax on net investment income (NII) from non-exempt-use assets (including the endowment) of certain private colleges and universities is replaced with a three-tiered system based on an institution's student-adjusted endowment level:

- Institutions with a student-adjusted endowment of $500,000 to less than $750,000 per student are subject to a 1.4% tax rate.
- Institutions with a student-adjusted endowment of more than $750,000 but less than $2,000,000 per student are subject to a 4% tax rate.
- Institutions with a student-adjusted endowment exceeding $2,000,000 per student are subject to an 8% tax rate.

Additionally, the revised tax structure limits applicability to educational institutions enrolling at least 3,000 tuition-paying students. The calculation of NII for tax purposes is also broadened to include as NII student loan interest income, as well as royalty income derived from federally subsidized research, development, or intellectual property. Given the complexity of the regulations, proper interpretation of the definitions of NII, "exempt use asset," and other provisions is critical to determining whether an institution is subject to the tax and, if so, at what rate.

While smaller institutions will be exempt under these new provisions, the Joint Committee on Taxation estimates that the revisions will generate significantly more revenue than the previous tax over the next 10 years. Audit committees at institutions currently or potentially subject to the tax should consider the financial reporting implications, including liabilities for current and deferred taxes. Furthermore, it is important to continue to monitor industry developments, as some state and local governments are considering similar tax proposals.

### *Impact on tariffs on institutional costs and budgets*

Due to tariffs imposed by the administration on imports from global trading partners in 2025, colleges and universities—as well as students and their families—are experiencing increased costs for a range of goods and services. This includes higher expenses for technology, utilities, construction materials, food, and equipment. These rising costs further intensify the already existing pressures related to tuition pricing and student enrollment at some institutions.

On November 5, 2025, the Supreme Court heard oral arguments concerning tariffs implemented to date under the authority of the International Emergency Economic Powers Act (IEEPA). The outcome of this case has the potential to significantly influence U.S. trade policy, with a decision expected in 2026. Importantly, any Supreme Court ruling would specifically address tariffs imposed under IEEPA, leaving other tariffs unchanged. As a result, a degree of uncertainty around the administration's tariff policies is likely to persist, regardless of the Supreme Court's decision. Accordingly, institutions should continue to consider the possible impacts of tariffs in developing operating and capital budgets and evaluating liquidity needs going forward.

# Help ensure the institution's ERM program is built for the rapidly changing environment.

In addition to federal policy risks focused on the sector, the magnitude, complexity, and velocity of other ongoing risks—and their interconnectedness—requires proactive and holistic risk management, as well as effective oversight by the audit committee. In 2026, institutions will contend with many emerging issues, including new regulatory risks from EOs; campus safety; enrollments; immigration, international travel, and related enforcement; governance of AI and other new technologies, such as quantum computing; sustainability and climate events; and new risks and complexities managing athletics, which entered United Educators' Top 10 Risks for the first time this year.[5]

A robust ERM program facilitates an institution's ability to monitor and assess emerging risks and opportunities based on their likelihood over time, considers how risks can interact with each other and magnify impacts, and acknowledges that low-probability, high-impact events can quickly materialize. While building and maintaining such a program can be difficult, transforming ERM from a transactional risk register to a high-maturity program allows the institution to go beyond operational resilience and create competitive advantage.

Building a robust ERM program starts with fundamentals. In our experience, a leading practice is to assign responsibility for oversight of the risk management process to the audit committee and oversight of risk areas to appropriate board committees (including the audit committee for risks within its scope). Also fundamental are mechanisms to ensure that risk information is reaching the full board, which should receive regular reports on risk, especially mission-critical risks. In hindsight, organizational crises and failures can often be traced to inadequate board oversight of such risks. With the institution's reputation on the line, the audit committee can help advance ERM effectiveness by asking:

- How rigorous are management's processes to identify and assess risks, including emerging risks? Who is involved, and who is championing management's efforts? How far down in the organization does it go?
- Do we have a complete understanding of the risks in our institution's strategy and risk profile, as well as how the profile is changing? Are certain emerging risks not being addressed? Scenario planning, tabletop exercises, and updating crisis response plans are critical.
- If a risk event were to occur, then how quickly would it adversely affect operations? Properly assessing the institution's resiliency and crisis preparedness, including communication plans, is key. Is a process in place to monitor changes in the environment that might alter key assumptions?
- How do individual risks aggregate and interrelate to determine the top risks that require senior management's focus and merit presentation to the board?
- Are resources applied effectively and efficiently to achieve a risk outcome commensurate with the institution's risk appetite?
- Are our risk, compliance, and internal audit functions aligned with respect to risk identification and mitigation throughout the institution?
- How effective are we, other committees, and the full board in coordinating and communicating risk oversight activities—to ensure appropriate oversight of risks and avoid being siloed? Is the full board in charge of allocating risk to committees? Committee charters should reflect up-to-date allocations of risk oversight, and the full board should be receiving reports from each committee so that all trustees are aware of what is happening at the committee level.

[5] Source: United Educators, *2026 Top Risks Report: Insights for Higher Education,* December 2025.

# Clarify the audit committee's oversight of AI, cybersecurity, and data governance.

### *Assessing oversight responsibilities for AI*

According to the 2025 EDUCAUSE AI Landscape Study, which surveyed nearly 800 higher education professionals, fewer than 40% of institutions had established formal policies regarding acceptable use of AI. The study also found that many campuses remained in initial phases of policy development or were engaged in exploratory discussions.[6] The lack of such policies and formal governance frameworks leaves institutions vulnerable to FERPA or other data privacy violations, disclosure of confidential information, algorithmic bias, accessibility failures, and erosion of stakeholder trust—particularly when high-value decisions are driven by AI systems with unclear oversight. These risks may be more pronounced in larger, more decentralized institutions.

While AI has the potential to modernize and enhance back-office processes and the student experience, it also enables cyber criminals to launch more sophisticated and targeted attacks—using AI's ability to write code and mimic voices in verification techniques. Indeed, just as several institutions have integrated AI to improve learning and operational efficiency, some are adopting AI-driven threat detection systems and zero trust strategies to bolster their cybersecurity.

Higher education boards and audit committees should be probing the degree to which AI acceptable use and other governance policies have been implemented and whether the institution's interrelated cybersecurity and data governance frameworks are keeping pace. How and when is an AI system or model—including a third-party model—developed and deployed, and who makes that decision? How do we ensure ethical and responsible use? What AI risk management framework is in place, and does it emphasize human-in-the-loop involvement? Who is responsible for monitoring AI usage and compliance, and how is the board kept apprised? Several guiding principles should inform and support the governance framework used. For example, KPMG has developed the KPMG Trusted AI framework, which guides responsible and ethical AI use through a values-driven, human-centric, and trustworthy approach, embedding security, privacy, and other protocols. Another key question for boards is how to structure oversight of these areas at the full board and committee levels, including the audit committee. In assessing possible oversight responsibilities in these areas, we recommend the following areas of focus:

- For academic and administrative applications, compliance with evolving AI, privacy, and intellectual property laws and regulations.
- Use of AI in the preparation of financial statements and other regulatory filings, as well as by external auditors.
- Use of AI in internal audit, finance, fundraising, admissions, research, and other functions, and whether those personnel have the necessary talent and skill sets.
- Implementation of policies, procedures, and internal controls pertaining to AI and data used, including to mitigate potential inadvertent biases in algorithms (e.g., admissions).
- Consistent with cybersecurity awareness and training for faculty, staff, and students, deployment of comprehensive AI training programs focused on ethical use, practical applications, and security.

Given how fluid the situation is and the audit committee's bandwidth and skill sets—and with generative and agentic AI both gaining rapid momentum—oversight responsibilities ofthe audit committee may need to be revisited and refined.

[6] Source: *2025 EDUCAUSE AI Landscape Study,* February 17, 2025.

### *Assessing oversight responsibilities for cybersecurity and data governance*

Once again, data security/cybersecurity ranked near the top of United Educators' 2026 Top Risks Report.[7] These results align with attacks at several leading institutions during 2025, where unpatched enterprise software and sophisticated social engineering campaigns resulted in hacks.

We have observed that the board's oversight responsibility for cybersecurity and data governance most often resides with the audit committee. We also note that despite the prioritization of other emerging industry risks on the agenda, cybersecurity and data governance continue to receive significant attention at most committee meetings. Amid the explosive growth in AI and significant risks posed by AI technologies, asking management probing questions about whether data governance and cybersecurity frameworks and processes are keeping pace with the institution's use of technologies is key. Does the committee have access to outside expertise as needed to assist in the oversight of data governance, and perhaps cybersecurity?

[7] Source: United Educators, *2026 Top Risks Report: Insights for Higher Education*, December 2025.

# Take a fresh look at the audit committee's agenda, workload, and capabilities.

Keeping the audit committee's agenda focused on its core responsibilities—oversight of financial reporting and compliance, internal controls, and internal and external auditors—is essential to the committee's effectiveness. Beyond these duties, audit committees at colleges and universities oversee a growing list of other institutional risks, compounding the workload challenge and making efficiency essential. As the role and responsibilities of the audit committee continue to evolve, the committee, in conjunction with the board, should periodically assess its composition, skill sets, independence, and leadership to ensure they are keeping pace and to mitigate "agenda overload." The committee—with input from management and, as appropriate, internal and external auditors—should conduct self-evaluations at least annually.

In our interactions with higher education institutions across the country, we have observed that evaluating the audit committee's effectiveness in this specialized sector—which lacks public disclosures of data often used in other industries to benchmark practices against peers—and in the context of each institution's unique operating profile can be difficult. Following are questions the committee should consider (including during self-evaluations):

- Does the committee's charter align with and reflect the current goals and work of the committee?
- How many members have experience with financial reporting, compliance, and internal controls? Is the committee relying too heavily on one member to do the "heavy lifting" in overseeing these responsibilities? Do the skills needed to oversee emerging risk areas—such as AI and data security—reside in the committee? There may be a need to periodically engage outside specialists to assist the committee in its oversight of certain issues, e.g., forensic audits and new technology. Does the committee spread the workload by allocating oversight duties to each audit committee member, rather than relying on the committee chair to shoulder most of the work?
- Does the chair spend sufficient time outside the boardroom with management and auditors to prepare for committee meetings, get a fuller picture of the issues, and enhance productiveness of committee meeting time?
- Are separate executive (nonpublic) sessions with management, internal auditors, external auditors, and members only at the beginning or end of meetings scheduled? Such a cadence helps ensure that sensitive matters, if any, can be addressed without raising unnecessary flags.
- Do members have access to orientation and continuing education programs, and are they provided with relevant industry information sourced from outside the institution? Is the committee learning what counterparts at comparable institutions might be doing, including through guidance issued by the Association of Governing Boards of Colleges and Universities (AGB), AICPA, and other organizations?

# Help internal audit stay attentive to the institution's key risks and be a valuable resource for the audit committee.

Internal audit should be a valuable resource and a crucial voice on risk and control matters. This means focusing not only on reporting and compliance risks, but also on critical operational, AI, and other technology risks and related controls. Recent emerging risks related to federal policy changes and investigations have also become important areas of focus for internal auditors—as they assist the board and management in responding to such activities and evaluate revisions to policies and controls—and may result in reprioritization of audit plans.

Is internal audit's annual plan risk-based and flexible, and does it adapt to changing operational and risk conditions? Internal audit must be able to effectively pivot to address unanticipated issues and risks, as well as ongoing institutional risks highlighted in the audit plan. The audit committee should work with the chief audit executive and chief risk officer to help identify areas in which significant risks to the institution's reputation, strategy, and operations exist or could arise, such as the integrity of financial and compliance reporting, and emerging risks related to generative and AI agents—and whether the related governance structure and risk management processes are effective. Audit committees will also want to understand how internal audit is using generative AI and AI agents to improve its effectiveness and efficiency. What workflows can AI agents handle, and what internal audit workflows are AI agents actually handling today? Is internal audit maintaining a human-in-the-loop at critical stages of AI agent workflows?

Set clear expectations and ask whether internal audit has what it needs to succeed. In terms of ERM, clarify internal audit's role—which is not to manage risk, but to help guide its audit priorities and provide an important sanity check on the adequacy of management's risk identification and mitigation processes. Does internal audit have the skills and resources needed to handle the fast-evolving AI and cybersecurity issues affecting the institution? Similar to staffing in finance and technology functions, internal audit is not immune to talent pressures. What is internal audit doing to be a valued business advisor to other departments?

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