

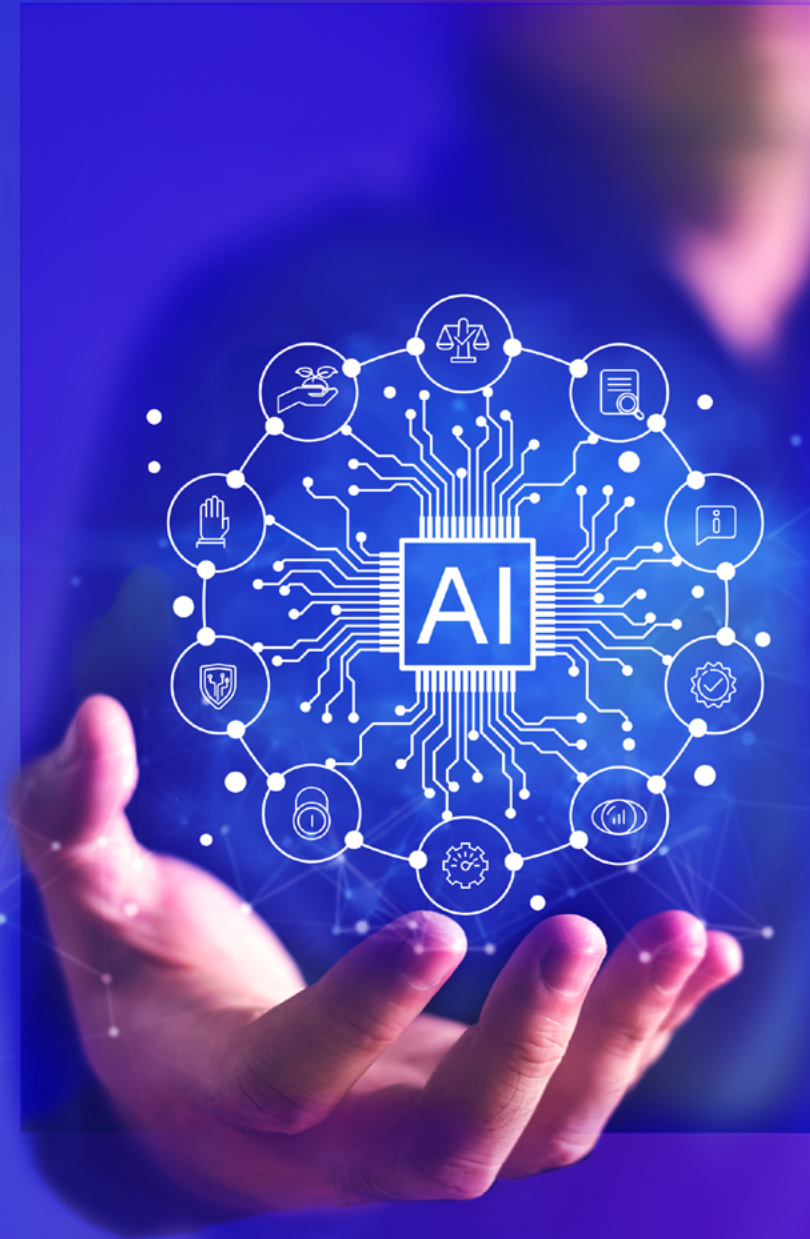


AI in financial reporting and audit: Navigating the new era

Financial reporting leaders' AI expectations for their companies and external auditors

KPMG. Make the Difference.

KPMG Caucasus and Central Asia



Foreword

AI is transforming financial reporting and auditing. They are often seen as time-consuming and monotonous exercises, requiring statistical sampling methods and manual checking of financial data. Further, the human ability to work with big data has been a severe limiting factor, preventing the broad connection of various data sources from working out deeper insights. But AI is changing that — helping businesses create smarter and more joined-up information flows with better identification and response to risk and a much greater ability to detect anomalies and outliers.

How far will this go? Is the vision of an interconnected AI-powered financial reporting ecosystem, with value-added and predictive insights, a near reality — or still a far-off aspiration?

Our research conducted amongst 1800 financial reporting executives across major economies around the world shines a new light on these key questions — and finds that we are standing on the cusp of a genuine financial reporting revolution: moving from the ‘digital age’ to the ‘AI age’ in which nothing will ever be quite the same again.

While there are hurdles to be overcome — notably around accuracy and security — the benefits that could be reaped in the areas of insight generation, trend and anomaly detection, risk control, and data-enabled decision making could power us into a new era where financial reporting is smarter and better than we have ever seen before — all subject to laser-focused and highly granular AI-enabled auditing processes. Companies need help navigating this change, but with a human touch.

Companies also expect their auditors to lead the AI transformation and inspire and drive the transformation of financial reporting. They see a key role for auditors in supporting the safe and responsible rollout of AI, including assurance and attestation over the governance and controls in place to mitigate risks.

And at KPMG we are on this journey with you. We are using AI to power our audits and transform the audit experience, while at the same time recognizing the inherent complexities and potential risks that accompany such advancements. This journey is firmly rooted in a foundation of ethical conduct and responsible practices, guided by our space [Trusted AI Approach](#). This framework serves as an anchor, aligning KPMG firms’ services with core values while championing principles of transparency, explainability, fairness and accountability.

We are also investing in extensive training and support for our audit professionals as they increasingly spend time both assessing clients’ AI processes and utilizing more AI tools and enablers in the audit itself. Our clients expect that audits will become increasingly real-time and more proactive than reactive as AI puts ever more powerful capabilities at the disposal of audit teams, and we are here for the transformation.

Welcome, not to the distant future, but to what’s only just around the corner.



Larry Bradley
Global Head of Audit
KPMG International



Thomas Mackenzie
Global Audit Chief Technology Officer
KPMG International



Sebastian Stöckle
Head of Innovation, Global Audit
KPMG International



Key findings

Our study confirms the importance of **AI** in financial reporting & auditing and clarifies, **it is not hype**. Almost three-quarters of businesses are already using AI in financial reporting, and that is set to rise to

99 percent in three years.

Companies are investing strategically and substantively:

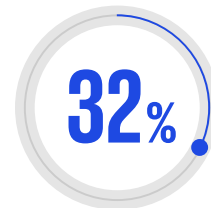
- AI now accounts for **10 percent** of the IT budget and is set to rise significantly
- **100 percent** of companies said their Boards have taken strategic action regarding AI.

Geographies, sectors and sizes. The percentage of companies adopting AI for financial reporting:

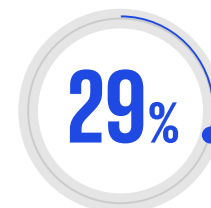
By region:



North America

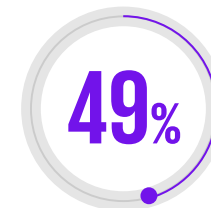


Europe



ASPAC

By revenue size:



Over \$10 billion

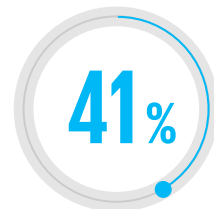


\$5-10 billion



Under \$5 billion

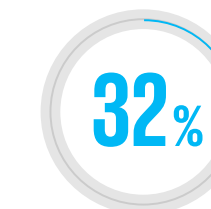
By industry:



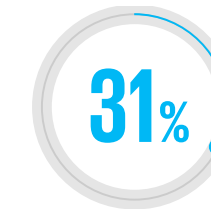
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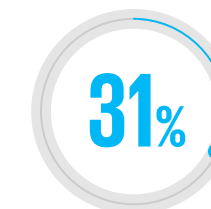
Energy, natural resource and chemicals



Healthcare and life sciences



Industrial manufacturing



Financial services



Consumer and retail

AI is changing auditing — businesses expect auditors to lead the way

64%

of companies expect auditors to have a role in evaluating their use of AI in financial reporting, providing assurance and attestation over their AI controls.

Companies want their auditors to use AI for three key purposes:

01

Improve the efficiency and accuracy of audits: **Over two thirds** want their auditors to prioritize the use of AI for data analysis and quality management.

02

Develop more proactive, continuous, and predictive processes: **Over half** want their auditors to prioritize predictive analysis.

03

Gather data and value-added audit insights: **Many companies** expect their auditors to harness AI's ability to analyze vast sets of data and find insights that may not be identified through traditional analysis.

Public companies are considerably more advanced in AI governance than private firms, given the additional regulatory pressures they are under. 65 percent of public companies have set up AI policies and governance, compared with 55 percent of private ones.

GenAI is a priority over traditional AI techniques. 57 percent of companies will be implementing gen AI for financial reporting over the next three years.

*As cited by Leaders

Benefits*

Top benefits of AI according to Leaders:

- The ability to predict trends and impacts (65 percent)
- Real-time insights into risks (60 percent)
- Better data-enabled decisions (57 percent)
- Increased data accuracy (57 percent).

Barriers*

Top barriers of AI according to Leaders:

- Inadequate funding and investment (49 percent)
- Uncertain ROI (45 percent)
- Staff worries about displacement (42 percent)
- Keeping up with regulations (42 percent)
- The risk from use of algorithms with no human oversight (40 percent)

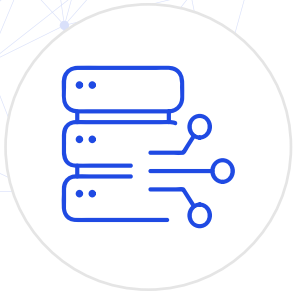
Leaders

Four key traits of Leaders:

- Leaders construct frameworks to reduce and manage potential AI risks
- Leaders shed light on how to overcome barriers to AI adoption and use AI to enhance financial reporting function
- Leaders recognize the importance of the use of ethical AI and work to mitigate GenAI concerns
- Leaders implement best practices of AI-readiness

How to get started

- **Determine your ambition** — How important is AI to your business or financial reporting function? Do you want to be an AI leader in your industry? How do you see your business evolving based on AI? What are the opportunities presented by AI for your company?
- **Determine your maturity based on our assessment** — Where do you fit in KPMG's AI Maturity assessment? How much progress has your company made in the use of AI for financial reporting? What actions around AI has your company already taken?
- **Align your ambition, maturity and strategy** — Are you funding AI sufficiently? Do you have established AI governance and frameworks? Are you addressing barriers to AI and financial reporting?
- **Look for support** — Look to Leaders for ways to enhance your financial reporting with AI. As a starting point KPMG's [Trusted AI Approach](#), built on the foundational principles of fairness, transparency, explainability, accountability, data integrity, reliability, security, safety, privacy, and sustainability, is a framework to help design, build, deploy, and use AI tech solutions in a responsible and ethical manner while also accelerating value and making the difference for clients, people and communities. Further, let KPMG show you examples of Leaders for ways to enhance your financial reporting with AI, governance over AI and how AI is used as part of your external audit to deliver an enhanced audit experience and quality.



Objectives and methodology

Objective: To understand how financial reporting executives feel AI adoption is progressing within the finance function, its impact on internal finance teams, and expectations for external auditors.

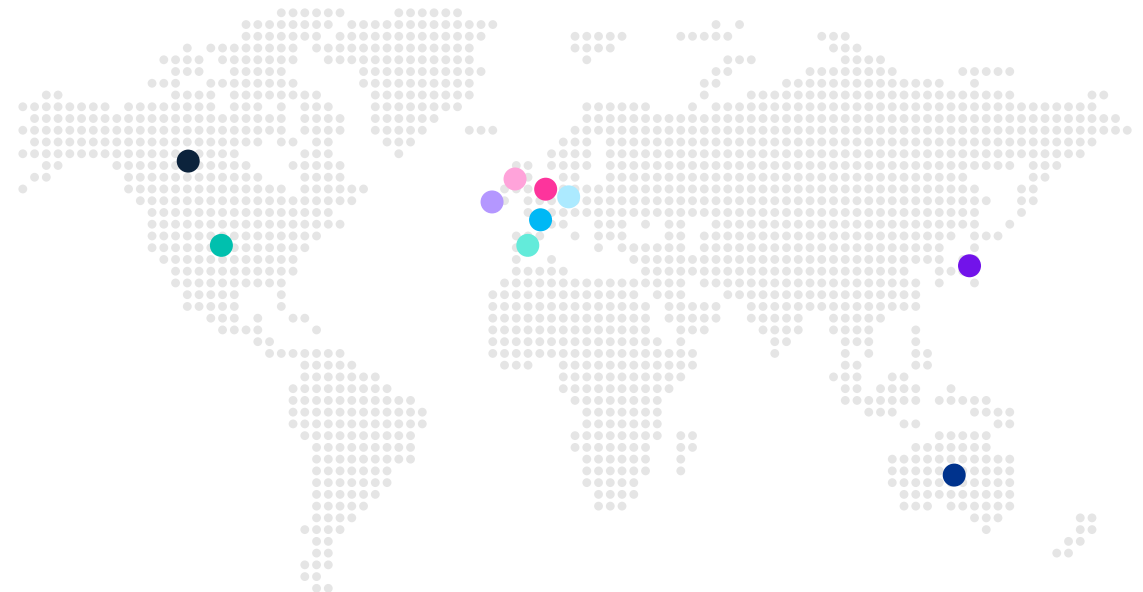
Methodology: KPMG surveyed financial reporting executives and board members at **1800 companies** across six industries, ten countries and jurisdictions, and varying revenue sizes.

Survey respondents include:

- Financial reporting executives at VP level and above (CFO, CAO) with decision making authority and oversight of financial reporting, accounting, analysis, audits, and financial information.
- Companies with revenue between \$250 million and over \$1 billion USD.
- Countries surveyed include: Australia, Canada, France, Germany, Japan, Ireland, Netherlands, UK, US and Spain.
- Industries surveyed: Consumer & Retail, Energy, Natural Resources, & Chemicals, Healthcare & Life Sciences, Industrial Manufacturing, Telcom & Technology, and Financial services

Research was conducted between February — March 2024.

The study is based on a survey of 1800 companies across 10 countries.



- | | | | | |
|-------------|-----------|-----------|---------------|---------|
| ● Canada | ● France | ● Japan | ● Netherlands | ● US |
| ● Australia | ● Germany | ● Ireland | ● UK | ● Spain |

AI Maturity Framework

To assess how AI adoption is progressing in financial reporting, we created a maturity framework based on two survey questions:

How much progress has your company made in the use of AI for financial reporting?

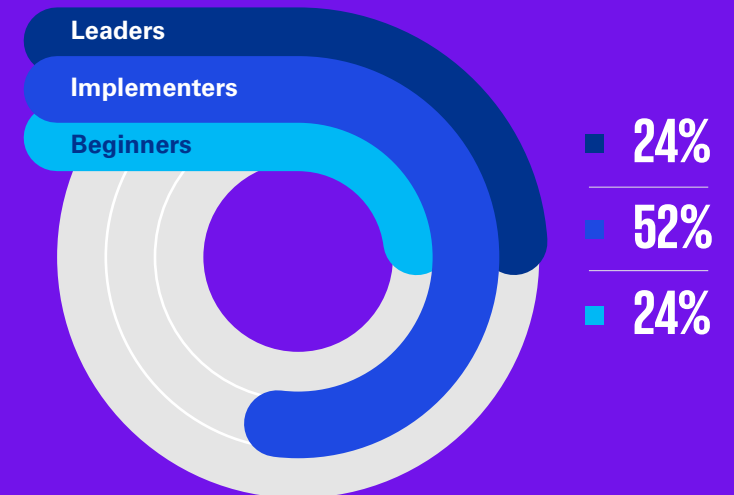
- a) **No plans:** Do not have plans to use AI for financial reporting
- b) **Planning:** Considering how to use AI for financial reporting
- c) **Piloting:** Conducting AI pilots for financial reporting and evaluating results
- d) **Selective adoption:** Using AI across one of two areas of financial reporting
- e) **Wide adoption:** Using AI for a variety of areas of financial reporting

Which of the following actions around AI has your company already taken?

- a) Adopt and/or publish an AI framework to guide implementation and usage
- b) Include some form of AI controls assurance in the scope for reports for vendors or third-party processors
- c) Include the AI risks and associated controls within the scope of our financial reporting processes
- d) Request or consider requesting certification or attestation reports that include AI processes and control objectives
- e) Procure third-party controls assurance over our AI processes and controls

- Based on their responses to these questions, we calculated a score that we used to categorize respondents into three AI-readiness groups: **Leaders, Implementers, and Beginners.**
- For each company, we took the average of the scores for the areas and grouped the respondents as follows:
 - **Leaders:** top 25th percentile
 - **Implementers:** those between the top 25th and bottom 25th percentiles
 - **Beginners:** bottom 25th percentile

Maturity breakdown





The road ahead

Business activity around AI, including for financial reporting, is ramping up and accelerating.

Auditors need to help guide and shape the financial reporting transformation, including through the development of AI-enabled auditing platforms that integrate with companies' systems and help bring the power of AI into the reporting ecosystem — analyzing entire datasets, identifying outliers or risks, and joining up financial and non-financial reporting to create a seamless, coherent reporting landscape.

AI for financial reporting and auditing is here now and will rapidly accelerate. There's no time to sit back. In three years, all companies globally will be using AI in financial reporting, transforming the function.

KPMG's study of financial reporting executives found that auditors have an important role to help companies guide and shape the financial reporting transformation. This can be seen through the development of AI-enabled auditing platforms that integrate with companies' systems and help bring the power of AI into the reporting ecosystem — analyzing entire datasets, identifying outliers or risks, and joining up financial and non-financial reporting to create a seamless, coherent reporting landscape.

The research reveals that there are barriers to AI that companies are faced with, from concerns around accuracy, data security and privacy. Despite these challenges, companies that have

successfully implemented AI in their financial reporting processes are seeing a range of benefits, including the ability to predict trends and impacts, real-time insights into risks, and better data-enabled decisions.

Leaders in AI adoption for financial reporting provide a roadmap for companies as they embark on their financial reporting journey. Our research identifies four key characteristics that these Leaders adopt to achieve AI maturity. Firstly, Leaders construct frameworks to mitigate and manage potential risks. This involves adopting AI frameworks and governance structures, and procuring third-party controls assurance.

Secondly, Leaders find ways to overcome barriers to adoption. This includes ensuring that technology leadership is involved in systems integration discussions, incorporating the impact of AI into training programs, and piloting AI initiatives to validate ROI.

Thirdly, Leaders recognize the importance of ethical AI. They put ethical frameworks in place, emphasize the need for regular audits to identify and address ethical issues, and ensure human oversight of AI.

Lastly, Leaders implement best practices for AI-readiness. This involves implementing essential best practices in financial reporting that pave the way for AI adoption, such as cloud migration, high-quality cybersecurity, standardization of workflows, discontinuation of legacy systems, and paperless bookkeeping.

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For many companies, AI is going to fundamentally transform their business models – and audit is no exception. The development of an AI-enabled auditing platform is not a distant future, but a present reality. Through KPMG Clara, we are harnessing the power of AI to analyze entire datasets, identify outliers or risks, and unify financial reporting. At KPMG we are on this journey with you and are committed to leveraging AI's power in a trusted and responsible way to evolve the audit experience.”

David Rowlands

Global Head of AI
KPMG International

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The audit profession plays a key public interest role, underpinning the healthy functioning of the capital markets. As AI becomes steadily more embedded into how those markets operate, businesses may need help to drive a safe and successful transformation in financial reporting — through expertise in data management and analysis, deep understanding of regulatory and independence processes, and access to best in class alliance partners to drive innovation.”

Thomas Mackenzie

Global Audit Chief Technology Officer
KPMG International

Actions

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