



# On the 2026 not-for-profit audit committee agenda

KPMG Board Leadership Center

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Audit committees at not-for-profit (NFP) entities can expect their organization’s reporting, compliance, risk, and internal control environment to be put to the test in 2026. In the year ahead, the sector will confront increasing scrutiny of mission relevance and outcomes, as well as rising costs, operating pressures, and uncertainty amid unprecedented sector disruption from federal and certain state policy shifts. Other ongoing challenges—from managing cybersecurity and artificial intelligence (AI) to political polarization and geopolitical instability—will also continue to warrant attention. As they refine and monitor their risk-driven agendas, the focus and effectiveness of NFP boards and audit committees will be paramount to stakeholder confidence.



**Drawing on insights from our interactions with NFP 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:**

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**Understand how the organization is tracking federal policy changes and managing their impacts.**

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**Help ensure the organization’s enterprise risk management (ERM) program is built for the rapidly changing environment.**

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**Clarify the audit committee’s oversight of AI, cybersecurity, and data governance.**

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**Take a fresh look at the audit committee’s agenda, workload, and capabilities.**

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**Help internal audit stay attentive to the organization’s key risks and be a valuable resource for the audit committee.**



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

Our 2025 Agenda publication highlighted several anticipated federal policy shifts by the incoming administration that could reshape several aspects of mission-related strategies in the sector. Changes to numerous federal policies have since been implemented with extraordinary speed, primarily through executive orders (EOs). In addition, legislation affecting the sector was passed in HR 1 (Public Law 119-21)—widely known as the One Big Beautiful Bill (OB3)—in July 2025. These activities—many of which have faced legal challenges—have to date had significant effects on colleges and universities, hospitals, non-governmental organizations (NGOs), and other NFPs, including funding shortfalls from grant reductions or eliminations, increased complexity in financial planning and regulatory compliance, and changes to organizational structures and operations.

NFP 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 certain NFPs 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 termination 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 NFP's activities could run afoul of recent regulatory initiatives and what the organization 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 new 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.<sup>1</sup> 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 the organization's 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**

Higher education, healthcare, and other NFP entities 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 NFPs 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 many research-focused NFPs, 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 organizations with lower ICRs when awarding discretionary grants. This policy shift has prompted concern across the sector, given its potential to alter the funding landscape for NFPs reliant on federal research funding.

<sup>1</sup>Inside Higher Ed, *Again Defying Trump, Congress Proposes Increasing NIH Budget, Maintaining ED*, January 20, 2026.

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 NFPs 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, NFPs 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.

### ***OB3: Tax law changes affecting exempt organizations***

Several provisions in OB3, many of which were anticipated prior to OB3's passage, could affect NFPs moving forward, including:

- **“Excess” compensation:** The definition of “covered employee” for excise tax purposes has been expanded, affecting tax-exempt organizations with remuneration exceeding \$1 million.
- **Charitable giving proposals:** Changes include a new floor on corporate and individual charitable deductions, along with adjustments to deduction limits.
- **Increased tax rates on net investment income (NII) for certain private colleges and universities (so-called “endowment tax”):** A new tiered tax rate structure is introduced, with an increased threshold for applicable institutions. The revised structure also limits applicability of the tax to institutions enrolling at least 3,000 tuition-paying students in the preceding tax year, a significant increase from the 500 tuition-paying student threshold under current law.
- **Direct pay for energy credits:** While direct pay provisions are retained, several energy credits have been terminated or modified, potentially impacting clean energy investments.

- **Tax credit for contributions of individuals to scholarship granting organizations:** A nonrefundable tax credit is established for contributions to specific scholarship organizations, with defined income and credit limits.
- **Blocking Employee Retention Tax Credit (ERTC) or refund claims:** The IRS is barred from processing certain ERTCs filed after January 31, 2024.
- **Other provisions:** Enhancements have been made to opportunity zone and low-income housing tax credit programs.

Boards and audit committees at NFPs should ask how management is preparing for OB3's tax law changes, including evaluating the budgetary, compliance, and financial reporting implications.

### ***Impact of tariffs on the organization's costs and budgets***

Due to tariffs imposed by the administration on imports from global trading partners in 2025, NFPs are experiencing increased costs for a range of goods and services, including technology, utilities, construction materials, food, and equipment. These rising costs further intensify existing pressures at many NFPs striving to enhance delivery of program services and manage growing compliance obligations.

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 Court's decision. Accordingly, NFPs should continue to consider the possible impacts of tariffs in developing operating and capital budgets and evaluating liquidity needs going forward.



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

In addition to federal policy risks affecting 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, NFPs will confront several emerging issues, including new regulatory risks from EOs; several tax law changes affecting NFPs and donors; decreased funding in and other changes to Medicaid, Medicare, and the Affordable Care Act; immigration, international travel, and related enforcement; governance of AI and other new technologies, such as quantum computing; and sustainability and climate events.

A robust ERM program facilitates an organization'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 an organization 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 organization's reputation online, 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 organization'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, how quickly would it adversely affect operations? Properly assessing the organization'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 organization's risk appetite?
- Are our risk, compliance, and internal audit functions aligned with respect to risk identification and mitigation throughout the organization?
- 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 receive reports from each committee so that all trustees are aware of what is happening at the committee level.
- As the organization contends with new risks from the recent federal policy disruption, might there also be new opportunities that align with the organization's mission or strategies?



# 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.<sup>2</sup> The broader universe of NFPs across the U.S. likely lags industries such as higher education and healthcare in terms of AI usage and almost certainly in terms of AI governance. The lack of such policies and formal governance frameworks leaves NFPs 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 NFPs.

While AI has the potential to modernize and enhance back-office processes and the experience of those interacting with NFPs, 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 NFPs have integrated AI to improve operational efficiency, some are adopting AI-driven threat detection systems and zero trust strategies to bolster their cybersecurity.

NFP boards and audit committees should be probing the degree to which AI acceptable use and other governance policies have been implemented and whether the organization'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 programmatic 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 donor management, finance, internal audit (as applicable), research, and other administrative functions, and whether personnel involved have the necessary talent and skillsets.
- Implementation of policies, procedures, and internal controls pertaining to AI and data used—especially regulated data—including mitigating potential inadvertent biases in algorithms (e.g., research data sets, diagnostic tools for patient care, etc.).
- Consistent with cybersecurity awareness and training for employees and volunteers, 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 skillsets—and with generative and agentic AI both gaining rapid momentum—oversight responsibilities of the audit committee may need to be revisited and refined.

<sup>2</sup> 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.<sup>3</sup> These results align with attacks at several leading academic institutions and other NFPs 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 organization'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?



<sup>3</sup> 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 NFPs oversee a growing list of other organizational 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, skillsets, 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 NFPs across the country, we have observed that evaluating the audit committee's effectiveness can be difficult in a diverse sector in which peer or similar organizations may be limited or nonexistent. Notwithstanding the ability to compare practices across like organizations, there are fundamental questions any audit 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 organization? Is the committee learning what counterparts at similar (if not comparable) NFPs might be doing, including through guidance issued by the AICPA and other industry associations?





## Help internal audit stay attentive to the organization'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 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 organization's reputation, strategy, and operations exist or could arise. These include emerging risks related to generative and AI agents—and whether the related governance structure and risk management processes are effective; integrity of financial and compliance reporting; and the quality and integrity of data in other reports available to the public and regulatory bodies.

Financial and nonfinancial data can vary by type of NFP but may include, for example, data in indirect cost proposals, creditor requests, the IRS Form 990, and reports on mission impacts. Whether or not the NFP has an internal audit function, audit committees should understand whether management has implemented controls to verify the scope, accuracy, and consistency of such data.

Audit committees will also want to understand how internal audit is using generative AI and AI agents to improve the function's effectiveness and efficiency. What internal audit workflows can AI agents handle, and what 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. What is internal audit doing to be a valued business advisor to other departments? 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 organization? Similar to staffing in finance and technology functions, internal audit is not immune to talent pressures.





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