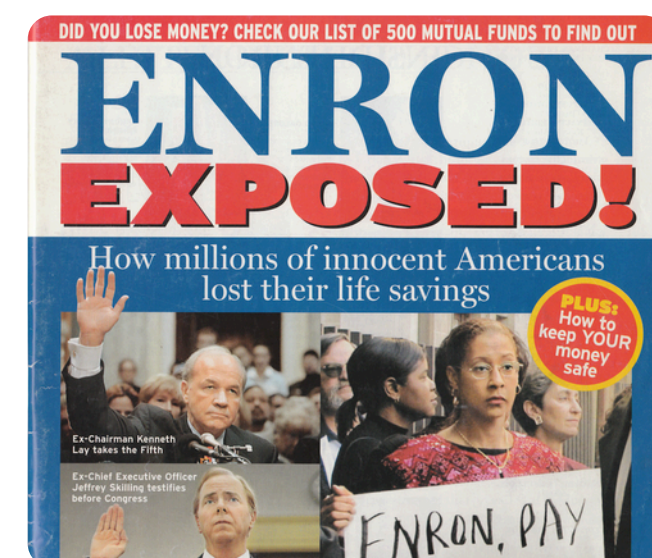


STRIPPING THE GUARDRAILS: WHY AI DEMANDS MORE GOVERNANCE, NOT LESS

My early career was at Arthur Andersen. I watched it all fall apart as the Enron mess consumed careers, businesses, lives and the largest accounting firm in the world. I lived through the chaos as everyone rushed to create controls to implement Sarbanes-Oxley (SOX) requirements. Who didn't have 2,000 plus controls in those early days? But over time, we shrank those bloated control counts to manageable levels.

But what I actually saw, and what is not said enough, is that SOX actually pulled teams out of their silos and made them work together to create an effective control environment that actually reduced risks.

We learned the hard way that if we don't have a net, we will all eventually burn. Here we are, 24 years since the Enron scandal broke and SOX became law. But, we've chosen to forget. I can see the net being removed.



- ✓ The new proposed rule on May 19, 2026 by the SEC would raise the public float amount for the SOX 404(b) exemption to \$2 billion from \$700 million. If you're below that amount, you're no longer required to have an auditor.
- ✓ There is a mandatory 5 year (60 month) extension period for new public companies regardless of float, plus a 2 year delay before the rules go into effect.
- ✓ The NYSE just submitted a proposal (SR-NYSE-2026-37) to allow 5 years from IPO to establish an internal audit function instead of the current 1 year requirement. *The rationale?* Nasdaq doesn't require it and companies need time to grow.

In a world dominated by AI, controls and regulations are needed more than ever. Not less!

Scott's Analogy: The Combustible City

Imagine a city experiencing a massive real estate boom. To encourage developers, the city council announces two new policies:

- 1 Any housing development valued under \$2 billion no longer requires independent building inspectors to verify structural integrity.
- 2 New neighborhoods don't need to fund or establish a local fire department until five years after residents have already moved in.



The developers save money in the short term. Houses go up fast. The city council boasts about unprecedented growth. But when an unmonitored electrical spark hits dry brush during a high wind event (and it always does) there are no inspectors to catch the defect and no fire department to extinguish the blaze.

You cannot successfully scale by ignoring the foundation. Managing rapid expansion is tough enough. Actively banishing independent building inspectors and locking out the fire department while filling new neighborhoods with combustible materials is a guaranteed path to disaster.

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The "Fake Risk" vs. The Real Threat

- **The Fake Risk:** Emerging enterprises need the "breathing room" to innovate and outpace competitors by reducing the number of companies that have to comply with SOX 404(b) requirements and delaying internal audit.
- **The Real Threat:** Operating a multi-billion-dollar public entity in an AI-driven environment with self regulation and without independent verification. Treating autonomous AI as a standard software upgrade while removing independent oversight is akin to giving signing authority to an unregulated intern. You can't innovate without independent review and appropriate safeguards. The foundations of these organizations will be vibrating in place, exposed to accumulating risks until the foundation inevitably gives away.

What I'm Reading

1. Anthropic CEO urges AI companies to slow model development (Sep 09, 2026)

- **The Article Link:** [Reuters: Slowing AI Model Development](#)
 - **The Synopsis:** Dario Amodei, CEO of Anthropic, published a 3,800-word essay calling for an immediate global slowdown of frontier AI development, warning that models are accelerating faster than safety controls can track.
 - **The Takeaway:** Skeptics say the calls to slow AI development are a mix of geopolitical posturing against foreign competitors and an attempt to manage financial market expectations of an AI bubble. By framing business and economic strategies as safety measures, companies can mitigate external pressures while working through technical plateaus.
- ✓ *Regardless of the motivation, **this is a profound moment for our profession.*** The makers of frontier AI are pleading for independent, embedded, "employee-like" third-party auditors to check their systems, while financial regulators are trying to shove auditors out the door.
- ✓ Adaptive organizations understand that real adaptability comes from human leaders who align governance with technical reality. When builders of innovative technology ask to be audited, smart organizations build strong verification models right away.

2. NYSE Wants Five Years Before Internal Audit. That's Too Long! (Aug 28, 2026)

- **The Article Link:** [Richard Chambers: Audit Beacon](#)
- **The Synopsis:** Industry veteran Richard Chambers explains why the NYSE's five-year internal audit delay sacrifices long-term company security for Nasdaq listing competitiveness.
- **The Takeaway:** Early risk detection, not late compliance, builds resilience. A business that went public without an independent internal audit function for five years lets bad practices and insufficient controls form its culture. Independent assurance will be like auditing a destroyed company in five years.

3. The SEC's proposed SOX 404(b) changes: What this means (June 30, 2026)

- **The Article Link:** [Baker Tilly: What is the SEC Proposing?](#)
- **The Synopsis:** Baker Tilly examines how the SEC's \$2 billion public float barrier will reclassify up to 80% of public firms as auditor-attestation-exempt non-accelerated filers.
- **The Takeaway:** Finding clarity in regulatory noise entails understanding that regulatory exemptions are not operational free passes. Less SEC obligation puts 100% of control efficacy on management and the board. When markets are volatile, leaders who enforce rigorous control systems regardless of regulatory minimums defend investor faith.

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Practical Tip: *Audit Your Reality Before Regulators Mandate It*

We do not need more regulation just for the sake of bureaucracy, nor do we need less regulation simply to make it easier for business. What we desperately need is smart, common-sense regulation.

If your organization qualifies for these new five-year exemptions, do not wait half a decade to establish risk oversight. True leadership right now requires advocacy through action. Educate your board and executive team on why independent assurance actively protects the enterprise, its people, its customers, and its investors during hyper-growth.

Audit your reality before regulators mandate it. Assign a dedicated, cross-functional team to begin mapping your core processes and testing controls immediately. Embed independent verification into your culture on day one, before bad habits solidify into unmanageable risks.

Resources & Events

[Webinar] Audit Ready: Rewiring the Enterprise for True Resilience (sponsored by Wolters Kluwer)

As technological disruption moves faster than annual audit cycles, static risk models leave organizations exposed. Learn how to rewire governance frameworks to achieve real-time operational resilience | Tuesday, September 22nd. [Register Here.](#)

[Catch Me Live] 2026 IIA Canada National Conference:

Join Scott live in Vancouver to break down how experts can speak so executives actually listen, bypassing information overload to drive real organizational change | Tuesday, October 6th at 2:00 PM PDT. Let's connect if you are attending. [Secure Your Conference Registration Here.](#)

[Conference] Audit Analytics & AI Fall Conference 2026 (presented by Greenskies Analytics)

Hybrid AI Audit Engine: Agile AI Torque and System Governance | Wednesday, October 21st at 9:00 AM PDT. [Register Here.](#)

What's On Your Mind?

I want this newsletter to be a true reflection of the challenges you are facing in the trenches. Are there specific workplace trends, risk management bottlenecks, or cultural alignment hurdles you want to hear more about in future issues?

Drop me a line directly at info@thearchybrid.com and let me know what we should tackle next.

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