

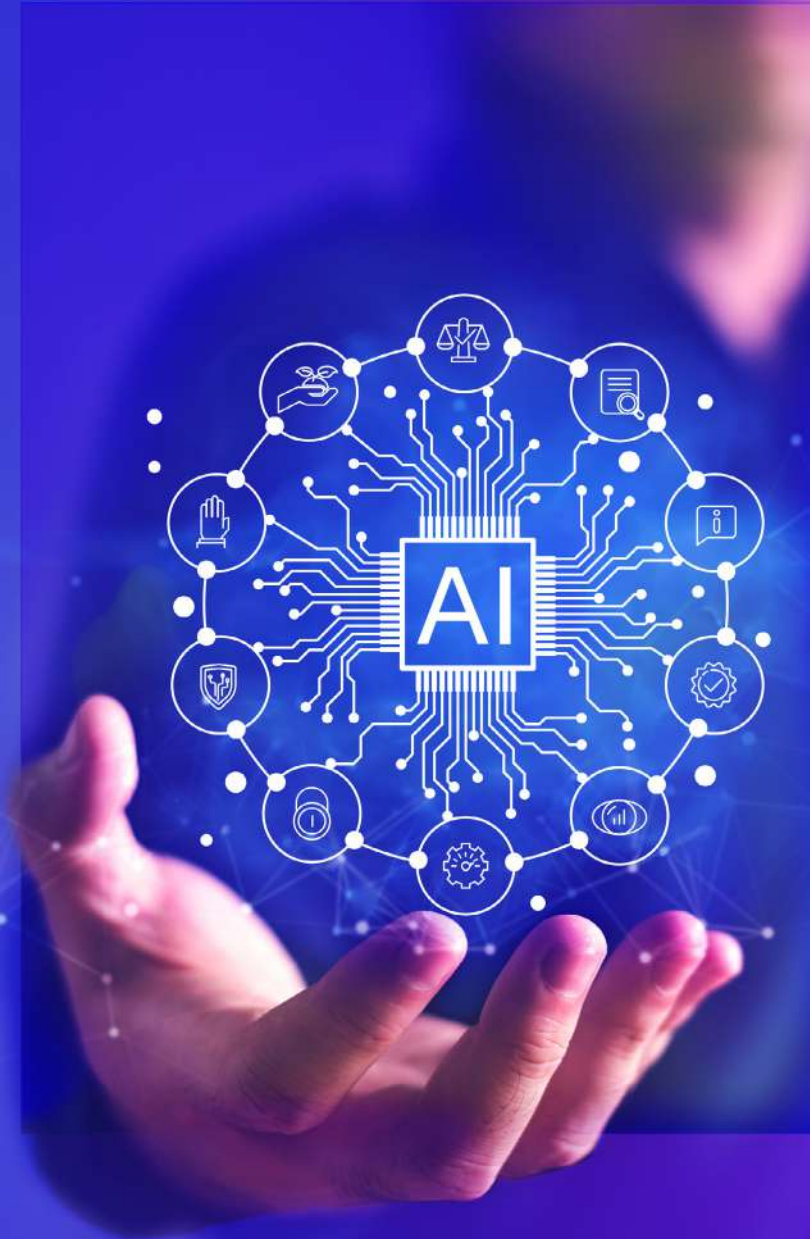


AI in financial reporting and audit: Navigating the new era

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

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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

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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:

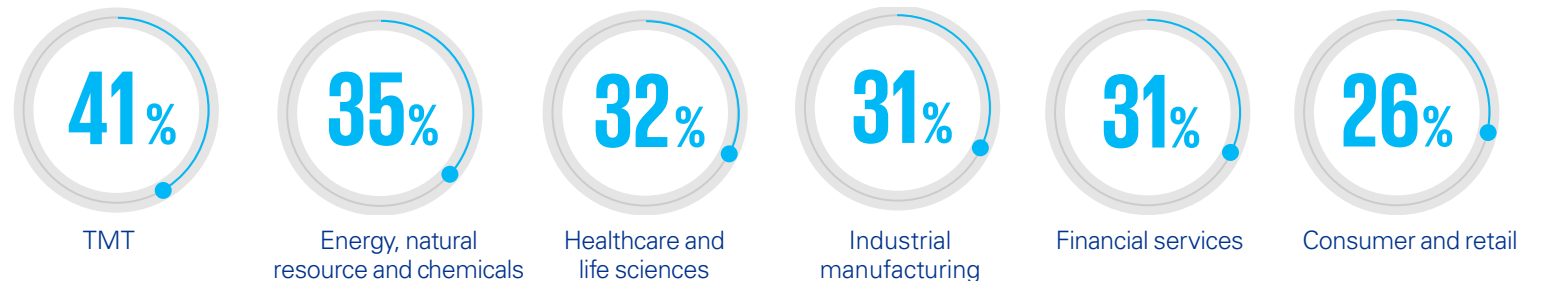
By region:



By revenue size:



By industry:



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?

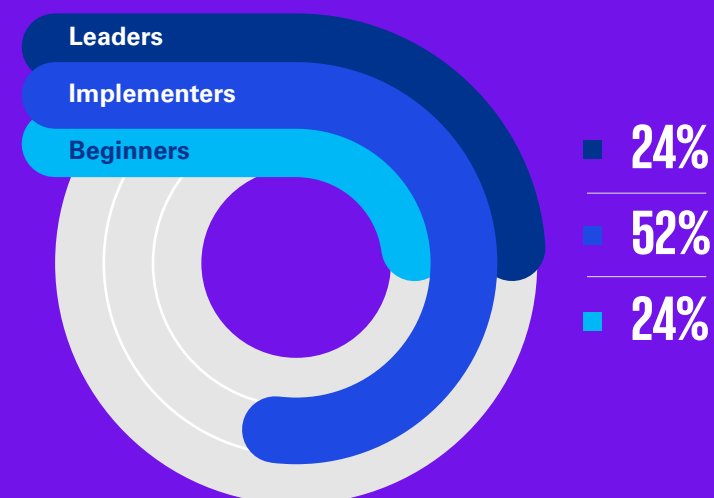
- a) **No plans:** Do not have plans to use AI for financial reporting
- b) **Planning:** Considering how to use AI for financial reporting
- c) **Piloting:** Conducting AI pilots for financial reporting and evaluating results
- d) **Selective adoption:** Using AI across one of two areas of financial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

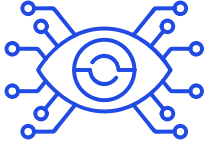
Which of the following actions around AI has your company already taken?

- 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





AI-enabled financial reporting will grow dramatically

The face of financial reporting is changing at varying levels of speed around the world and across industries as AI becomes increasingly embedded in the audit and financial reporting. Although only 10 percent of companies have widely adopted AI in financial reporting right now, 72 percent are piloting or using it selectively, with another 27 percent planning to do so. In three years, nearly all companies (99 percent) will be piloting or actively using AI.

In our research, we identify a clear set of Leaders who are more advanced in their deployment of AI in financial reporting. They have taken the most steps to manage the risks associated with AI and have set up controls around its use in financial reporting. Based on our maturity framework, 24 percent of organizations surveyed are classified as 'Leaders', compared to 52 percent who are 'Implementers' and 24 percent who are 'Beginners' in the early stages.

The use of AI for financial reporting is pervasive across industries. The telecoms and technology sector has made the most progress, with 41 percent responding that they are now selectively or widely implementing AI in their financial reporting process, followed by energy, natural resources, and chemicals (35 percent). Consumer products and retail companies, however, trail other industries. This aligns with further findings, as there are more Leaders in sectors technology and telecoms (32 percent), manufacturing (26 percent), energy and natural resources (25 percent); with fewer in financial services (22 percent) healthcare/life sciences (22 percent) and consumer and retail (18 percent).

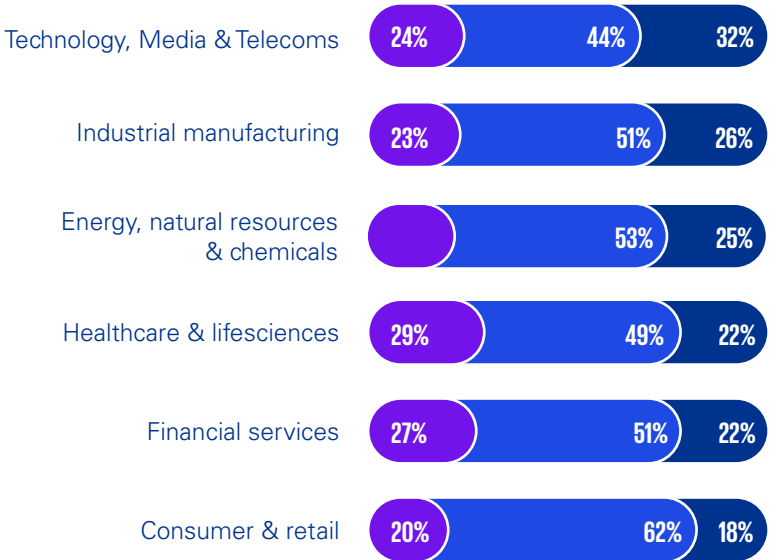


Among regions, surveyed companies in North America are moving at the fastest pace (39 percent), followed by Europe (32 percent) and Asia Pacific (ASPAC) (29 percent).

The larger the company, the more suitable they are to be a Leader in AI-enabled financial reporting. Four in 10 of the largest companies, with revenue of over \$10 billion, are Leaders while less than half that percentage are Leaders at companies with under \$5 billion in revenue.

72%
of companies surveyed are piloting or using AI in financial reporting. In three years, that will increase to **99%** of companies.

Figure 1. Maturity breakdown by industry



● Beginner ● Implementer ● Leader

Figure 2. Maturity breakdown by region

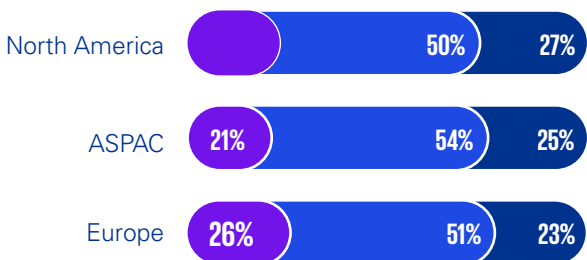
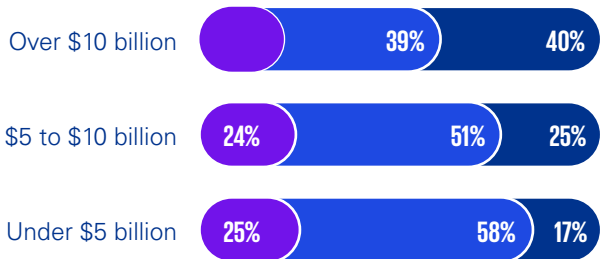


Figure 3. Maturity breakdown by revenue size



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The transformation brought about by AI spans across all industries and regions. No business will be untouched. For financial reporting, this transformation is not just a technological shift, but a paradigm shift, redefining the role of auditors and reshaping the accounting industry as a whole.”

Sebastian Stöckle
Head of Innovation, Global Audit
KPMG International

Broader use of AI within businesses is widespread and attracting considerable investment

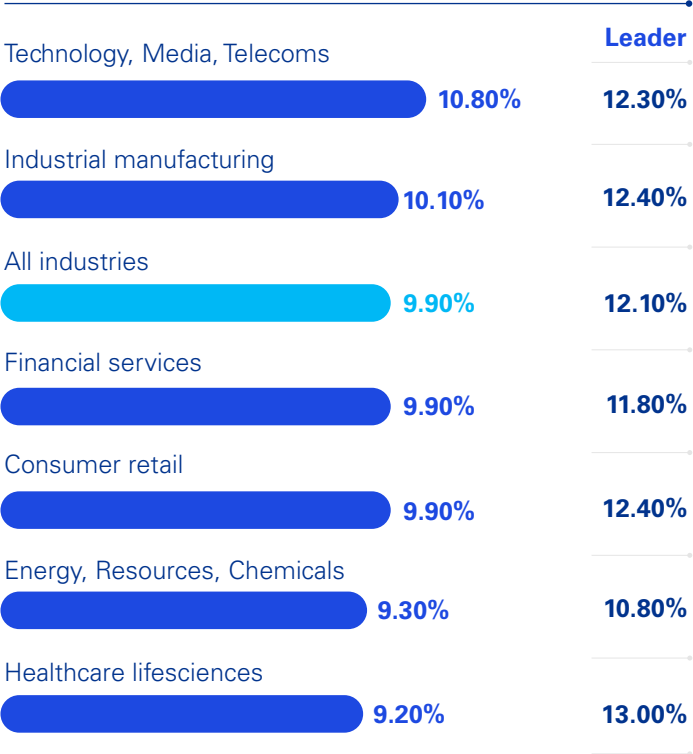
With ‘traditional’ AI such as machine learning or robotic process automation (RPA) used in everyday life for 5+ years now, it is not surprising that almost every business is, at the very least, experimenting with it beyond the financial reporting function. A full 86 percent of companies are now testing or actively using AI services somewhere within their business. Over the next three years, companies are set to move beyond the testing phase, with nearly all companies (99 percent) actively using AI services.

Corresponding with this, AI is already attracting significant investment. Our research shows that AI now accounts for 10 percent of the IT budget for the majority of companies. Investment is set to rise significantly with companies planning to increase their AI investments by 25 percent on average over the next year, and more than half will increase it by 25 to 99 percent over three years. Companies are recognizing the imperative that AI requires investments in foundational systems and processes in order to accelerate digital maturity as a whole.

Generally, companies in technology and telecoms (10.8 percent), manufacturing (10.1 percent) financial services (9.9 percent), and consumer markets (9.9 percent) are spending the most as a percentage of budget, and energy/natural resources (9.3 percent), and healthcare/life sciences (9.2 percent) are spending slightly less. Leaders are also ahead here, spending 12.1 percent of their IT budget on average. Leaders in some industries are spending more, most notably healthcare and life sciences (both 13 percent).

While North American companies now spend more than those in other regions, over the next three years companies in ASPAC and Europe plan to close the gap, boosting AI spending by 42 percent more than North American companies. This is in light of the proposal by the European Union (EU) to create the Artificial Intelligence Act, which is a legal framework for AI. The Act aims to ensure that AI is used safely and respects fundamental rights and values and is part of the EU’s broader digital strategy.

Figure 4. Percentage of company’s budget spent on AI



Boards of directors understand the strategic importance of AI and are taking steps to ensure that it is responsibly used, regardless of region or industry. They see that AI adoption can be a game changer. Tellingly, not a single respondent to our survey said that their board had not taken any AI action.

In most companies (67 percent), the board has developed a company-wide vision and strategy for AI, 61 percent have set up a governance structure and policies for AI usage, and 51 percent met with top management to understand AI activities and plans. Some 47 percent have formed an AI committee, and 44 percent

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A few years ago, a world without spreadsheets felt like an impossibility for any finance professional. Now, while spreadsheets are still a valuable tool, spinning up an AI model to determine the outliers in a huge dataset is almost as easy as opening Excel. Change is moving faster and faster — and finance professionals are embracing it. AI will make everyone’s lives easier as it simply becomes the new normal.”

Aram Falticeanu
Digital Audit Leader
KPMG in the Netherlands

have established AI monitoring mechanisms, such as charging one or more board committees with AI-related oversight.

AI Leaders are ahead in most of these areas, particularly setting up policies and governance — which three-quarters have done. Leaders are also ahead in establishing mechanisms to monitor AI impacts.

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

The focus now is on giving AI activities a real structure with robust governance and controls around them, as well as expanding the domains where AI can be deployed — such as financial reporting.

Harnessing genAI for financial reporting has become a top priority

GenAI is a relative newcomer — but we find that companies are hurrying to implement it in their financial reporting processes: 30 percent of companies are piloting genAI, 11 percent are already implementing it, and 2 percent are widely adopting it. Leaders are racing ahead, with 30 percent selectively and 8 percent widely adopting genAI. US companies are fast out of the box: 15 percent have adopted genAI vs. 11 percent for all.

Companies plan to accelerate adoption significantly over the next three years: 57 percent of companies will be implementing genAI for financial reporting — and 75 percent of Leaders. All industries will be embracing the use of genAI over the next three years — with more than half of companies in all industries planning to have selectively or widely adopted genAI for financial reporting.

Indeed, our analysis shows that companies will prioritize using genAI for financial reporting more than any other technology. Almost half (47 percent) will prioritize the use of genAI for financial reporting, with data and analytics, a related activity, at 44 percent.

This is higher than their priorities for other technologies, such as process mining (39 percent) cloud (36 percent), and blockchain (34 percent). When asked when/whether they expect genAI to become commonly used in the audit, almost 100 percent of respondents think that it will — with the highest percentage (40 percent) expecting it within the next 1-2 years.

We can expect genAI to bring significant value-adding capabilities in the financial reporting environment. GenAI offers some compelling benefits over traditional AI, in large part due to its 'literacy'. With traditional AI, the applications will only search for and find exact terms which often need to be 'hard-coded' into them. But with genAI, because models have been trained on the way that humans speak, applications can find similar terms with the same meaning and present findings back that are relevant due to the context in which they are used. This makes genAI a powerful search tool, comparison engine, summarizer, and anomaly detector.

GenAI offers another critical advantage — the ability to create new content, analysis, and ideas. For example, genAI can create audit reports from its analysis of data and tailor them to the needs of different stakeholders. And it does this with an interface designed to be simple and intuitive, making genAI more widely accessible to executives without deep technical skills.

These are just some of the reasons that companies will prioritize using genAI — along with data and analytics — for financial reporting more than other technologies over the next year. Both are crucial, since to make the best use of genAI, companies will need to build their own large language models using internal financial data.

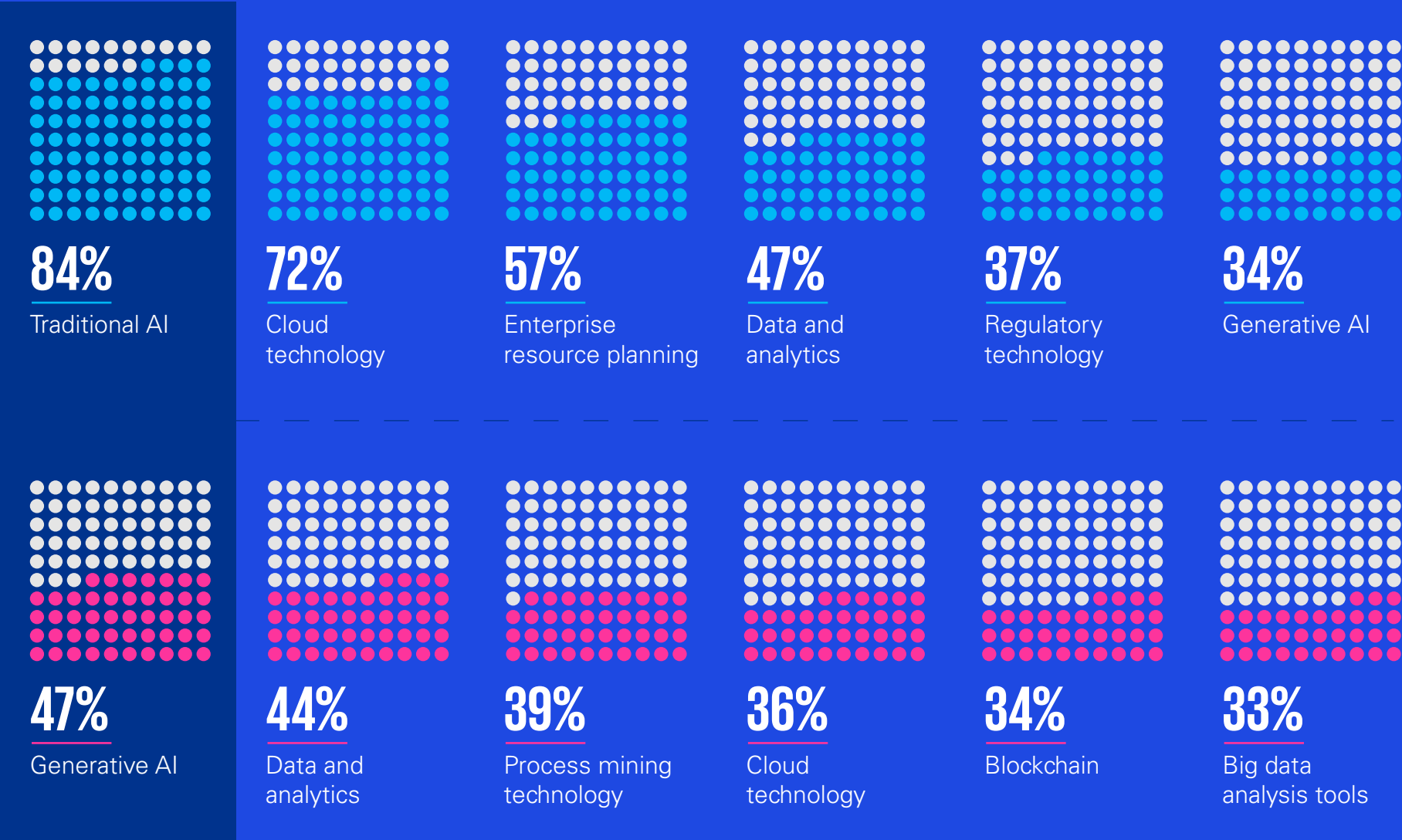
For most companies, data and analytics are the top priority, but for Leaders, it is genAI. Financial services companies also put genAI first, while data and analytics is a higher priority for most other industries. The use of genAI can provide a competitive edge in the financial industry by enabling quicker and more accurate financial reporting, risk assessment, fraud detection, and personalized customer services.

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With the advent of genAI, the entire ecosystem will evolve — requiring staff training and support, data management strategies to ensure compatibility and interoperability, investment in advanced analytic tools, and strong risk management processes to use genAI responsibly and without bias. A system of continuous monitoring and improvement will be needed as the technology develops and the journey gathers pace.”

Elenie Carey
Chief Technology Officer
Audit and Assurance
KPMG in Australia

Figure 5. Top technologies currently used by Leaders to enhance financial reporting





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



Businesses are looking to their auditors to lead the AI transformation due to their deep understanding of financial reporting processes and ability to identify areas where AI can add the most value. By understanding the value that advanced AI can bring to the audit process, we are able to provide more in-depth insights into the financial health of an organization and protect the growing needs of businesses, investors, and audit professionals.”

Matt Campbell,
Chief Technology Officer, Audit
KPMG in the UK

Just as AI has compelling applications in the financial reporting process, so too it brings powerful new capabilities to auditors — and businesses expect their audit companies to be in the vanguard of embracing and using it. Over three quarters of companies believe that the use of AI is moderately to very important for their external auditors to use, along with automation and data analytics, which go hand in hand with the adoption of AI. Importantly, the board of directors would like to see auditors embrace this use of AI.

These percentages are even higher for the board of directors, which understand the value of AI and expect their auditors to use it. Almost two-thirds (63 percent) believe auditors should prioritize AI for identifying risks and anomalies and 60 percent would like it to be used to support risk mitigation and internal controls.

The lion's share of companies (82 percent) believe that their auditors are ahead or equal with them in the adoption of AI for financial analysis. Another 85 percent believe their auditors understand their company's use of AI for financial reporting moderately to very well, with over half saying well or very well.

Interestingly, we find a link between AI Leaders and audit companies who have a good AI understanding. Nearly two-thirds (65 percent) of AI Leaders say their auditor understands their use of AI well or very well. Whereas half of Leaders (vs. 40 percent of others) say that their auditors are ahead of them in using AI. This suggests there is a 'virtuous cycle' of AI learning that occurs between companies and auditors with superior knowledge of AI. Auditors with AI knowledge can help companies towards becoming AI Leaders and companies that are AI Leaders can help their auditors become more knowledgeable about AI.

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Our first experiences tell us that when auditors apply AI in their analysis of a company's general ledger, they speed up their work, begin to obtain predictive analysis and more robust conclusions, and can propose improvements in the client's internal processes to gain efficiency and minimize the risk of errors. AI can be a triple win for companies, auditors and information users. It boosts quality, efficiency and facilitates business decision making.”

Manuel Cortes
Audit Innovation Partner
KPMG in Spain

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



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. Slightly fewer would like auditors to focus on AI for risk and anomaly identification, as well as for risk mitigation and fraud detection.



Develop more proactive, continuous, and predictive processes

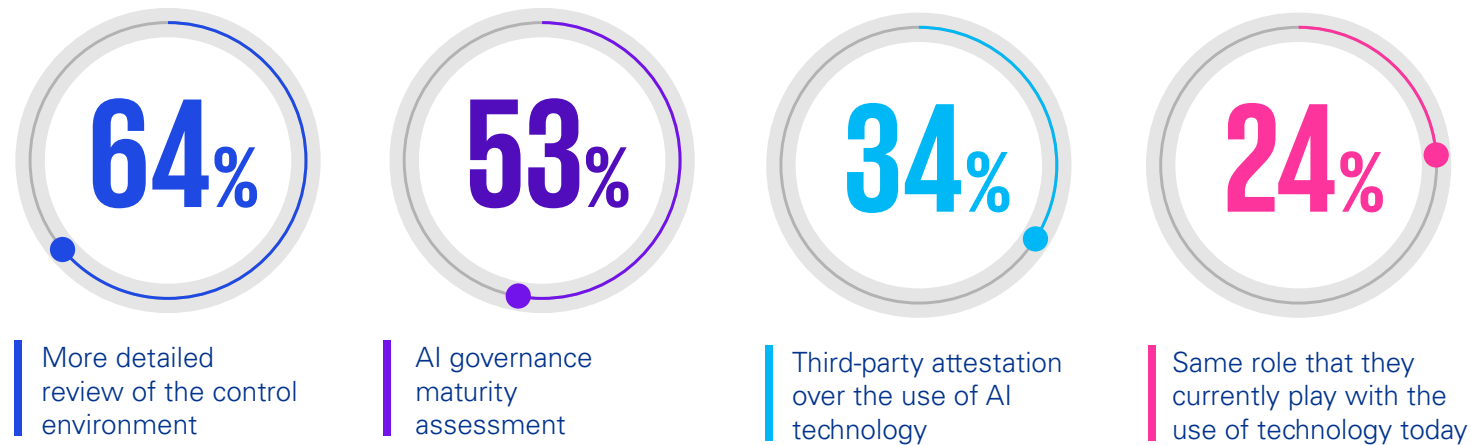
Over half of companies want their auditors to prioritize predictive analysis, and slightly less would like them to accelerate the speed of delivery and deliver real-time auditing throughout the year.



Gather data and value-added audit insights

Many companies expect their auditors to harness AI's ability to analyze vast sets of data and uncover insights that may not be identified through traditional analysis.

Figure 6. What companies expect from auditors in the future



Businesses want auditors to provide assurance and attestation over their AI controls

In the future, companies expect their auditors to have a much more important role in evaluating their use of AI in financial reporting, providing assurance and attestation over their AI controls. Nearly two-thirds of respondents (64 percent) say they expect auditors to have the role of conducting a more detailed review of the control environment in relation to their use of AI in financial reporting. Over half (53 percent) foresee them carrying out an AI governance maturity assessment, while a third expect to ask auditors to provide third-party attestation over the use of AI technology.

Because they are further ahead these figures are slightly higher amongst AI Leaders — 59 percent expect their auditors to perform an AI governance maturity assessment, while 37 percent expect third-party attestation over the use of AI technology. This is an area where KPMG has been investing significant focus, such as creating our [Trusted AI Approach](#) to help guide businesses in their adoption of AI. However, this is an area where regulation needs to move and catch up. For example, there is currently no mandatory requirement within the EU's AI standards for auditors to perform assurance reviews, nor do US regulations explicitly require this. But our survey suggests that this is something businesses, particularly Leaders want and see the value of.

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The introduction of the AI Act by the European Commission represents a turning point in the regulation of artificial intelligence, as was the case for data privacy not so long ago. This regulation aims to promote the ethical use of AI, requiring compliance from all companies operating in the EU by the first half of 2026. Companies need to evaluate the AI Act's impact and prepare for compliance.

Xavier Niffle

Technology and Innovation Audit Partner
KPMG in France

GenAI will take auditing to the next level

Most companies believe that their external auditors will be using generative AI (genAI) as a common practice within less than two years on average. Leaders expect it to happen even faster — in just 18 months.

Companies anticipate that auditors will use genAI in many of the same ways that they are using traditional AI — but do it better, because of genAI’s ability to uncover more complex data relationships and patterns than traditional AI through deep learning. They would most like to see their auditors prioritize the use of genAI for risk mitigation and internal controls, as well as data analysis and quality management, and risk and anomaly identification.

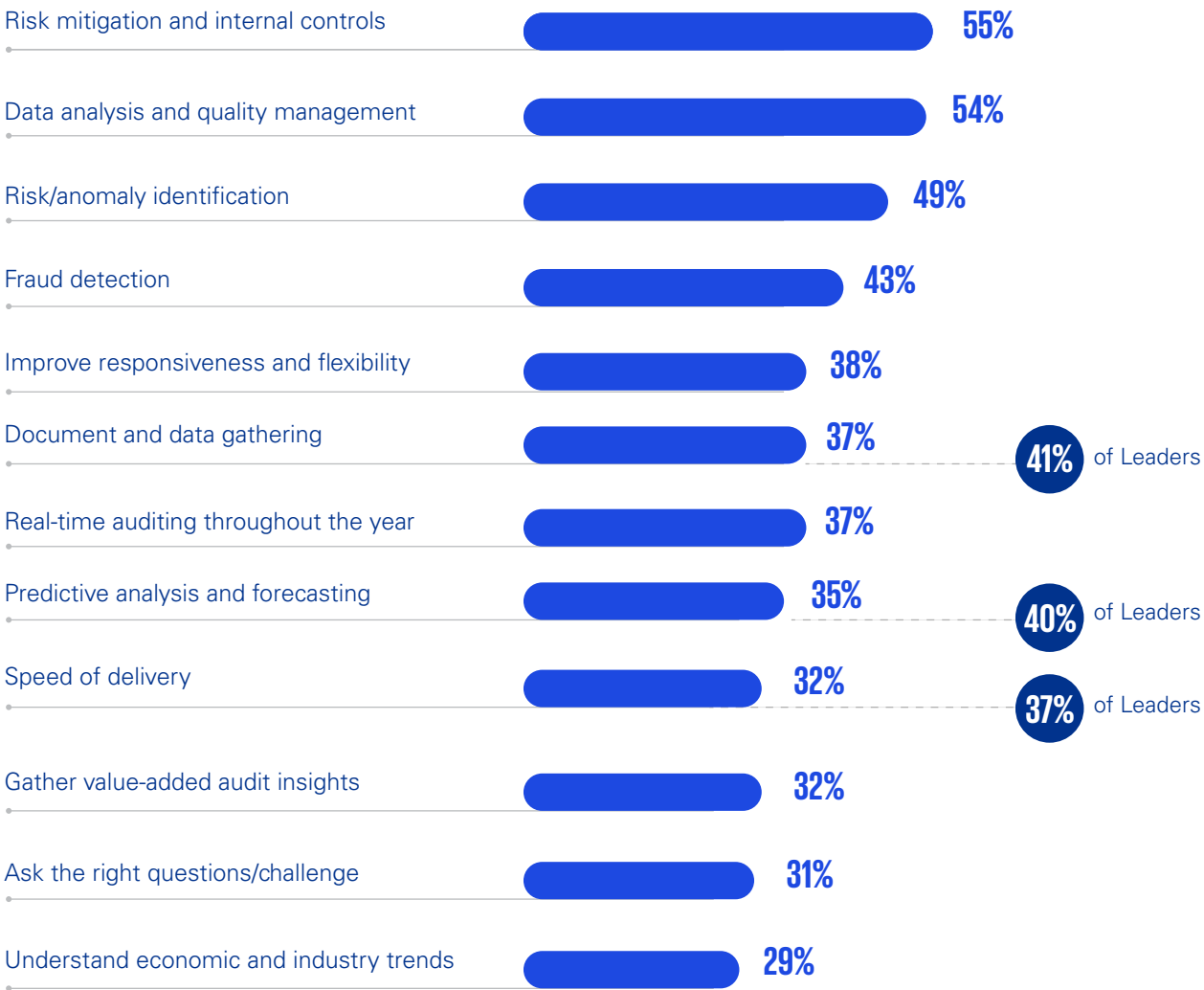
GenAI enables auditors to analyze enormous volumes of data quickly and efficiently, freeing them up to focus on higher-value tasks such as interpreting results and recommending business actions. In addition, genAI can enhance the accuracy and effectiveness of internal control testing by identifying discrepancies or unusual activities that may require further investigation.

Where Leaders see greater value in using genAI

AI in reporting Leaders see greater value than others in having auditors use genAI in several critical ways:

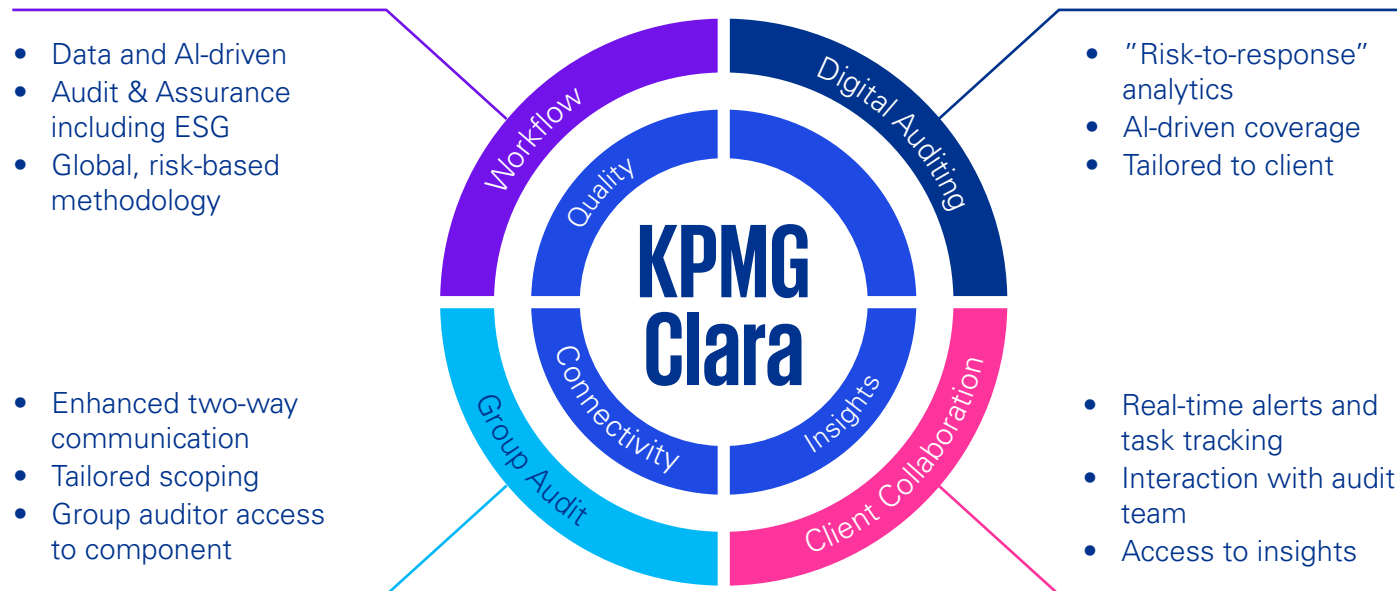
1. **Predictive analysis.** Leaders would like their auditors to leverage the ability of genAI models to adapt continuously to new data and generate scenarios that show potential outcomes and impacts.
2. **Speed of delivery.** Leaders want their auditors to use genAI to identify trends, anomalies, and potential risks in real time, improving responsiveness.
3. **Document and data gathering.** Leaders know that genAI can be particularly effective in document gathering through automated data extraction, document classification and organization, and text analysis and summarization.

Figure 7. Activities that auditors should prioritize for using genAI



KPMG & Microsoft

KPMG and Microsoft help companies accelerate their transformation to unlock greater business value and growth. By infusing data analytics, AI and Azure Cognitive Services into the audit process, through the KPMG smart audit platform KPMG Clara, 85,000 audit professionals who collectively work on hundreds of thousands of audits a year are empowered to focus more closely on higher-risk areas of the audit, sector-specific risks and challenges — to the benefit of both stakeholders and capital markets.



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KPMG is leading the transformation to the next generation of audit with the power of AI. AI already plays a significant role in delivering audits using KPMG Clara. Each year, our 90,000+ auditors in more than 145 countries perform audits on the most complex and important entities in the world — and no two are the same. We are turning this complexity into consistency with the help of AI, bringing a new level of capability to all our audit professionals.”

Larry Bradley

Global Head of Audit
KPMG International

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KPMG has put AI and innovation at the forefront and is significantly advancing the capabilities of auditing and financial reporting to uplevel employee experience and accelerate innovation. With the integration of AI innovations across the Microsoft Cloud, further enhanced by KPMG’s Audit expertise, together we are creating more value and achieving more together as a result.”

Amy Hood

Chief Financial Officer
Microsoft



Example benefits of AI to financial reporting



Companies that embrace AI for financial reporting see a myriad of benefits. Two thirds of Leaders see the top benefits as the ability to predict trends and impacts (65 percent), real-time insights into risks (60 percent), better data-enabled decisions and increased data accuracy (both 57 percent).

At the same time, the use of AI is translating into greater productivity for the financial reporting team, combined with higher talent acquisition and skills development. Over 4 out of 10 companies already report greater employee productivity and efficiency, and in three years the percentage will grow to 6 out of 10.

Similarly, the percentage of companies citing that AI will help their companies attract financial talent rises from 36 percent now to 47 percent in three years. Enhancing skills increases from 32 percent to 42 percent and filling staff shortages from 27 percent to 36 percent.

These benefits accrue over time. Leaders enjoy many more benefits than other companies, particularly for predicting trends (65 percent), increased data accuracy (57 percent), and lower costs (52 percent). They also expect more benefits over the next three years.

Since it is still early days, only 33 percent of companies see high or very high value in the use of genAI for financial reporting. They see greater value in more traditional AI, where they have made the most progress. The biggest value-driver is anomaly detection (65 percent), followed by RPA (58 percent), machine learning (58 percent), deep learning (53 percent), and natural language processing (50 percent). Chatbots (31 percent) and computer vision (19 percent) offer more limited value.

In general terms, each industry finds different value in the use of AI for financial reporting. Financial services companies tend to see greater value than others in anomaly detection, while manufacturers value RPA, and TMT companies tend to prize machine learning.

Leaders are much more likely to have implemented essential best practices in financial reporting that pave the way for AI adoption. These particularly include cloud migration, high quality cybersecurity, standardization of workflows, discontinuation of legacy systems, and paperless bookkeeping.

Standardization of workflows, for example, ensures the consistency, efficiency, and scalability needed to produce accurate, timely, and reliable results and allows for seamless integration with existing processes need to deploy AI. Paperless bookkeeping is essential for the data accessibility and integration needed to leverage AI in reporting and streamlines the data input process.

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Businesses need to invest in AI technologies and upskill their entire organization to get ready for genAI-powered financial reporting and auditing. Technology skills are now essential for all auditors, not solely those specializing in IT.”

Bryant Ramdoo

Partner and National Audit and Assurance Innovation Leader at KPMG in Canada

Figure 8. Companies seeing high or very high value in AI technologies

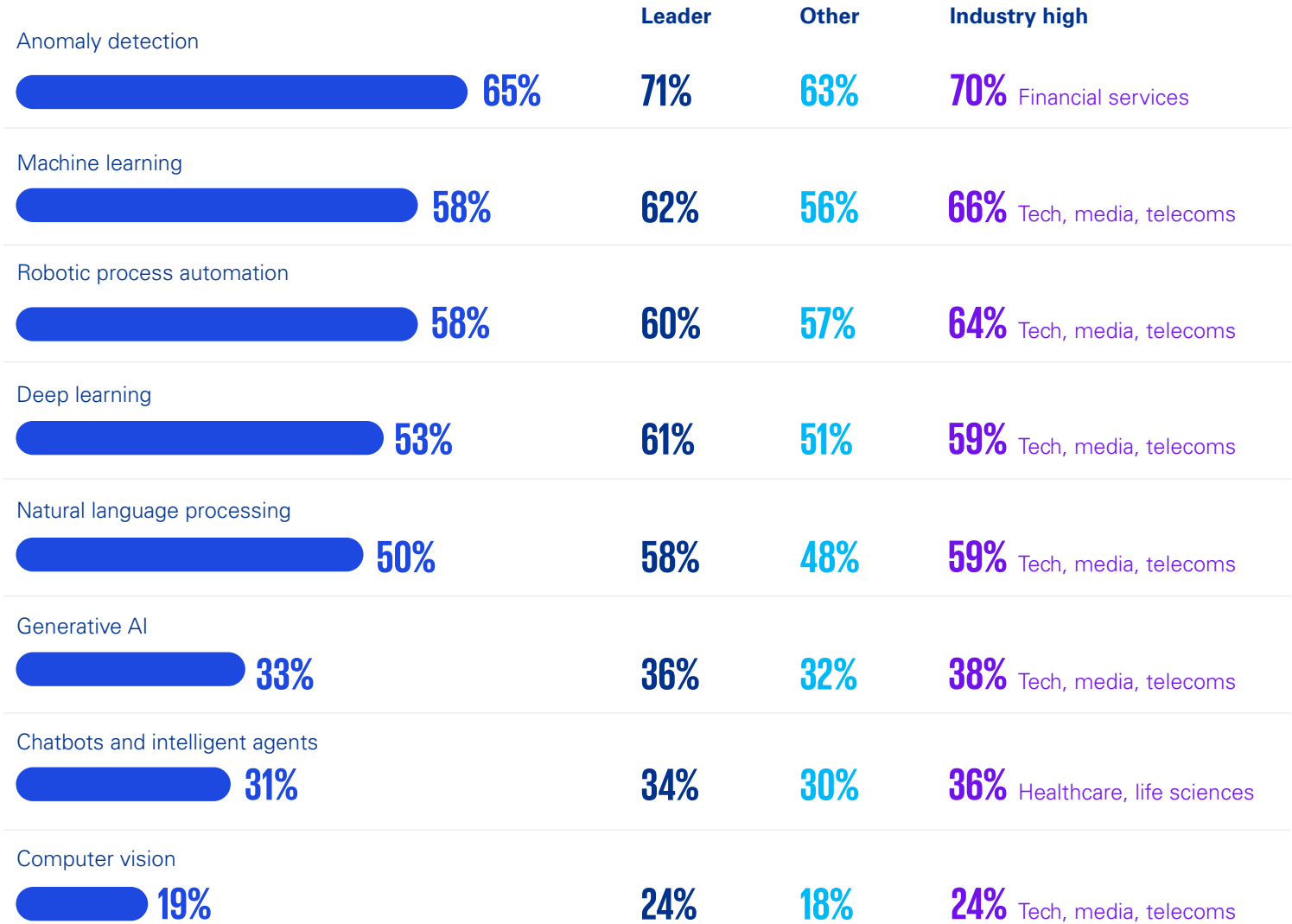
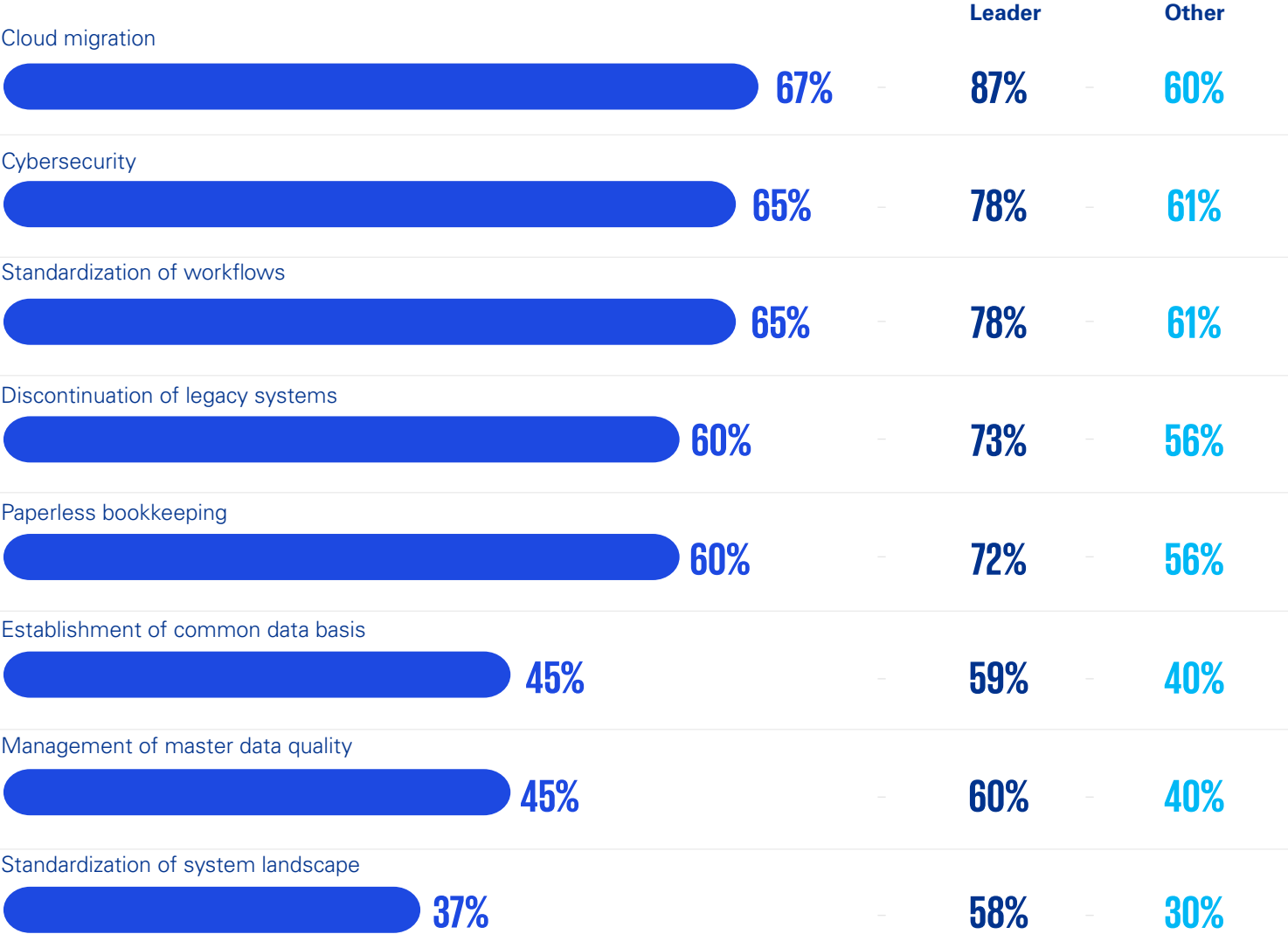


Figure 9. Companies having mid or fully implemented these practices



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AI in financial reporting is a game changer. If anything, its potential has been under-hyped. Looking forward, one of the key benefits it could drive for businesses is the ability to increase their speed to insight. Harnessing the capabilities of AI and genAI, Leaders will be able to create a competitive advantage by providing more frequent updates to the market based on rich, real-time data. Those that can do this may have the potential to attract more capital than those that lag behind.”

Ed Moran
Managing Director
Audit Technology & Innovation
KPMG in the US



Barriers and hurdles — and the risk mitigation strategies to overcome them



Data security, privacy and ethical issues top the list of organizations' concerns

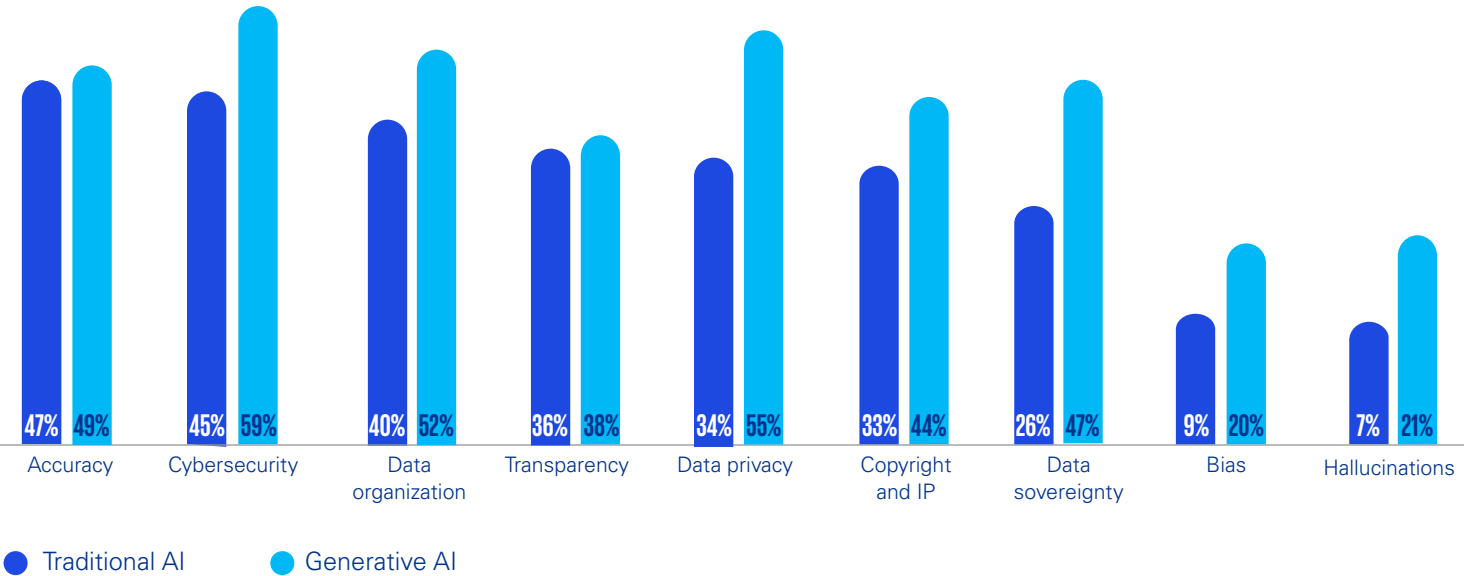
Companies will need to overcome many obstacles as they advance their use of AI for financial reporting. In many ways, these barriers, and the weighting they are given dependent on where a business is in the AI maturity curve, appear to follow a similar trend or 'S curve' to those we have seen in previous technology transformations, such as the move to the cloud — suggesting that they will be overcome as businesses develop their operating models, controls frameworks and risk mitigation strategies.

When setting out, Beginner companies face major concerns around data security and privacy, which recede to some extent as they become more skilled in the use of AI. Limited AI skills and talent (56 percent), poor knowledge of AI technology (51 percent) and uncertainty regarding the best AI use cases to prioritize (41 percent) are also taller hurdles when setting out.

As companies become more advanced in AI-enabled financial reporting, other challenges come to the fore. Uncertain ROI (45 percent), and staff worries about displacement (24 percent) climb as companies become more proficient in their use of AI in reporting. Other challenges, such as keeping up with regulations (42 percent) and the risk from no human oversight on algorithms (40 percent), stay constant across different tiers of AI development.

The biggest concerns companies have around the use of traditional AI in financial reporting and auditing are around accuracy (47 percent), cybersecurity (45 percent), and data organization and management (40 percent). More companies have concerns about genAI than traditional AI. Copyright and IP (44 percent), cybersecurity (59 percent), data privacy (55 percent), and hallucinations (21 percent vs 7 percent) are much larger concerns for generative AI.

Figure 10. Areas of large concern for companies regarding AI and genAI



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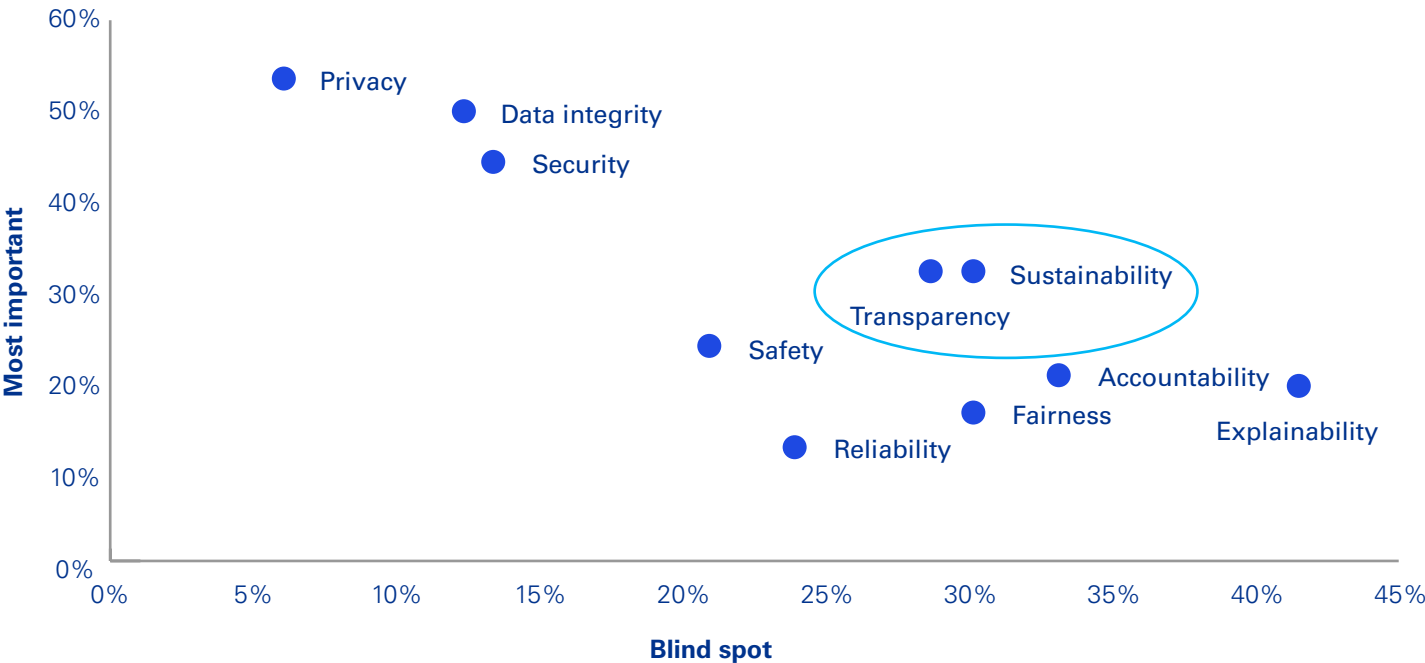
Adopting AI presents challenges like data privacy or accuracy. However, its benefits, such as improved efficiency and decision-making, make it worthwhile. AI should be seen as a tool to enhance our capabilities and drive organizational success.”

Keith Stafford
Audit IT Partner
KPMG in Ireland

More than half of Leaders have also implemented less common practices such as establishment of common databases management of master data quality, and standardization of the system landscape, where they are particularly ahead of others. All of these make it easier for AI algorithms to access and analyze financial data from multiple sources, for example.

But the evidence suggests that companies are not giving other important attributes enough attention. For example, the sustainability of AI application (its impact on carbon footprint) is a very important attribute for 31 percent of companies, but also a blind spot for 29 percent. Similarly, transparency is a very important attribute for 31 percent of companies, but a blind spot for 28 percent.

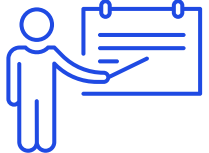
Figure 11. Most important attributes for AI adoption, correlated with biggest blind spots



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The effective use of AI depends upon robust data management — and this can be a barrier to many companies. Businesses need to establish strong data infrastructure, make sure they are collecting the relevant data needed, and enable it to flow across the organization. Businesses that achieve the ‘democratization’ of data in this way will be well-placed to proceed on their AI in financial reporting journey.”

Keiichiro Jimbo
Digital Innovation Partner
KPMG in Japan



Learning from the Leaders — four key traits for AI maturity

Our maturity framework identified a clear set of Leaders that are more advanced in their deployment of AI in financial reporting. Leaders have four key traits that set them apart from other companies, which should be looked at as guidance when navigating your AI in financial reporting journey:

1. Leaders construct frameworks to reduce and manage potential AI risks

These Leaders are deriving increased benefits and value from their investments in AI, and managing the risks through effective governance structures and frameworks.

AI Leaders shed light on best practice in AI governance. More Leaders than Beginners have adopted an AI framework to guide implementation. In addition, they are far more likely to procure third-party controls and assurance over AI processes, include risks and controls within the scope of their financial reporting processes, and request certification or attestation reports.

2. Leaders shed light on how to overcome barriers to AI adoption and use AI to enhance the financial reporting function

AI Leaders also provide insights into how to overcome barriers to AI adoption. Most of them ensure that technology leadership is involved in systems integration discussions to promote AI enablement. A similar percentage develop principles on how to use AI. More than half incorporate the impact of AI into training programs and 42 percent pilot AI initiatives to validate ROI.

3. Leaders recognize the importance of the use of ethical AI and work to mitigate genAI concerns

AI Leaders understand better than others how the right business practices will be most effective in ensuring the ethical use of genAI.

They particularly stress the need for regular audits for identifying and addressing ethical issues as they arise, since genAI is still a work in progress. At the same time, they put ethical frameworks in place to ensure the proper use of genAI, and they create educational and training programs to promote a culture of responsibility.

But they don't stop there. They do more to ensure human oversight of genAI practices and back that up with third-party reviews. Leaders also focus more on collaboration and regulatory adherence. By collaborating with experts on genAI ethics and stakeholders, AI Leaders stay informed about emerging ethical issues and best genAI practices.

Leaders also take privacy measures, particularly when sensitive data is involved. Moreover, they are more apt to disclose their genAI use to foster trust in their approaches.

4. Leaders implement best practices of AI-readiness

Leaders are also much more likely to have implemented essential best practices in financial reporting that pave the way for AI adoption. These particularly include cloud migration, high quality cybersecurity, standardization of workflows, discontinuation of legacy systems, and paperless bookkeeping.

Standardization of workflows, for example, ensures the consistency, efficiency, and scalability needed to produce accurate, timely, and reliable results and allows for seamless integration with existing processes needed to deploy AI. Paperless bookkeeping is essential for the data accessibility and integration needed to leverage AI in reporting and streamlines the data input process.

Figure 12. Steps companies are taking now to overcome barriers

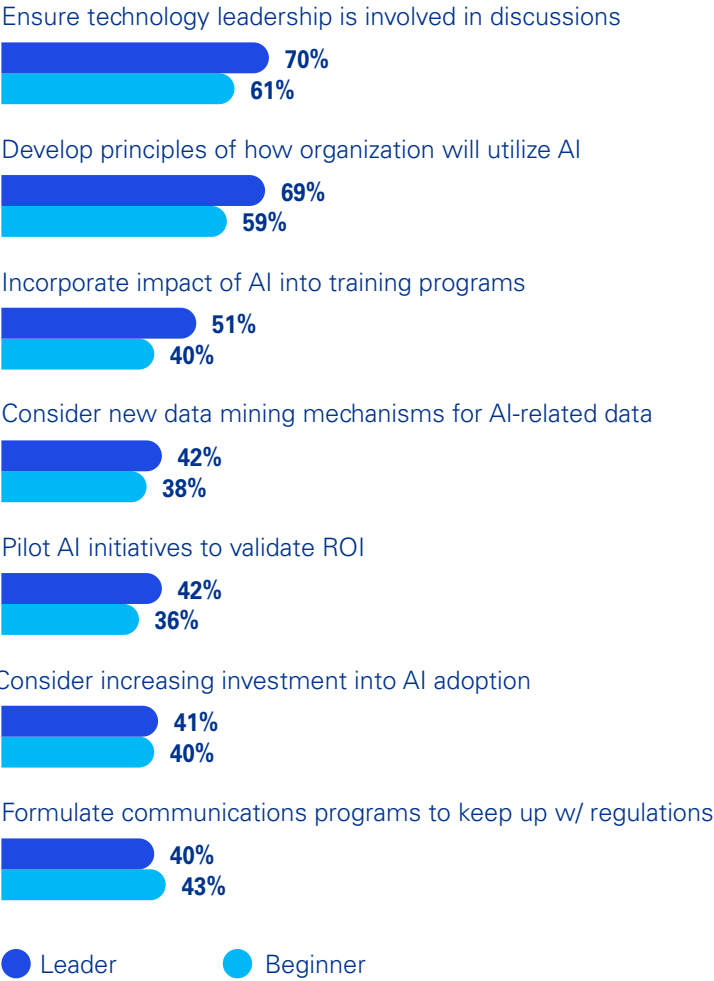


Figure 13. Most effective business practices in ensuring ethical use of genAI

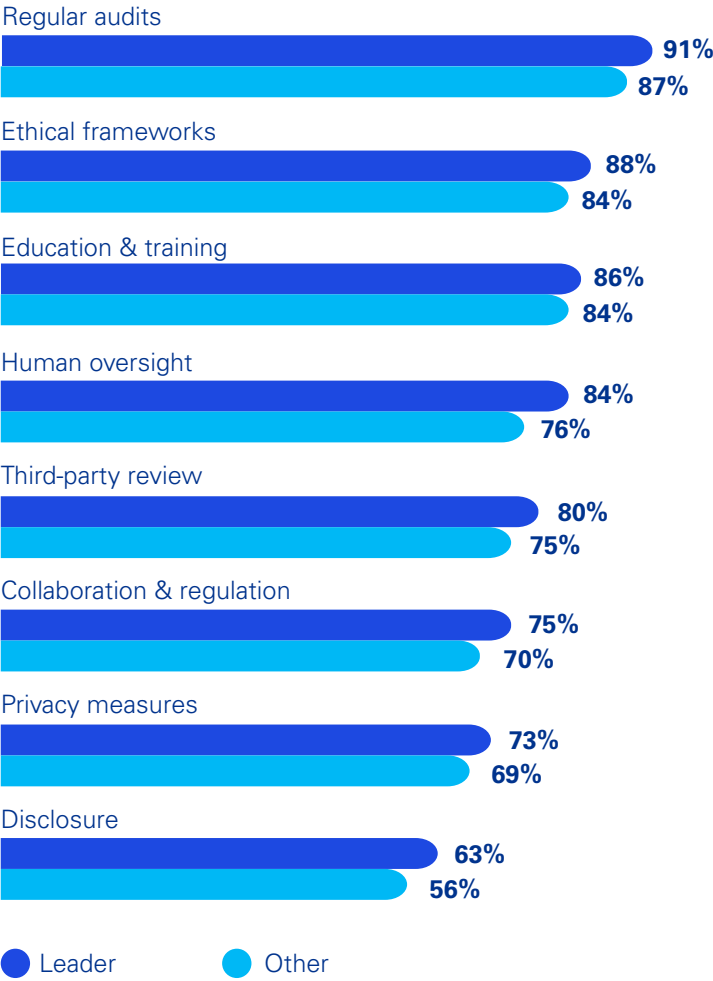
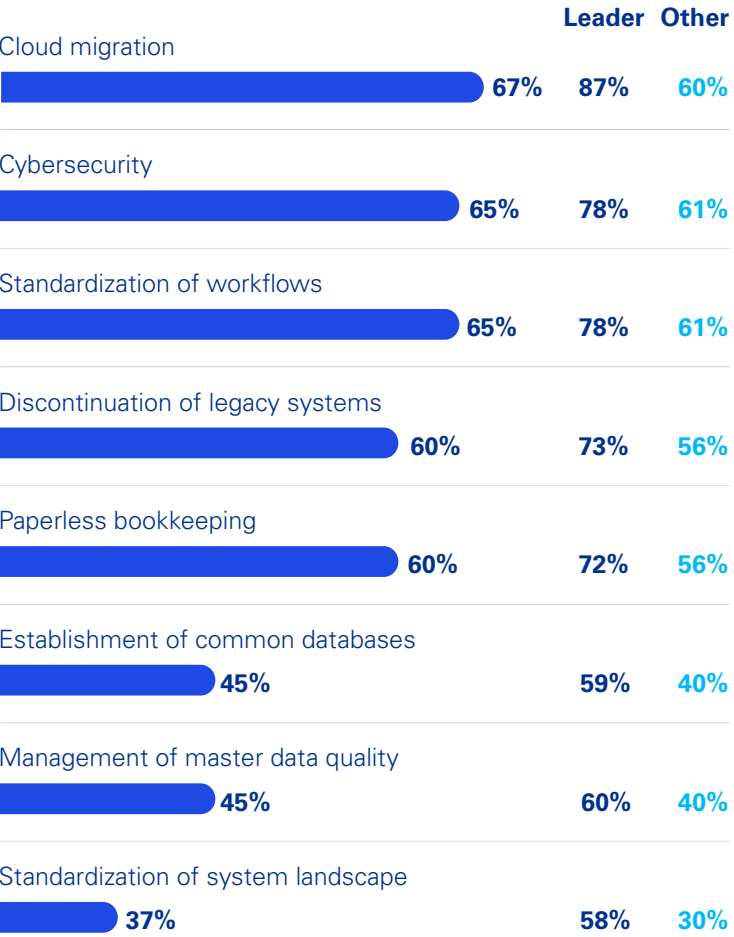


Figure 14. Companies having mid or fully implemented these practices





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

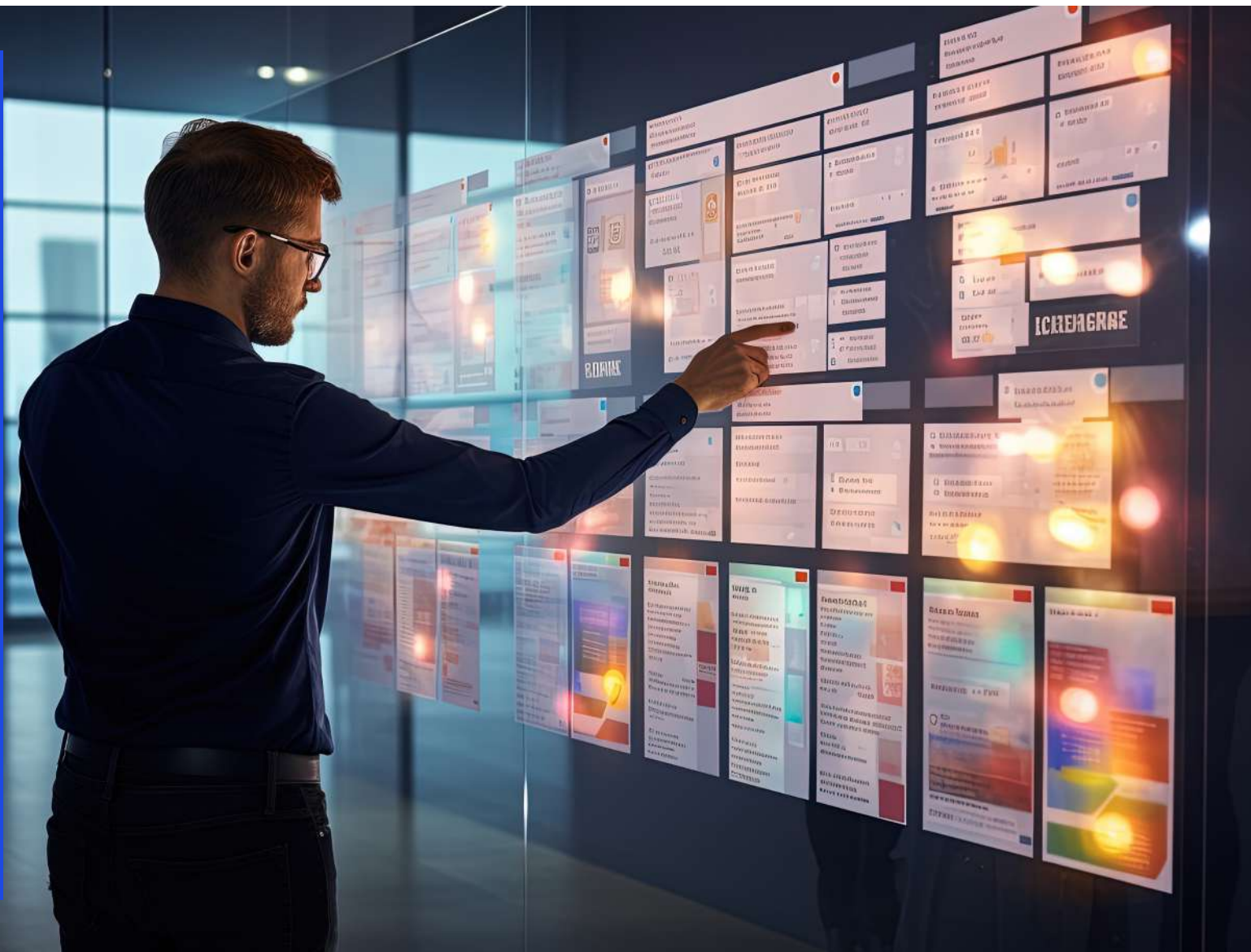
Determine your ambition — How important is AI to your business or financial reporting function? Do you want to be an AI leader in your industry? How do you see your business evolving based on AI? What are the opportunities presented by AI for your company?

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](#), 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.



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