



Automation of financial reporting and technical accounting

Don't get left behind.

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Executive summary

KPMG conducted a survey of nearly 100 technical accounting and financial reporting professionals to gain insights into the extent to which automation has been introduced into their working processes – and the extent and speed at which they anticipate automation will be integrated in the future.

New technologies have the potential to transform the finance function. But are financial reporting teams ready to embrace them?

Where are we now?

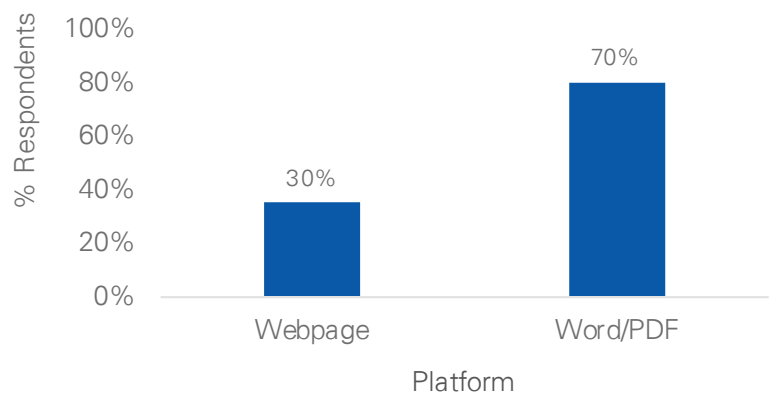
Our survey reveals that financial reporting teams are still very much operating through 'old' technology.

For example, the majority share accounting policy guidance in Word or PDF formats, rather than through live platforms such as a webpage. This has obvious limitations, such as version control when saved locally.

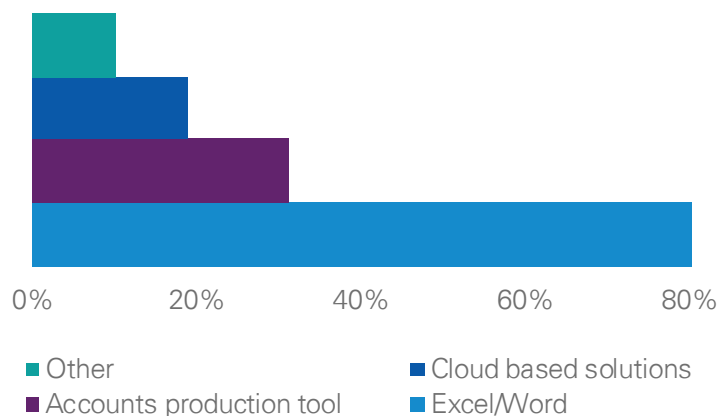
Moving from Word/PDF storage to a live platform would be an easy win. It is technically straightforward to do and would bring clear quality and efficiency benefits.

However, it is not only the sharing of guidance that continues to be performed through traditional software means. More than 50% of respondents are still preparing the financial statements themselves in Word and Excel, with only a minority utilising either accounts preparation software or a cloud-based solution in addition. The old software may be more familiar; the benefits of new solutions may not be fully understood. Either way, this does not seem to be a sustainable position for the future.

How do you share the accounting guidance such as the accounting policy manual with your finance teams?



Financial statement preparation tools



Users were able to select more than one response, therefore total is above 100%

Where are we heading?

Not surprisingly, accounting professionals are fully aware that the coming years will bring significant change. The time has come for the benefits of new, agile technologies to be incorporated into their way of working.

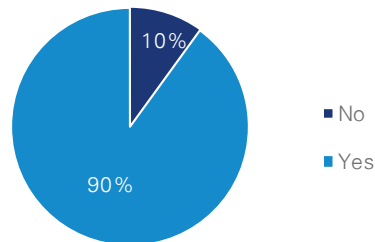
Indeed, one of the most resounding findings in our survey was that 90% of respondents see the value of automation to the group financial reporting and technical accounting function.

Over eight in ten (85%) of those surveyed expect to automate processes, with a high proportion expecting to start within two years.

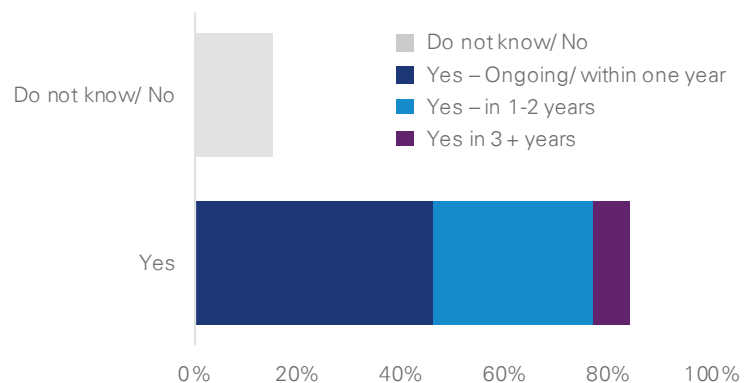
In the next three years, respondents expect to be spending more time providing value-adding insights to the business and on issues connected to automation. Undoubtedly, the two are connected: investing time in automation will be a driver of spending more time adding value as a strategic business partner to the organisation.

Meanwhile, more mundane roles such as the provision of internal information may reduce over time. Technologies like a digital accounting manual or query workflow tool enable people in the business to self-serve more effectively and provide accessible guidance on past technical accounting consultations.

Do you see value in automation of the group financial reporting/technical accounting function?



Is your organisation looking to automate any processes within the financial reporting or technical accounting function?



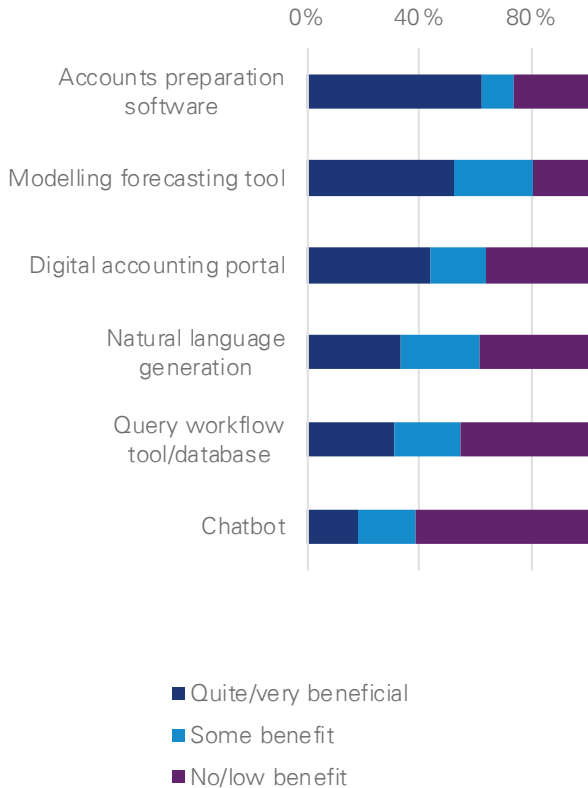
How much time do you expect to spend on the following areas?

1 being the least time spent on this area, and 6 being the most time spent on this area.



Which tools for the job?

Tools

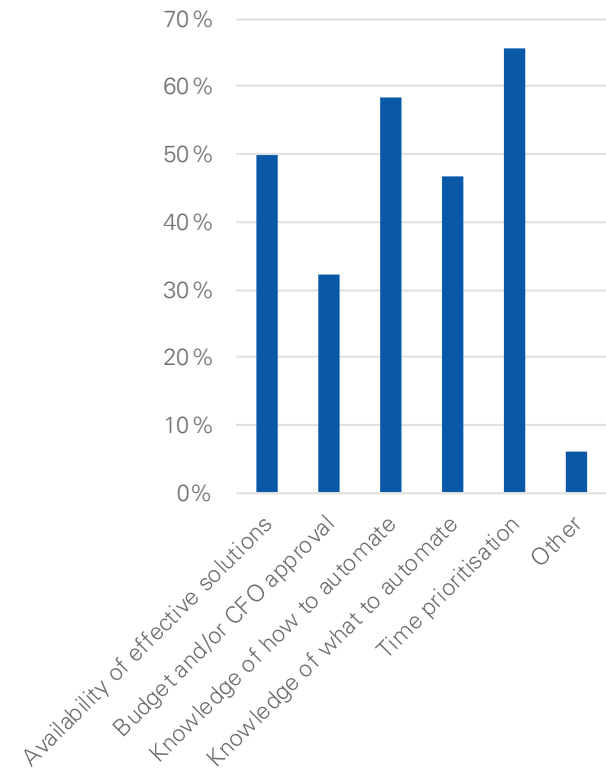


There is no shortage of options in today's rapidly developing digital landscape. However, the popularity or perceived benefits of the various available tools appear to correlate to how familiar they currently are. Accounts preparation software, which is widely available, is most highly rated by respondents while newer or more breakthrough technologies such as chatbots are deemed to have the least potential benefit.

This perception may change as chatbots, natural language generation tools and query management systems become more commonplace. Only time will tell.

What barriers lie ahead?

What are the biggest challenges you face regarding automation?



Every financial reporting team will have its own unique dynamics and therefore its own key challenges in introducing automation. Most respondents in our survey selected more than one challenge – but the pressures of finding the time was the biggest perceived issue overall. This is perhaps ironic given that saving time by completing tasks more efficiently is a key benefit of automation.

As difficult as it is, teams need to find a way of carving out sufficient time upfront to define their automation goals and map out the key milestones for the project in order to realise the benefits in the future.

This will also be critical in order to create the business case for change, such that budgetary approval can be obtained from the business.

Background

For businesses across sectors, digital transformation is a key strategic priority as they strive to become more agile, efficient and responsive. This applies as much to internal functions as it does to customer-facing ones – finance functions included.

Indeed, finance teams have the potential to become leading flag bearers for automation. Technology-enabled finance functions can provide deeper, faster insight into performance and add real value to critical business decisions. As a result, the use cases and benefits of automation in the finance function are being widely discussed amongst preparers, researchers, regulators and consultants.

Financial reporting and technical accounting are key components of the finance function. However, the fact is that automation of tasks in these two areas has, to date, been limited. One school of thought is that these areas are too specialised and principles-based for adoption of new technologies to be a priority. Yet, they surely have as much to gain from automation as any other part of the business.

At KPMG, we wanted to get to the heart of this conundrum and gauge where technical accounting actually stands today in relation to integrating automation. We surveyed nearly 100 technical accounting and financial reporting professionals to gain answers to questions such as:



Where are we now?



What barriers lie ahead?



Where are we heading?



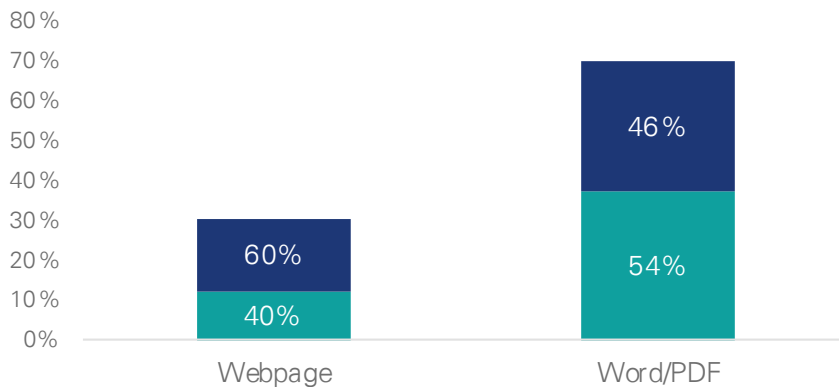
What does a roadmap to automation look like?



Which tools for the job?

Where are we now?

How do you share the accounting guidance such as the accounting policy manual with your finance teams?



Are past technical accounting consultations stored effectively?

■ Yes ■ No/Do not know

A key role of a technical accounting team is to be the custodian of accounting policies. Our survey responses indicate that the vast majority of companies still retain and share these accounting policies in a Word/PDF document, rather than on live platforms such as webpages. This may be because it is cheap to do so - but Word/PDF documents have inherent limitations such as restricted navigation, detachment from other guidance (e.g. chart of accounts), and issues with version control – if not stored in a shared location.

Around 30% of companies maintain accounting policies in a webpage or tool. These companies have reported higher effectiveness of past technical consultations – indicating the benefits to be obtained from moving to more accessible and interactive platforms, such as time saved in revisiting similar accounting questions and greater consistency.

The 'gold standard' solution may be to host all policies and procedures on an interactive internal portal: a one-stop-shop for any accounting related guidance that users may need. There are already live examples of key components such as accounting policy manuals, charts of accounts and process manuals being co-located on a portal and hyperlinked with strong search functionality. Centralised change control and associated logs could also be added.

By making comprehensive guidance more easily accessible, organisations can expect to see a reduction in incorrect account postings and an improvement in the data quality of financial information.

Preparation of financial statements

One of the most visible tasks of a financial reporting function is to prepare external financial statements. It will probably not come as a surprise to those in the profession to learn that more than 50% of respondents do not use any tools beyond Word or Excel in the preparation of financial statements. Whilst Word and Excel are easily understood by finance teams and are flexible enough to produce a

wide range of financial statements, this flexibility often comes at the expense of standardisation, control and visibility over the financial statement production process.

The time has surely come to move on from the use of this 'old' technology, in order to take advantage of the benefits that sophisticated new accounts production tools can bring.

A well-designed and implemented accounts production tool such as KPMG's tool K-Trinity will:

- Maintain a library of disclosures to ensure consistency across a group;
- Automate low value processes like roll-forward and importing data;
- Have in-built automated casting and cross-referencing checks;
- Incorporate electronic filing requirements into the financial statement production process.

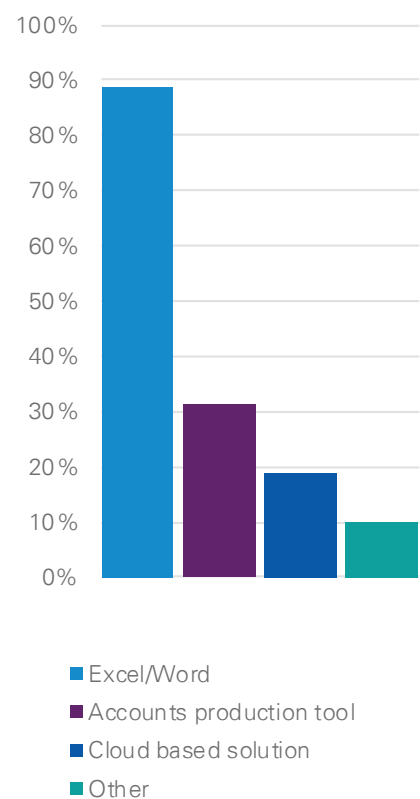
Some of the best tools will even include the ability to automatically translate financial statements where there is a requirement to publish in more than one language.

KPMG has also developed a separate tool that casts numbers in financial statements or any other document with tables - for example in separate reports of financial information that is presented to shareholders or lenders.

50%

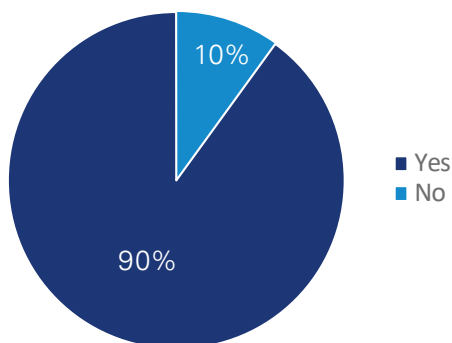
of respondents do not use any tools beyond Word or Excel in the preparation of financial statements.

Financial statement preparation tools



Where are we heading?

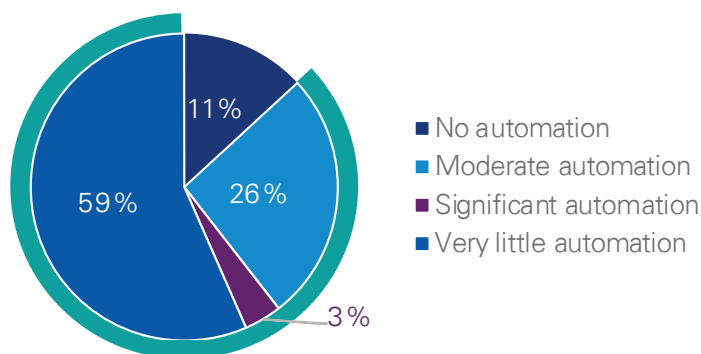
Do you see value in automation?



Of those surveyed, a resounding 90% said they see value in automation of group financial reporting and technical accounting activities.

However, the fact is that the significant majority – 70% - of respondents say that very little or no automation has been introduced as yet.

Current state of automation



This is much further behind other areas of the finance function where automation is commonplace.

One issue that such a disconnect in technology transformation creates is alignment in the speed of delivery. For example, when different areas of finance and the wider organisation work together, if some teams have fast automated processes and others do not, it will be more difficult to align on the timing of deliverables. This potentially causes frustration and inefficiencies. Regular activities such as development of the Annual Report, as well as important ad-hoc projects such as supporting mergers and acquisitions, are two such examples where stakeholders may be working at different paces due to the sophistication of their technologies. Automation of financial reporting and technical accounting activities must keep up with the broader pace of change in the organisation.

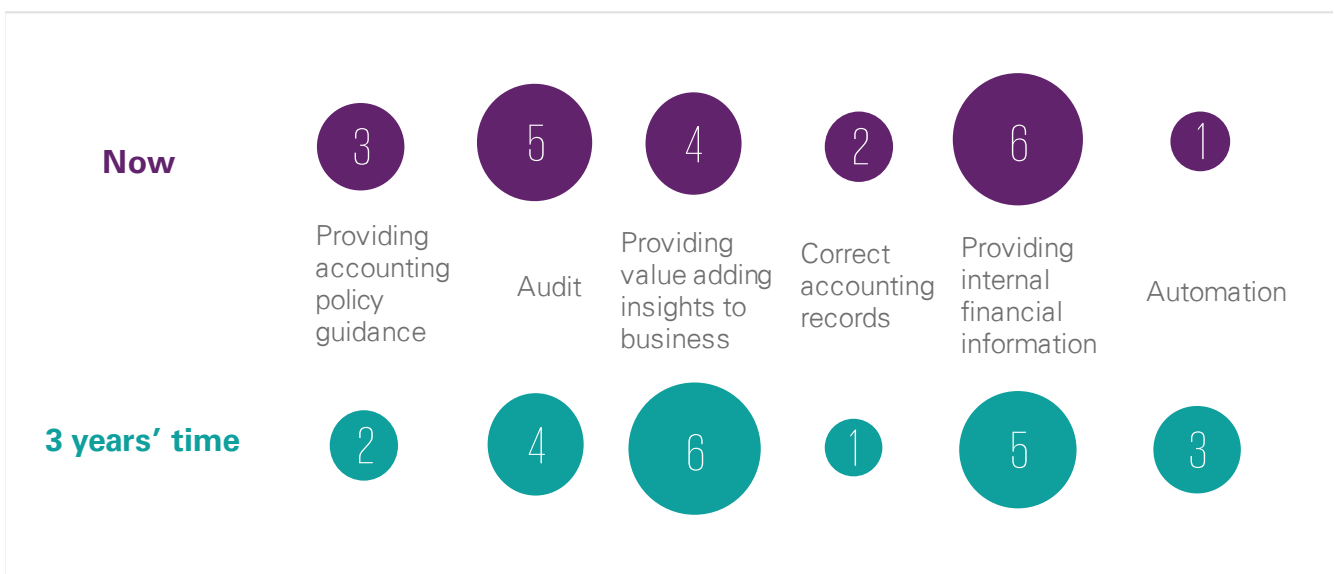
It is now incumbent on the CFO and the finance function leaders responsible for driving transformation to understand the future state and determine a plan to achieve this. In many cases this has already started – and is likely to accelerate given the evolution that respondents widely expect to see in their role.

Evolving roles

We asked respondents to comment on how they anticipate the tasks that the financial reporting and technical accounting teams perform will change in 3 years' time.

How much time do you expect to spend on the following areas?

1 being the least time spent on this area, and 6 being the most time spent on this area.



It is somewhat surprising that finance teams still expect to spend significant amounts of time, in 3 years, providing internal financial information. It indicates that the functionality of tools and the associated potential benefits are not yet fully understood.

The two areas in which respondents anticipate that they will spend more time in 3 years are:



Providing value adding insight to business performance



Automation

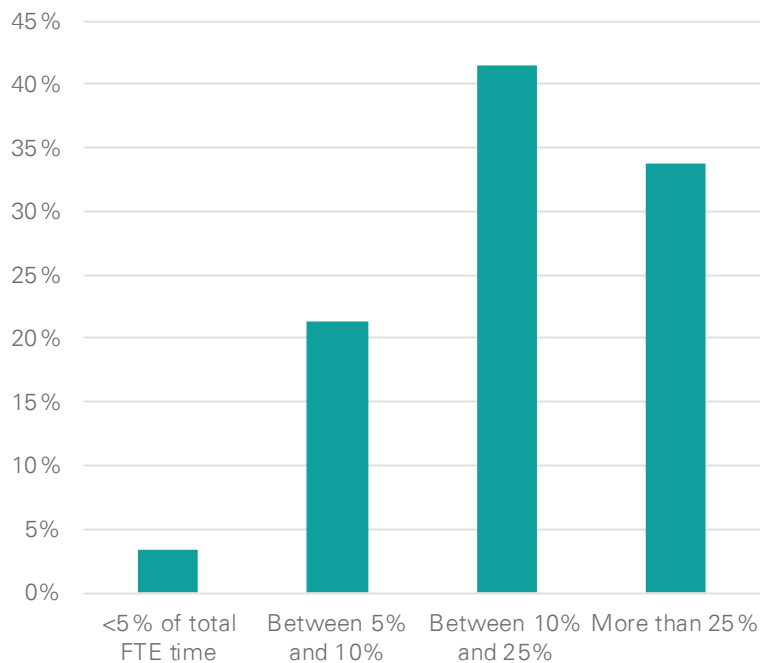
There is a clear logic here. In order to spend more time providing value adding insight and critical decision-making support to the business, finance teams will have to automate their time-consuming and low value tasks. The two are directly related as part of the transformation that the finance function needs to make to become a strategic business partner to the organisation.

Predictably, finance teams also want to spend less time on audit and correcting accounting records.

Three quarters of respondents mentioned that they spend more than 10% of their time manipulating data to provide insight. In an average working week, this equates to more than half a day. Therefore, a third of respondents spend more than 10 weeks a year doing this!

There is clearly more scope to automate the production of internal reports, reducing the inefficient use of the team's time. The less time spent manipulating data, the greater capacity teams will have to provide value-adding insights such as strategic contract reviews, acquisition support and other highly valued business partnering activities.

How much time is spent by the finance team in manipulating data in order to be able to provide insight into your organisation's performance / deliver decision support to business?

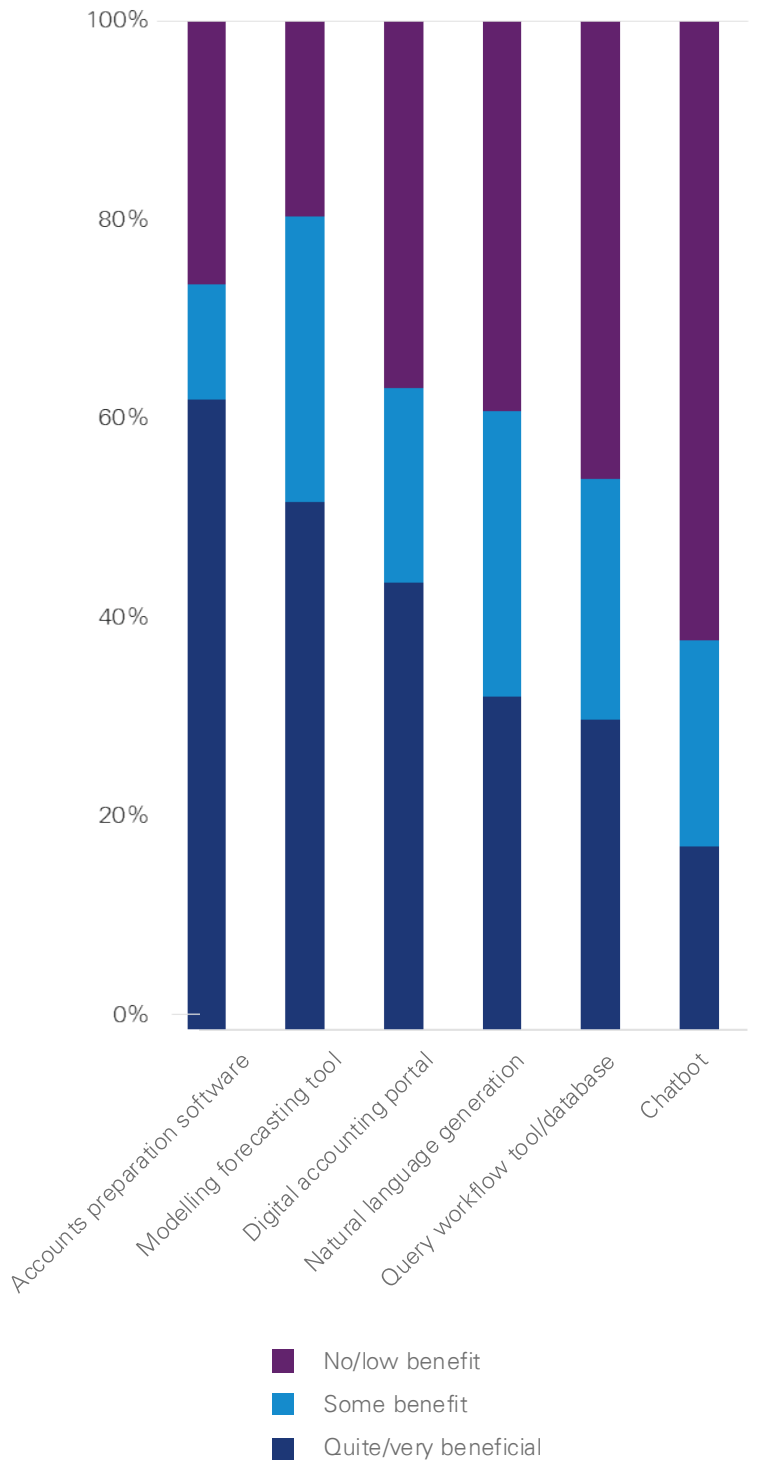


“Technical and financial reporting accountants are still grappling with the same broader challenges of Finance – how do I minimise the amount of data sourcing, manipulation and calculation, and maximise time spent on delivering insight and decision support to the wider business? The development in automation technologies means that this is now more of a reality than an aspiration.”

Adrian Griffiths – Partner, KPMG UK

Which tools for the job?

Tools which can be utilised to improve the technical accounting function using automation



When it comes to automation tools and solutions, there is no shortage of options in today's rapidly developing digital landscape. However, the popularity or perceived benefits of the various available tools appear to correlate to how familiar they currently are.

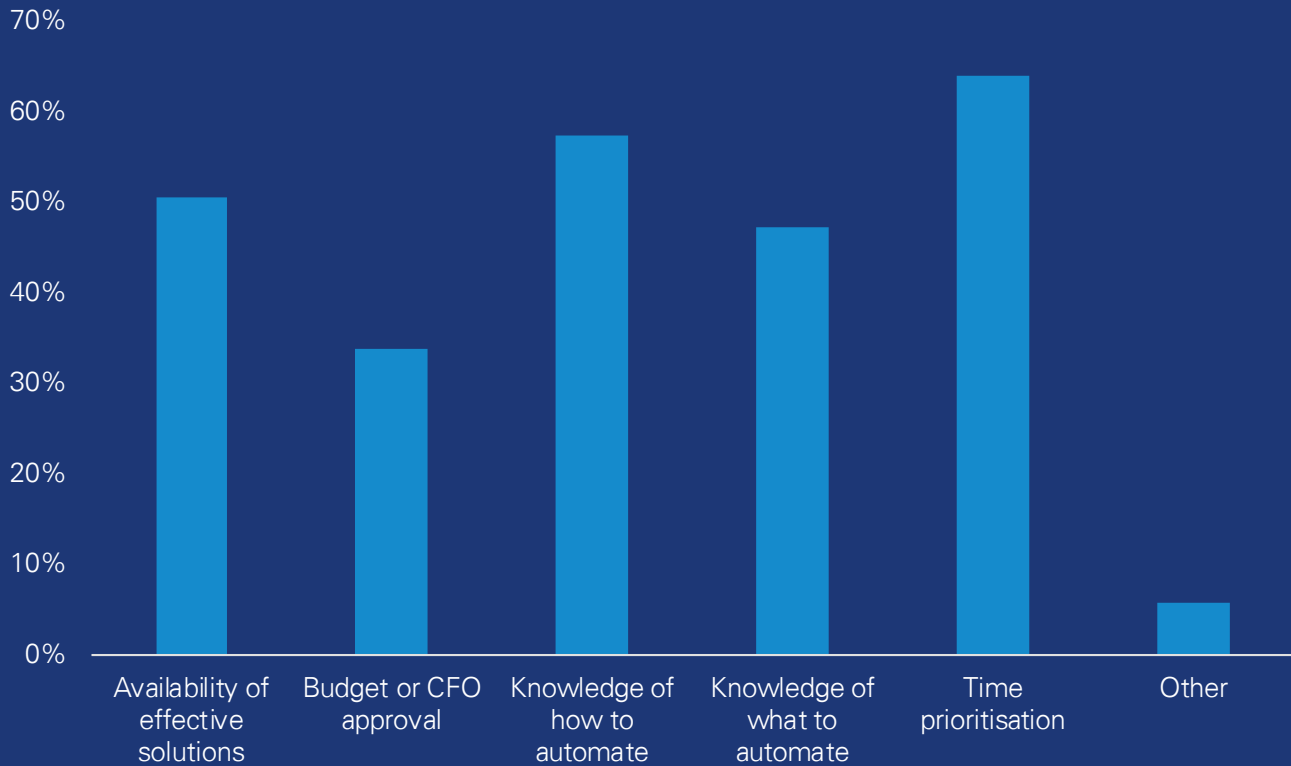
Accounts preparation software was seen as the tool with the potential to add most value, with the general trend being that low-risk tools (i.e. that have known inputs and expected outcomes), are seen to be the most beneficial. Those tools which rely on more variable inputs that are generally seen as less beneficial, such as chatbots or natural language generation.

However, we anticipate that all of these tools will be able to add value to users in their different ways in terms of quality, speed and consistency.

It is logical that companies most clearly see the benefits in technologies that are more familiar and which they can trust. More advanced machine learning tools may be delivered in subsequent implementation phases as they mature and the benefits become more demonstrable.

What barriers lie ahead?

What are the biggest challenges you face regarding automation?



Every technical accounting team will have its own unique dynamics and therefore its own key challenges in introducing automation. Most respondents in our survey selected more than one challenge, reflecting the complexities at play.



Time prioritisation

Time prioritisation was the most common challenge identified by respondents. However, given the amount of time currently invested in manual activities including review, dedicating time upfront now is likely to pay clear dividends in the long-term if efforts are correctly focused.



Knowledge of what to automate

It is widely agreed that the greatest benefit of automation arises when applied to high-volume, low-value tasks. Quality and consistency are other significant drivers of introducing new technologies in these areas. Any tasks which currently do not meet the organisation’s aspirational quality and consistency thresholds could be ripe for automation.



Availability of effective solutions

Available solutions have been developed in specific areas, such as statutory financial statement preparation, but are by no means pervasive across the range of financial reporting and technical accounting activities. We anticipate the pace of transformation will increase when new tools are readily available and marketed to preparers.



Knowledge of how to automate

Companies need to identify the solutions that address their key issues. It is likely that a number of functions across a business will need to be consulted with before finalising which solution(s) to implement. We discuss possible routes to this below, in the section ‘What does a roadmap to automation look like?’



Budget and/or CFO approval

In KPMG’s CEO Outlook 2019, Lisa Heneghan, Chief Digital Officer at KPMG UK, observed:

“Ultimately a CEO’s or CFO’s decision to invest in tech will be based on ROI”

Are you able to make a compelling ROI case for automation in the financial reporting function? Some of the key benefits such as efficiency gains may have a clear financial value that can be attached. Others however, such as improving quality, might be difficult to quantify - but the more clearly you can assign a value to them, the stronger your case will be.

Part of this will come from gaining a thorough understanding yourself/as a team of the issues and potential upsides. Highlighting the benefits and forecasted ROI then becomes more straightforward.

What does a roadmap to automation look like?

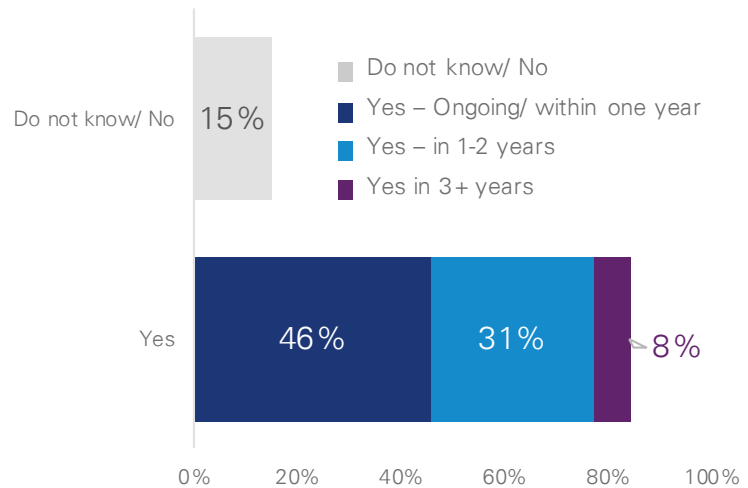
As we have seen, most organisations aspire to increase the degree of automation in their accounting functions. So what steps should they be taking?

Organisations are of course at various stages of automation, and every business has its own unique dynamics. Therefore, it is no surprise to find that the anticipated speed of change shows a degree of variation. The highest proportion of respondents say that automation is ongoing now or expected to start within the year. But for a significant number, it may not begin in earnest for 1-2 or even 3+ years.

Our findings show that whilst most companies have an idea of what can be automated, few have thought about the entire journey in any detail.

It is critically important to do this at an early stage. The requirements and success criteria of automation need to be captured and articulated in a clear business case and transformation plan.

Is your organisation looking to automate any processes within the financial reporting or technical accounting function?



Are you automation ready?

In KPMG's experience of working with finance functions, any team about to embark on an automation project should have clear answers to the following:



Have you identified and prioritised areas for automation?



Who are the key stakeholders?



Have you documented the business' requirements in detail and how automation will help you meet them?



Have you identified the tools or technologies that you need? Do you need support from providers and partners?



Has the IT team been involved in the shortlisting of solutions and the estimating of costs?



Have you developed and had a robust business case approved explaining the return on investment? Has this been included in relevant company and finance function budgets?



Is the implementation reflected in a realistic, detailed and costed IT roadmap?



Have you established a governance strategy? Do you have clear, regular milestones built into your project that will you enable you to benchmark progress and quickly address any emerging issues?



Have you established a change management strategy?

In our experience, critical success factors include:



Planning

The teams that prepare most thoroughly before they begin are the ones for whom implementation proceeds most smoothly and delivers the best results.



Business driven

The automation process must be driven by the needs of the business rather than being merely technology driven. Consulting with appropriate business stakeholders is therefore essential.



Challenge existing business practices

You will need to be open to challenging existing business practices, and then clearly map how new processes will work.



CIO involvement

The involvement of the IT team at all key stages is vital and in particular, it is key to get the CIO fully on board and supporting your project.



Change management strategy

Adopting and communicating the change is as important as the process of executing it. Spend sufficient time planning a rollout and communication strategy.

Conclusion

Don't get left behind

Technology is rapidly transforming how businesses operate across almost every function. It can dramatically accelerate processes, drive up quality and allow individuals to focus on other areas that require human involvement.

Many finance functions have begun to integrate significant degrees of automation – but the financial reporting and technical accounting team are at risk of being the laggards in this. This will cause frustration and may damage the business.

The time has therefore come for change. Our survey shows that accounting professionals are fully alive to this and recognise that they need to drive automation forward.

This does not mean 'blanket' automation: it is not a binary decision. In many areas of financial reporting and technical accounting, human judgement is needed to analyse complex and unique facts to determine an appropriate treatment. This is unlikely to change.

However, there is no doubt that technology could be applied in many areas of technical accounting and financial reporting to capture, store and process data and be a significant aide to teams.

Change needs to be carefully thought through and managed. But the fact that change is needed is beyond dispute.

These survey findings show that when the benefits are demonstrable, through a well-established tool, there is a real belief in automation. An outstanding question is whether the accounting professionals could be more ambitious to keep pace with the speed of change. If not, there is a risk that they could be left behind.

Just like every other part of the business, technical accounting needs to keep moving forward into the future.

Survey methodology

KPMG surveyed 96 professionals in technical accounting, group finance and regional finance teams, based in the UK and overseas. Respondents were from both public and private companies, across major industries, with approximately 40% of businesses represented having revenues of £1 billion or more. The survey ran from July through to August 2019. Responses have been aggregated.

About KPMG

Where are you on your journey to digitalising finance? Do you want to prepare financial reports more efficiently and with greater consistency? How accessible is your accounting guidance? Can technical accounting questions be managed, resolved and stored in a better way? Can you save time preparing statutory accounts?

Digitalisation and automation of your finance function is an inevitability. We can help you in many areas, such as digitalising your accounting literature and reporting, implementing technical accounting chatbots, implementing workflow tools for managing technical accounting queries and preparing digital learning modules on various accounting standards. We can make sure you don't get left behind.

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