TONE at the TOP®

Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

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In Uncertain Times

In times of great uncertainty, board oversight of the organization's risks becomes even more crucial. In 2025, the geopolitical landscape has emerged as a particular ongoing challenge.

Cases in point:

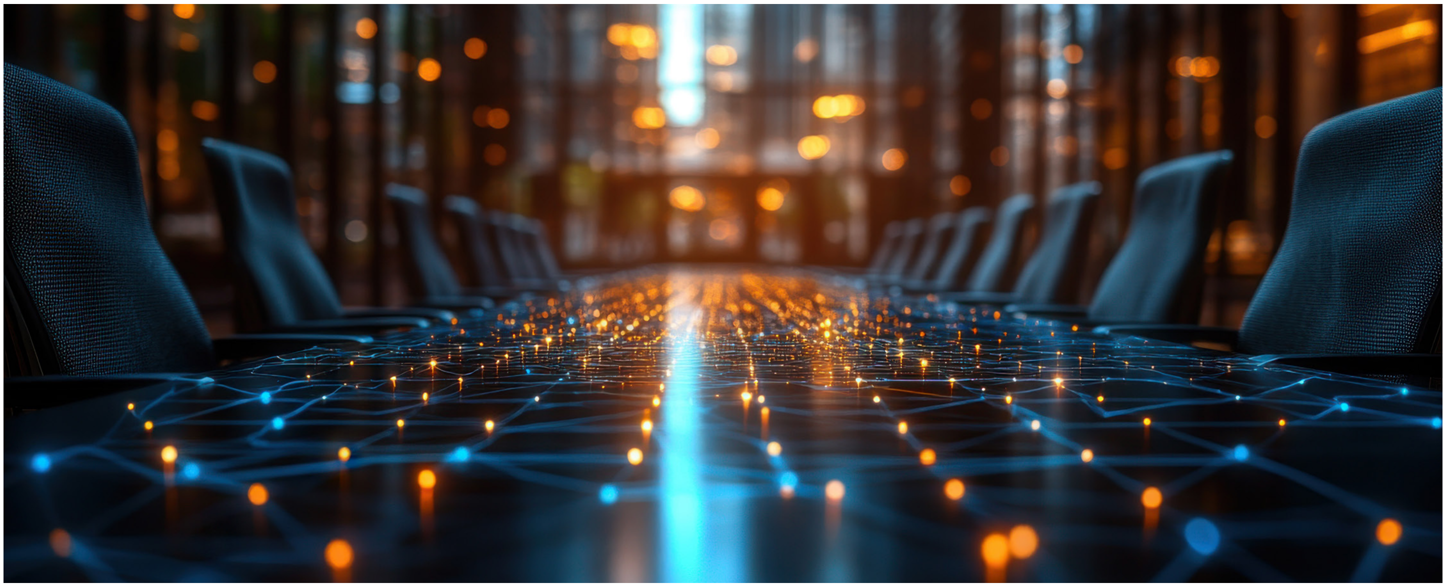
- *Nearly 80 countries went to the polls last year, many ousting existing leaders. That means companies may be facing unpredictable environments in countries where they do business or have trading partners.*

- *Recently, risk has increased significantly in 99 countries, due to wide-ranging trends such as civil unrest, conflict, challenges to government authority, changes in trade, interstate tensions, resource nationalism, and sanctions, according to* Verisk Maplecroft.

- *Geoeconomic confrontations, such as tariffs and sanctions, were ranked third in the World Economic Forum's* Global Risks Report 2025*, which surveys leaders in business, government, academia and civil society.*

Taken separately, these trends would raise concern. When the world enters a period when they are occurring at the same time and in highly erratic ways, they create new levels of governance risk. This issue of *Tone at the Top* examines some approaches for boards to consider in an uncertain political environment and how internal audit can help chart the best course through the turbulence.

Best Practices in a New Normal



Given the wide range of issues facing organizations and their boards, a multifaceted response is necessary. Although each company will face unique challenges, steps to be considered in all cases include:

Monitor the response to shifting political priorities. PwC advises boards to keep informed of the steps management is taking to assess political developments and their potential impact on supply chains, workforce strategy, capital investment, communication, compliance, and other concerns. According to "Trends Shaping Corporate Governance in 2025," that should include understanding how management's risk assessment process identifies, evaluates, and takes proactive steps based on the possible impact of a changing regulatory environment.

Keep a sharp eye on business strategy. Directors can offer valuable perspective as management implements the business strategy and deals with rapidly evolving business conditions. "There will inevitably be competing considerations and trade-offs that boards must weigh in charting the best path forward — between stakeholders and across varying time horizons," notes "Thoughts for Boards: Key Issues in Corporate Governance in 2025" from the Harvard Law School Forum on Corporate Governance.

Prepare for polarizing issues. Board members have conflicting opinions on whether organizations should weigh in on social and political issues, according to the 2025 NACD Trends and Priorities Survey. A little more than one-quarter (27%) of boards have advised the CEO or management on public discourse over the past year. Among them, the survey found that 33% favored active engagement on subjects that align with company strategy and the interests of key stakeholders, while 28% advised that the company remain neutral.

As organizations take on politically charged situations, "boards should consider if, when, and how their companies should engage on divisive topics, considering shifting stakeholder sentiments and potential risks to reputational capital that can come both from engaging and not engaging on certain issues," advises the Harvard Law School Forum paper.

As an example, amid growing controversy around diversity, equity and inclusion (DEI) initiatives, "there's much at stake as corporate leadership teams convene to reconsider the status of their own DEI programming," Forbes reports in "How Corporate Boards Should Think about DEI as Trump Takes Office." This is a consideration for directors, according to the article, because the board's basic risk oversight responsibilities should encompass the risk of liability exposure and reputation risk if management makes controversial decisions or ones that are not thoroughly considered. The article adds that boards are increasingly seen as having a fiduciary responsibility "to preserve positive workforce culture as an asset."

At the same time, corporate responsibility for the other environmental, social and governance (ESG) issues is another prime example of an area that was once seen as an essential part of corporate responsibility and now faces pushback. As ESG becomes more controversial, "for boards, the current situation offers both promise and peril," according to Directors and Boards' "From Boom to Bust: Guiding Directors in a Shifting ESG Landscape." "In this atmosphere, directors must avoid the temptation to engage in political warfare," the article states. "Instead, they must return to first principles: the core fiduciary duties of the board, which are rooted in fidelity to shareholders. Boards should shape business strategy to optimize growth and profitability."

About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 255,000 global members and has awarded more than 200,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit **theiia.org.**

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The Internal Audit Perspective

Fortunately, as boards work through an often-confusing landscape, they can turn to the internal audit team for the information and insights they need to provide guidance. Areas in which internal audit can help include:

Addressing a chaotic regulatory environment. Regulatory uncertainty has increased significantly in 2025, as existing rules, and even the regulators that oversaw them, are no longer in place. As organizations and their boards seek to understand current regulatory and compliance needs, the requirements may not be clear. With a shifting regulatory landscape, companies may need to reconsider, and perhaps strengthen, their own risk management policies. Internal audit can partner with their organizations to update compliance considerations and the response to changing expectations.

Advising on trade and supply chain concerns. Amid ongoing changes in international trade, internal audit can assess the potential impact of tariff or other new policy on supply chains, labor and material sources, and market stability or opportunities. It also can determine the resilience of the supply chain and evaluate third-party risk management systems for new suppliers.

Providing scenario planning. Internal auditors can map the possible outcomes of a variety of events so that their organizations are in a better position to anticipate and respond to a fast-changing landscape. Companies can then "play out and cost the impact of various potential political events," according to "The Politics of Risk" in *Internal Auditor* magazine. Stress testing can help recognize the likelihood that one scenario will occur. Part of that process can include determining how well governance structures are functioning.

Reassessing capital deployment. Internal audit can offer insights on whether use of capital is appropriate based on new developments. Organizations also may need to reconsider valuations of assets that rely on global trade, according to the *Internal Auditor* article.

> "In an era with fewer regulations, internal audit practitioners must lean into self-regulation practices to manage potential risks as best as possible. … With less demand for compliance-focused audit work, practitioners should demonstrate internal audit's value beyond assurance services and lean further into strategic advice and counsel for boards and management."
>
> — Anthony Pugliese, IIA president and CEO, "Voice of the CEO"

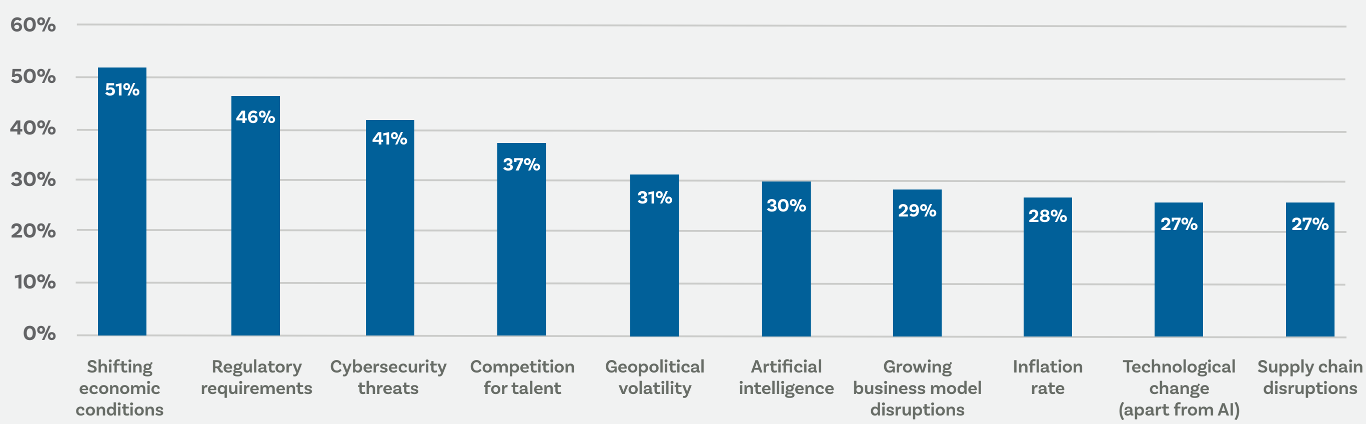
An Objective Voice

"Whether it's trade tensions, political instability, or the impacts of climate change, businesses must be prepared to adapt and remain resilient in the face of uncertainty," according to a DataSnipper article on "Trends to Watch Out for in Internal Audit 2025."

When ranking current risks for their organizations in The IIA Risk in Focus 2025 survey, internal auditors around the world cited business continuity among their top three challenges today and over the next three years. (Regulatory change was also seen as a top issue.) Amid frequent and significant changes in the political, regulatory, and economic environments, boards should turn to internal auditors for an ongoing understanding of the risk landscape and an objective perspective on how best to address it.

Trends to Watch

Directors were asked to identify the most significant trends that will impact their companies in the coming year.



— *NACD's 2025 Trends and Priorities Survey*

QUESTIONS FOR BOARD MEMBERS

- What challenges has the company already faced because of the changing global political landscape?
- How might future challenges differ from those the organization has experienced in the past?
- What changes has management made to ensure the organization has an agile and thorough risk assessment process suited to uncertain times?
- How is the organization mapping potential outcomes and developing appropriate responses?
- How is the organization ensuring it remains innovative while dealing with unprecedented change and challenges?