

Autumn 2026

PIMBs Briefing

HaysMac

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Welcome



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We are pleased to welcome you to the Autumn 2026 edition of our Professional Institutes and Membership Bodies (PIMBs) briefing.

In our Spring edition, we explored a number of themes around regulatory change, compliance and evolving reporting requirements. Many of those developments continue to gather pace and this edition picks up that conversation. From the implementation of revised FRS 102 requirements and changes to charity reporting frameworks, to developments in tax administration, international operations and emerging technologies, organisations are being asked to navigate an increasingly complex landscape while maintaining strong governance and operational resilience.

I begin by examining the new company size thresholds, which represent the most significant revision to the Companies Act framework for many years. Alongside changes to charity audit thresholds and the introduction of SORP 2026, these developments may reduce reporting burdens for some organisations whilst simultaneously introducing important new accounting and reporting considerations. The article explores what trustees and finance teams should be thinking about now as the new framework takes effect.

Following our Spring article on the revised revenue recognition requirements in FRS 102, Emma Gabe, Senior Manager, examines another significant outcome of the periodic review: the introduction of a new lease accounting model for lessees. While revenue recognition may have attracted much of the initial attention, the practical impact of bringing most leases onto the balance sheet is likely to be equally significant for many membership organisations

Regulatory reform extends beyond financial reporting. Nick Bustin, Director and Head of Employment Tax, considers HMRC's phased introduction of mandatory payrolling of Benefits in Kind, one of the most significant changes to employee benefit reporting in recent years. The article highlights why employers should view the reform not simply as a payroll compliance exercise, but as a wider organisational project requiring coordination across payroll, HR, finance and employee communications.

VAT developments feature prominently in this edition. Phil Salmon, Partner and Co-Head of VAT, provides an update on a number of government initiatives that signal the continuing digitalisation of the tax system, including developments in Making Tax Digital, electronic invoicing and VAT administration. These measures give a clear indication of the direction of travel towards increased digital reporting and greater use of transactional data by tax authorities.

Looking beyond the UK, Charlotte Wain, Senior Manager, explores the VAT considerations arising from international expansion. As many membership organisations seek to strengthen their global presence, overseas branches and member activities can create unexpected VAT obligations and compliance requirements. Charlotte considers why international VAT should be viewed as a strategic issue and the importance of addressing tax considerations early when planning overseas growth.

Finally, Rakesh Vaitha, Director, examines the governance and risk considerations associated with the growing adoption of artificial intelligence. As organisations increasingly explore the opportunities presented by AI, boards must also ensure appropriate oversight, risk management and governance frameworks are in place. Rakesh's article considers how organisations can harness emerging technologies responsibly while maintaining effective control and accountability.

We hope this edition provides useful insight and practical guidance as you navigate the opportunities and challenges arising from this rapidly evolving landscape. If any of the topics discussed resonate with your organisation, please do get in touch with the authors or your usual HaysMac contact.

New company size thresholds: **Why they matter for charities and membership bodies**

For accounting periods beginning on or after 6 April 2025, the UK's company size thresholds will increase in the most significant revision since the current framework was introduced. The changes were implemented through The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024 and **affect the classification of companies as micro, small, medium-sized or large.**

Many charitable companies, membership bodies and other not-for-profit organisations incorporated as companies limited by guarantee will find themselves moving into a lower reporting category.

The new thresholds

A company qualifies for a particular size category if it meets any two of the following three criteria.

Category (meet any 2 of 3 criteria)	Turnover	Balance sheet total	Employees
Micro	£1m (from £632k)	£500k (from £316k)	10 (unchanged)
Small	£15m (from £10.2m)	£7.5m (from £5.1m)	50 (unchanged)
Medium	£54m (from £36m)	£27m (from £18m)	250 (unchanged)
Large	Exceeds medium thresholds	Exceeds medium thresholds	Over 250 (unchanged)

Transitional provisions allow organisations to apply the new thresholds immediately, without waiting for the usual two-year qualification period.

Size classification determines the reporting regime that applies and can affect filing requirements, available exemptions and audit obligations. For charitable companies, however, the position is often more complicated than for their commercial counterparts.



The charity sector: why size is only part of the story

Charitable companies sit within two regulatory regimes, and are subject to company law as well as charity legislation, with charity legislation (such as the SORP) providing the more substantial disclosure requirements. Moving into a lower Companies Act size category does not necessarily eliminate audit requirements or substantially reduce reporting obligations.

A charitable company with income of £1.2m may now qualify as small for Companies Act purposes while still requiring an audit under charity legislation, at least until the revised charity thresholds take effect. Even once those revised thresholds take effect, some organisations may choose to retain a voluntary audit because of funder requirements, lending arrangements, member expectations or broader governance considerations.

The picture changes further for financial years ending on or after 30 September 2026, when revised charity accounting and scrutiny thresholds became effective.

Requirement	Current Threshold	New Threshold
Independent examination required	£25,000	£40,000
Qualified independent examiner required	£250k	£500k
Audit required (income test)	£1m	£1.5m
Audit required (asset test)	Assets £3.26m and income £250k	Assets £5m and income £500k
Group accounts threshold	£1m	£1.5m

For some charities, the revised thresholds will remove the requirement for a statutory audit or allow a move to independent examination, creating a more proportionate scrutiny regime that aligns with the broader move towards proportionate reporting.



Where SORP 2026 fits in

The revised Charities SORP introduces a three-tier reporting framework based on income only.

- Tier 1: Income up to £500k.
- Tier 2: Income between £500k and £15m.
- Tier 3: Income over £15m.

An organisation may qualify as small under company law, fall outside the mandatory charity audit regime and yet still face significant implementation work as it adopts the revised FRS 102 and SORP 2026 requirements. The changes to revenue recognition, lease accounting and narrative reporting are substantial, regardless of whether an audit remains mandatory.

A practical example: moving from large to medium

Consider a charitable company with:

- Income of £48m;
- Gross assets of £24m; and
- 180 employees.

Under the previous Companies Act thresholds, the organisation exceeded two of the medium-sized company criteria and was therefore classified as large. Under the revised thresholds, it now falls comfortably within the medium-sized regime.

The immediate consequence is a reduction in certain Companies Act reporting requirements and disclosures associated with large company status (strategic reporting requirements for employee engagement, stakeholder interest, business relationship statements and resilience reporting to name a few). An organisation of this scale will remain comfortably above the charity audit threshold and will continue to require a statutory audit.

Although the organisation moves from large to medium under company law, it remains within Tier 3 of the new SORP framework and continues to require an audit. Any reduction in Companies Act reporting requirements is therefore likely to be outweighed by the broader reporting expectations that apply to larger charities.

Looking ahead

The increase in company size thresholds and the forthcoming changes to charity audit thresholds reflect a clear regulatory objective: to reduce reporting and compliance burdens for smaller and medium-sized organisations by aligning requirements more closely with organisational scale and complexity.

Trustees should not view these changes solely as an opportunity to reduce compliance costs. While some organisations may benefit from simplified reporting or move from audit to independent examination, the simultaneous introduction of revised FRS 102 and SORP 2026 will bring significant reporting changes. Boards should therefore consider carefully whether the assurance and governance benefits of an external audit remain valuable, even where it is no longer mandatory.



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Leases - changes under revised FRS 102

The revised accounting standard FRS 102 is effective for accounting periods beginning or after 1 January 2026.

One of the key changes to the new standard is the way in which leases are accounted for. The change applies to lessee accounting only. If your institution is the lessor, the accounting treatment remains unchanged. In its simplest form, the concept of an operating lease for lessees ceases to exist. Most leases will now be accounted for by recognising a right of use asset on the balance sheet, and a creditor for the future minimum lease payments.

Which leases are exempt?

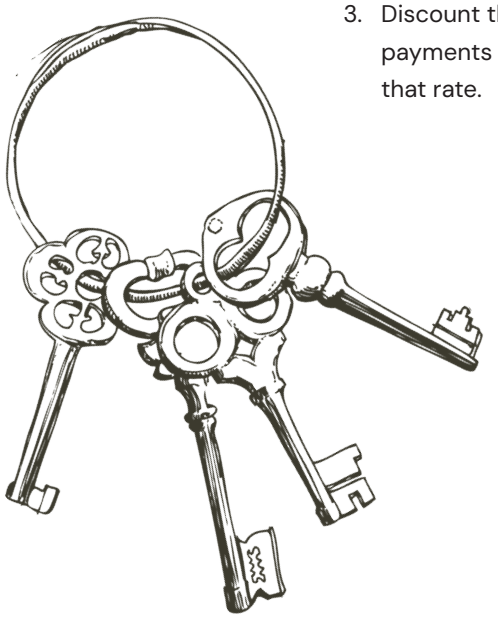
There are two key exemptions from this new standard, which means they do not need to apply this accounting treatment:

1. Short-term leases

Lease terms of 12 months or less.

2. Low-value leases

Low-value leases typically include items such as laptops, desktop computers, printers and small office equipment. The exemption is not expected to apply to property leases, motor vehicles or other significant assets.



How does the accounting work?

For leases that are included under the new standard, lessees must recognise on the balance sheet:

- A right-of-use asset.
- A lease liability (present value of future lease payments).

Subsequently, the asset and liability are unwound over the life of the lease through depreciation of the asset and lease payments reducing the lease liability.

How do you calculate the lease liability and right-of-use asset?

Firstly, you must calculate the lease liability. To do this you will need to:

1. Identify all lease payments over the lease term from the lease agreement.
2. Select an appropriate discount rate. In practice, many organisations are expected to use an appropriate incremental borrowing rate, particularly where an interest rate implicit in the lease cannot be readily determined.
3. Discount the future lease payments to present value using that rate.

Secondly, after calculating the lease liability, calculate the right-of-use asset.

This is initially equal to the lease liability but adjusted for:

- Any upfront rent or initial payments
- Any legal or professional fees incurred to secure the lease
- Any restoration or dismantling costs
- Less any lease incentives received, such as rent-free periods

What is the accounting treatment going forward?

The right-of-use asset is depreciated over the shorter of:

- The lease term; or
- The useful economic life of the asset.

Whenever the lease liability is remeasured, the right-of-use asset must be adjusted by the same amount.

If there are indicators of impairment, the asset must also be tested and adjusted for impairment.

The lease liability reduces as lease payments are made. Interest is applied using the discount rate selected at commencement and is charged as an expense in the income statement.

The lease liability must be remeasured when there is:

- A change in the lease term.
- A change in expected payments.
- A change in the discount rate.

Peppercorn and concessionary leases

Many organisations occupy premises at below market value rent. These concessionary lease arrangements can give rise to accounting outcomes that differ significantly from market-rate leases.

While the lease liability is based on the future rental payments due under the lease, the right-of-use asset may be measured at a substantially higher value to reflect the benefit of occupying the property. This means organisations paying only a nominal rent may still recognise a significant asset on the balance sheet.

For existing leases, this can create a one-off adjustment to reserves on transition. Organisations should identify these arrangements early, as specialist valuation advice may be required.

Dilapidation and reinstatement obligations

Lease agreements often contain obligations to restore, reinstate or repair a property at the end of the lease term. Where a lease requires a property to be restored or reinstated, the expected cost is generally reflected in the value of the right-of-use asset, together with a corresponding provision. Other dilapidation provisions may continue to be accounted for separately.

As part of the transition process, organisations should review existing property-related provisions to ensure they receive the correct accounting treatment under the revised standard.

Transitional arrangements

Comparative figures are not restated on adoption. Instead, organisations recognise a cumulative adjustment at the date of transition.

As part of this exercise, lease-related balances should be reviewed, including lease incentives, rent-free periods, accrued rentals and property-related provisions.

The good news is that the transition rules include practical simplifications. In many cases, organisations can calculate lease liabilities using the remaining lease payments at the transition date, rather than having to revisit leases from their original commencement date. This should help reduce the complexity and cost of implementation.

What practical steps should organisations take now?

- Prepare a complete inventory of all lease arrangements
- Identify any short-term or low-value leases that qualify for exemption
- Review peppercorn and concessionary lease arrangements
- Assess existing dilapidation and reinstatement obligations
- Determine an appropriate methodology for calculating discount rates
- Model the impact on reserves, reported debt, EBITDA and key performance indicators
- Discuss potential impacts with auditors, lenders, trustees and other stakeholders at an early stage

In summary – be prepared

The revised lease accounting requirements represent one of the most significant accounting changes introduced by the periodic review of FRS 102. For many organisations the impact will extend well beyond a balance sheet presentation exercise, affecting reserves, reported indebtedness, key performance indicators and covenant calculations.

Early preparation is therefore essential. Once the impact is calculated, consideration to bank loan covenants and KPIs is recommended to ensure that early conversations can begin with key stakeholders such as lenders, funders, regulators and to those charged with governance.



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Mandatory payrolling of Benefits in Kind: Why employers must start preparing now!

HMRC has now provided further detail on its phased introduction of mandatory payrolling of Benefits in Kind (PBiK), confirming that real-time reporting of benefits through payroll will become a reality for most employers over the next two years.

HMRC's decision to delay and phase implementation, the latest announcements make it clear that businesses should not view the additional time as a reason to postpone preparations. For many organisations, the move to mandatory payrolling will involve significant changes to payroll, HR, benefits administration and employee communications.

The new timeline

HMRC confirmed a two-phase approach will be adopted based on benefit categories as opposed employee headcount or size of the employer. We set out below when benefits will be subject to payrolling:

Phase 1: From 6 April 2027

Mandatory payrolling will apply to:

- Company cars
- Car fuel
- Vans
- Van fuel
- Employer-provided medical benefits

These benefits account for a substantial proportion of all benefits which are currently reported to HMRC on Forms P11D and will have the greatest impact.

Phase 2: From 6 April 2028

Mandatory payrolling will be extended to most remaining taxable benefits and expenses. However:

- Employment-related loans, including director loan accounts; and
- Taxable living accommodation

will remain outside the mandatory regime. However, employers can choose to operate payrolling of both benefits on a voluntary basis (see further comments)

Why this matters

For many years, employers have been able to rely on the annual P11D process to identify and report taxable benefits after the end of the tax year.

The new regime fundamentally changes this approach. Instead of reporting benefits retrospectively, employers will need to identify, value and report taxable benefits throughout the year via payroll. Income Tax and Class 1A National Insurance will increasingly be accounted for in real time. The challenge for employers is not simply one of payroll compliance. This is a business transformation project that will require coordination between payroll, HR, finance, reward and benefits teams.

Strategic priorities ahead of Phase 1

Understand your current benefits population

Many employers have never undertaken a comprehensive review of all benefits currently reported on Forms P11D.

Now is the ideal opportunity to:

- Identify all benefits currently provided;
- Review how benefit values are determined;
- Identify who owns the underlying data; and
- Assess the quality of existing reporting processes.

Employers should not assume that existing P11D processes will automatically be suitable for real-time reporting.

Review data flows

One of the biggest practical challenges is ensuring that benefit information reaches payroll quickly enough. This reform will fundamentally change how benefits are taxed and reported. The following are the areas employers need to address ahead of the Phase 1 and 2 deadlines:

Payroll

Employers will need to ensure payroll systems can manage real-time reporting, improve internal processes, and prepare employees for changes to how benefits are taxed.

Secondly, ensure the value of the benefits which are going to be payrolled are determined and steps are taken to ensure any changes in the benefit valuation are incorporated into your payroll reporting cycle.

Internal systems

Employers will need to ensure that all systems connected with the provision of benefits in kind will provide you with the best opportunity to manage payrolling of benefits. In addition to your payroll system, employers need to ensure HR and benefits platforms can collate data, for example, benefits reports and employee data so that accurate RTI submissions can be made to HMRC.

Governance procedures

Consider how you are going to track new joiners and leavers. Once employees are entitled to receive any benefits you will need to ensure any variations in the benefits provided are correctly captured. Consequently, employers will need to review their processes for:

- New joiners
- Leavers
- Changes of company car
- Medical cover changes, such as extended cover and contributions towards family members being included in the scheme
- Salary sacrifice arrangements
- Increases or decreases in the cost of providing benefits.

How are you going to manage the position for employees where insufficient PAYE has been collected during the year? You may need to submit a P11D for the employees affected or revised RTI submissions.

Employee communications

Employees will need to be advised about the introduction of PBiK and the impact it will have on the amount of tax which will be deducted from their salary. A clear communication strategy is recommended which can include staff briefings, written communications or both. However, doing nothing is not an option!

HMRC themselves have specifically highlighted the importance of employee communications. Many employees currently settle tax on benefits through adjustments to their tax code and may notice differences in their monthly net pay once benefits are processed through payroll.

Employers should consider a communications strategy covering:

- Why the changes are occurring;
- The impact on payslips;
- Tax code changes;
- The continued collection of previous year underpayments; and
- Who employees should contact if they have questions.

Early engagement should help minimise employee confusion and payroll queries.

Looking ahead to Phase 2

Although April 2028 may appear some distance away, employers should already be considering the wider implications of Phase 2.

Many businesses currently devote considerable time to producing annual P11Ds for a wide range of benefits. The move to real-time reporting provides an opportunity to:

- Simplify benefit processes;
- Eliminate manual reporting;
- Improve benefit governance; and
- Modernise payroll and reward operations.

Employers that wait until late 2027 to begin preparations may find themselves tackling significant implementation challenges alongside competing payroll and HR projects.

The voluntary payrolling opportunity

A particularly interesting feature of HMRC's latest guidance is the continued ability to voluntarily payroll benefits not included within Phase 1. HMRC has confirmed that a registration service for voluntary payrolling will open from November 2026 until 5 April 2027.

This creates an opportunity for employers to accelerate their transition to the new regime.

Rather than waiting for mandatory implementation, organisations may wish to consider voluntary payrolling of additional benefits from 2027 in order to:

- Reduce future reliance on Forms P11D;
- Test internal processes before Phase 2 becomes mandatory;
- Identify data and systems issues early;
- Familiarise employees with payrolled benefits; and
- Spread implementation costs over a longer period.

For some employers, a phased voluntary approach may prove more manageable than a large-scale transition immediately before April 2028.

Concluding thoughts

HMRC's phased approach provides welcome breathing space for professional institutes and membership bodies, but it should not be interpreted as a delay to action. The move to mandatory payrolling represents the biggest change to the taxation of employee benefits for many years.

Employers should use the period before April 2027 to review benefit arrangements, strengthen governance processes, engage stakeholders and assess whether voluntary payrolling of additional benefits could provide a smoother route to full compliance.

Organisations that start planning now will be better placed to reduce risk, minimise disruption and take advantage of the opportunities presented by the new reporting framework.

Please contact the HaysMac Employment Tax team if you would like to discuss how mandatory payrolling may affect your organisation and the steps that should be taken before April 2027.



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VAT Update

A number of changes are due to take place within the VAT system over the next few years and during the summer the Government issued consultations about other potential changes. The timescale for responding to these consultations was very short and prior experience suggests that these “consultations” are actually a done deal and will go ahead, though they may be modified if responses to them identify things that simply wouldn’t be possible.



Supplementary data for VAT returns

One of the consultations says that the Government will explore whether better use of VAT data that businesses already hold in their digital accounting systems could help HMRC work more efficiently. The consultation says that the work will consider how data already held within the businesses' digital accounting systems for audit purposes could be used to support compliance and improve the effectiveness of the tax system. It goes on to say that engagement with stakeholders will inform any future decisions.

This is a potentially concerning measure which could extend the Making Tax Digital (MTD) programme. At present MTD simply requires that from the point of input of an income or expenditure entry the process through to the submission of the VAT return figures is done electronically without manual intervention. But the only information that is submitted to HMRC are the figures on the VAT return itself which prior to MTD was largely submitted electronically in any event.

This development could potentially allow HMRC to look back up the electronic chain and automatically drill down into accounting packages to extract data. In theory with the use of AI, HMRC could ultimately be able to conduct thousands of VAT inspections in real time and potentially without a taxpayer being aware it is happening.

Requiring payment of VAT and PAYE by Direct Debit

It was announced in the 2025 Budget that the Government intended to consult on making Direct Debit the mandatory payment method for VAT and PAYE return liabilities, subject to defined exceptions. The consultation, such as it was, ran from the end of June to 16 August (a similarly short timescale) also considered whether any enforcement arrangements or incentives would be appropriate.

This is a similarly concerning development which could allow HMRC to simply extract money from your bank account to pay a VAT liability. This could involve you being charged for setting up Direct Debit facilities and being charged if there are insufficient funds without allowing you to discuss payment plans in the event of a shortage of funding.

Electronic invoicing

Whilst it seems likely that the above two measures will go ahead, it has already been confirmed that from 1 April 2029 onwards it will be a requirement to issue VAT invoices electronically for all Business to Business and Business to Government transactions. The Government has also now announced that the electronic procurement system Peppol will be the core interoperability network for e-invoicing in the UK. It was stated by the Government that this will give software developers and taxpayers an indication of the direction of travel for our work towards the e-invoicing mandate in 2029, enabling them to begin planning their product development and rollout of e-invoicing. It went on to say that the Government will continue to engage with stakeholders regarding the role of legacy systems which cannot interoperate in the future system.

But it failed to comment on the fact that this is an incredibly short period of time for software developers to design and roll out software, let alone for businesses to determine which one will work with their accounting package, and if none will, to potentially change their accounting package.

At this moment in time the Government has decided against a centralised model whereby invoices are issued and then validated by the Government before being sent on to the customer.

Should such a real time reporting requirement be introduced then along with payment by direct debit and access to supplementary data Big Brother really will have arrived.

Capital Goods Scheme changes

Significant changes to the VAT Capital Goods Scheme (CGS) were introduced with effect from 29 July 2026. Quite why such a random date was chosen is anyone's guess, but under the new rules, the CGS threshold for land, buildings and civil engineering works has increased from £250k to £600k (exclusive of VAT), while computers and computer equipment have been removed from the CGS altogether.

The important point to note is that the changes are not retrospective so these changes only apply where the qualifying expenditure is incurred on or after 29 July 2026. Where a capital item has already been created before that date it will remain subject to the existing £250k threshold.



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International VAT for overseas branches

For many membership bodies, professional institutes and social purpose organisations, international growth is an exciting milestone. Whether establishing a regional presence, supporting overseas members, delivering local training programmes, or hosting events in new markets, an overseas branch can help organisations extend their impact and strengthen engagement with communities around the world.

However, alongside these opportunities comes a challenge that is often underestimated: International VAT.

Many organisations rightly devote significant attention to governance, membership growth and operational delivery when expanding overseas. Yet VAT can quickly become one of the most significant financial and compliance risks if it isn't considered from the outset. For membership organisations, understanding the implications of overseas activities is increasingly important as tax authorities become more sophisticated and compliance requirements continue to evolve.

A common misconception is that VAT treatment overseas will broadly mirror the UK position. In reality, every jurisdiction has its own rules, exemptions and registration requirements. Activities that may be exempt from VAT in the UK, such as certain educational supplies, accreditation activities or member services, can be fully taxable elsewhere. Similarly, countries often apply different registration thresholds, filing frequencies and compliance obligations. There is no "one size fits all".



This becomes particularly relevant when an overseas branch begins delivering member-facing activities. Conferences, seminars, online learning programmes, publications, networking events and certification schemes can all create local VAT obligations. In some cases, the branch may need to register for VAT before a single event takes place. In others, a fiscal representative may be required, local invoicing rules may apply or regular VAT returns may need to be submitted. What appears to be a straightforward operational decision can quickly become a complex tax and compliance exercise.

For finance and leadership teams, the questions are often practical rather than technical. Do we need a VAT registration overseas? Can we recover local VAT incurred on venue costs, marketing expenses and professional fees? Should invoices be raised locally or through the UK entity? What support do we need to remain compliant? These considerations can have a direct impact on budgets, member pricing and programme viability. Getting the answers right early can prevent costly surprises later on.

The challenge is even greater for organisations that already operate under partial exemption arrangements. Many membership bodies have a mixture of taxable and exempt activities, making VAT recovery rules complex. Introducing overseas branches can add another layer of complexity, particularly where costs support activities delivered across multiple jurisdictions. Without careful planning, VAT can become an irrecoverable cost that reduces funds available for member services and charitable or social objectives.

At the same time, the wider VAT landscape is changing rapidly. Around the world, tax authorities are increasingly moving towards digital reporting, real-time submission requirements and electronic invoicing. VAT is no longer simply something that can be reviewed at the end of a reporting period. Instead, organisations are expected to capture accurate data at source and demonstrate robust processes throughout the transaction lifecycle. This shift means VAT must be considered much earlier in organisational decision-making, from systems design and data capture through to operating models and international expansion plans.

Within Europe, the introduction of the VAT in the Digital Age ("ViDA") reforms highlights the direction of travel. The reforms will expand digital reporting requirements, increase the use of e-invoicing and broaden certain simplification mechanisms such as the One Stop Shop regimes. While implementation will be phased over several years, the message is clear: tax authorities expect greater transparency, better data and more immediate reporting. Organisations with overseas branches should ensure that future compliance requirements form part of their long-term planning.

The good news is that international VAT doesn't need to be a barrier to growth. Organisations that engage with VAT proactively are often better positioned to expand confidently, protect margins and avoid unexpected compliance costs. By understanding local obligations before launching activities, reviewing supply chains, assessing registration requirements and ensuring the right controls are in place, membership bodies can focus on what matters most: supporting members and advancing their purpose.

For membership organisations, the key takeaway is simple.

International VAT shouldn't be viewed as a back-office compliance matter. It is a strategic consideration that sits alongside growth, governance and financial sustainability. As organisations continue to build global communities and expand their international footprint, ensuring VAT has a seat at the table from the beginning will help turn complexity into confidence and support sustainable growth for years to come.

If you are thinking of expanding overseas or have already started but haven't given International VAT enough thought, HaysMac can help. Please feel free to reach out to our VAT team to discuss further.



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AI Governance: The next challenge for Boards and Audit Committees

Artificial intelligence is rapidly becoming embedded within day-to-day business operations. What started as employees experimenting with tools such as ChatGPT has evolved into organisations deploying AI capabilities within customer service platforms, finance processes, human resources activities and decision-making tools.

As adoption increases, so does the risk profile.



Many organisations are still at an early stage of understanding where AI is being used, who is accountable for it and whether appropriate controls are in place. Whilst considerable focus has been placed on acceptable use policies, these arrangements alone are unlikely to provide sufficient oversight as AI becomes more integrated into business-critical processes.

The challenge facing boards is therefore no longer whether AI should be permitted within the organisation. The challenge is ensuring that its use is governed appropriately, the risks are understood and management can demonstrate that effective controls are operating.

Why AI risk is different

Traditional technology systems generally perform predefined tasks within agreed parameters. AI introduces a different set of considerations.

Increasingly sophisticated AI tools can analyse information, generate content, make recommendations and, in some cases, take actions across connected systems. As organisations explore the use of AI agents and automated decision-making tools, the associated risks extend beyond inaccurate outputs and begin to encompass operational, financial, cyber security, regulatory and reputational risks.

Recent industry incidents have highlighted concerns relating to data exposure, unauthorised access to systems and unexpected system behaviour. Whether or not organisations are directly deploying advanced AI agents today, these developments demonstrate the speed at which the technology is evolving and the importance of maintaining effective oversight.

From a risk management perspective, the key question becomes: Does the board have confidence that AI is operating within defined parameters and that appropriate safeguards exist where things go wrong?

AI Governance is more than an AI policy

One of the most common observations emerging across organisations is the belief that an AI policy equates to AI governance. Whilst policies provide an important foundation, effective governance requires considerably more than guidance for employees on acceptable use.

Organisations should be able to demonstrate:

- Clear accountability for AI-related decisions.
- An understanding of where AI is deployed across the organisation.
- A process for assessing risks before implementation.
- Appropriate controls over data, security and access permissions.
- Human oversight of AI-supported decisions.
- Ongoing monitoring and periodic independent assurance.

In simple terms, organisations should govern AI in the same way they govern any other enterprise risk.

Key areas for board oversight

Boards and audit committees should seek assurance over several key areas:

1. AI Inventory

Many organisations cannot currently provide a complete picture of where AI is being used. This includes both formally approved solutions and tools adopted independently by employees. Without visibility, meaningful governance becomes difficult.

2. Data protection and confidentiality

AI tools often rely on large volumes of data. Organisations should understand what information is being processed, where it is stored and whether appropriate safeguards exist to protect confidential or personal information.

3. Cybersecurity and access controls

As AI capabilities become more integrated with organisational systems, access management becomes increasingly important. Questions should include:

- What systems can the AI access?
- What decisions can it make?
- What actions can it perform?
- Are permissions proportionate and regularly reviewed?

4. Human oversight

Management should be able to explain how human judgment remains involved in key decisions. This is particularly important where outputs may influence customers, employees, financial decisions or regulatory compliance.

5. Monitoring and assurance

Governance arrangements should extend beyond implementation. Regular monitoring, management reporting and independent assurance activities can help identify emerging risks and provide confidence that controls remain effective as AI use evolves.

Questions board and audit committees should be asking

When considering the AI governance arrangements, board and audit committee members should ask the following questions:

- Does management know where AI is being used across the organisation?
- Has AI usage been risk assessed?
- Are roles and responsibilities clearly defined?
- What controls exist over data shared with AI platforms?
- How are AI suppliers assessed and monitored?
- How are AI-related incidents identified and escalated?
- Is there evidence of ongoing monitoring and review?
- Has independent assurance been undertaken over AI governance arrangements?

The answers to these questions often provide a useful indication of the maturity of the organisation's governance framework.

Conclusion

AI presents significant opportunities for organisations, but it also introduces a range of risks that require active oversight.

From a board, management and risk management perspective, the objective should not be to slow innovation or prevent adoption. Instead, organisations should focus on establishing clear accountability, proportionate governance arrangements and effective controls that enable AI to be used safely and responsibly.

Ultimately, boards should be able to answer three fundamental questions:

- Where are we using AI?
- What are the key risks?
- How does the board know those risks are being managed effectively?

If management cannot answer those questions with confidence, AI governance is unlikely to be sufficiently mature.



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