KPMG

2024 Global Financial Reporting and Valuation Conference

Modernizing Finance: The Journey Ahead

—

December 8-10 | Fontainebleau Miami Beach, Florida

KPMG

Governance & Compliance: The CAO Agenda

2024 Global Financial Reporting and Valuation Conference

—

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With you today

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Agenda

01 Technology’s impact on internal controls and auditing

02 Practical examples of analytical tools

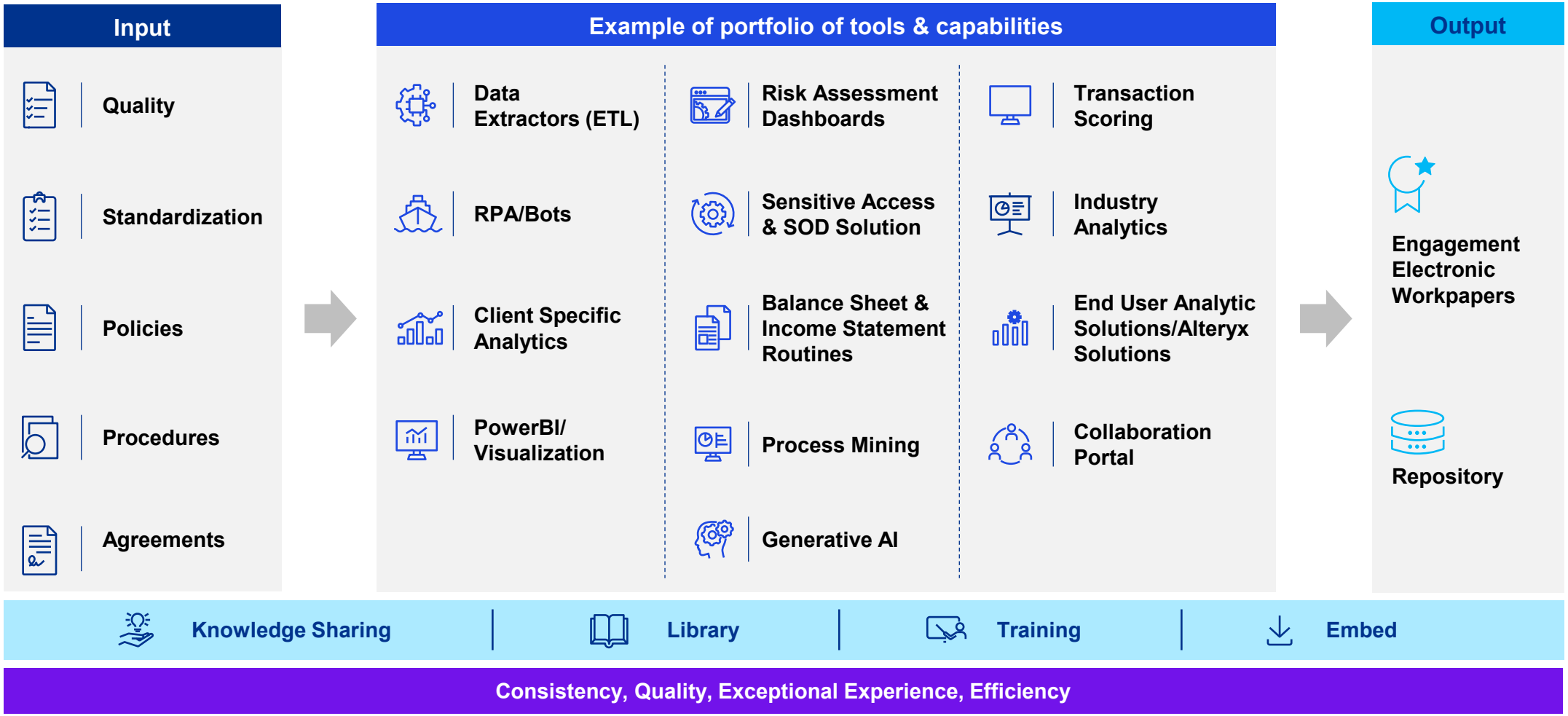
03 The benefits of automation

04 How to get started on your journey

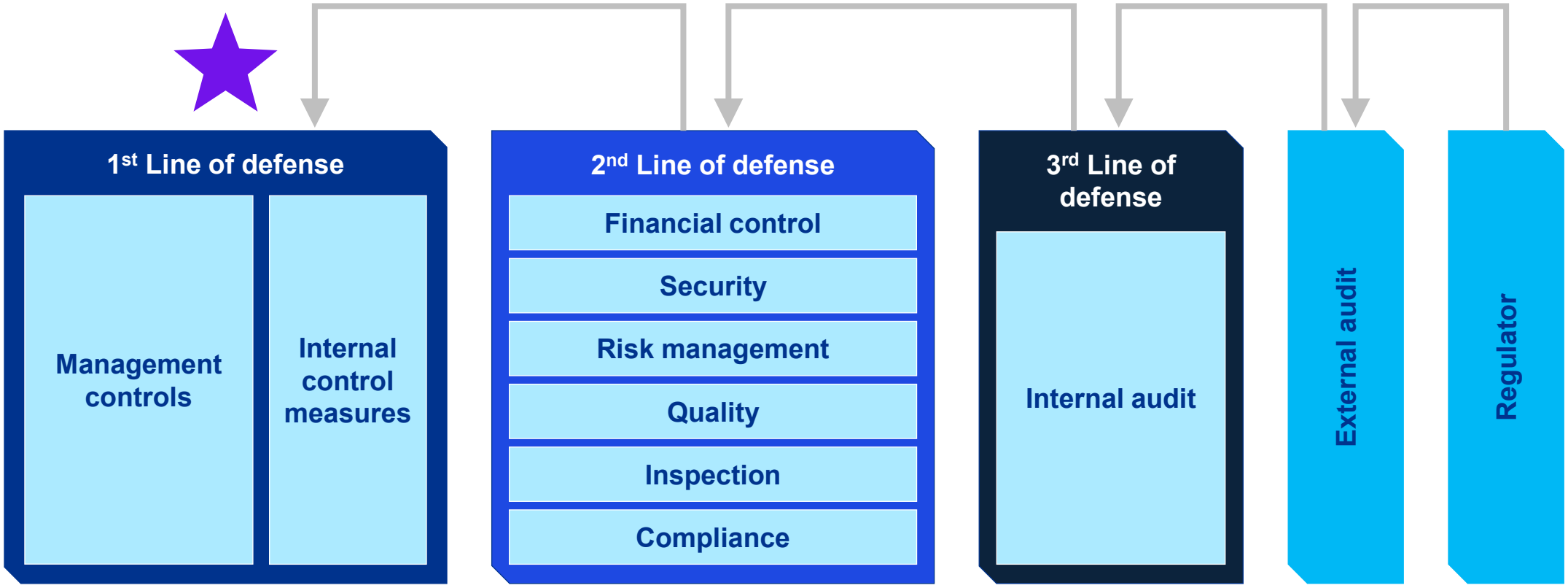
01

Technology’s impact on internal controls and auditing

The new digital auditor's technology toolbox

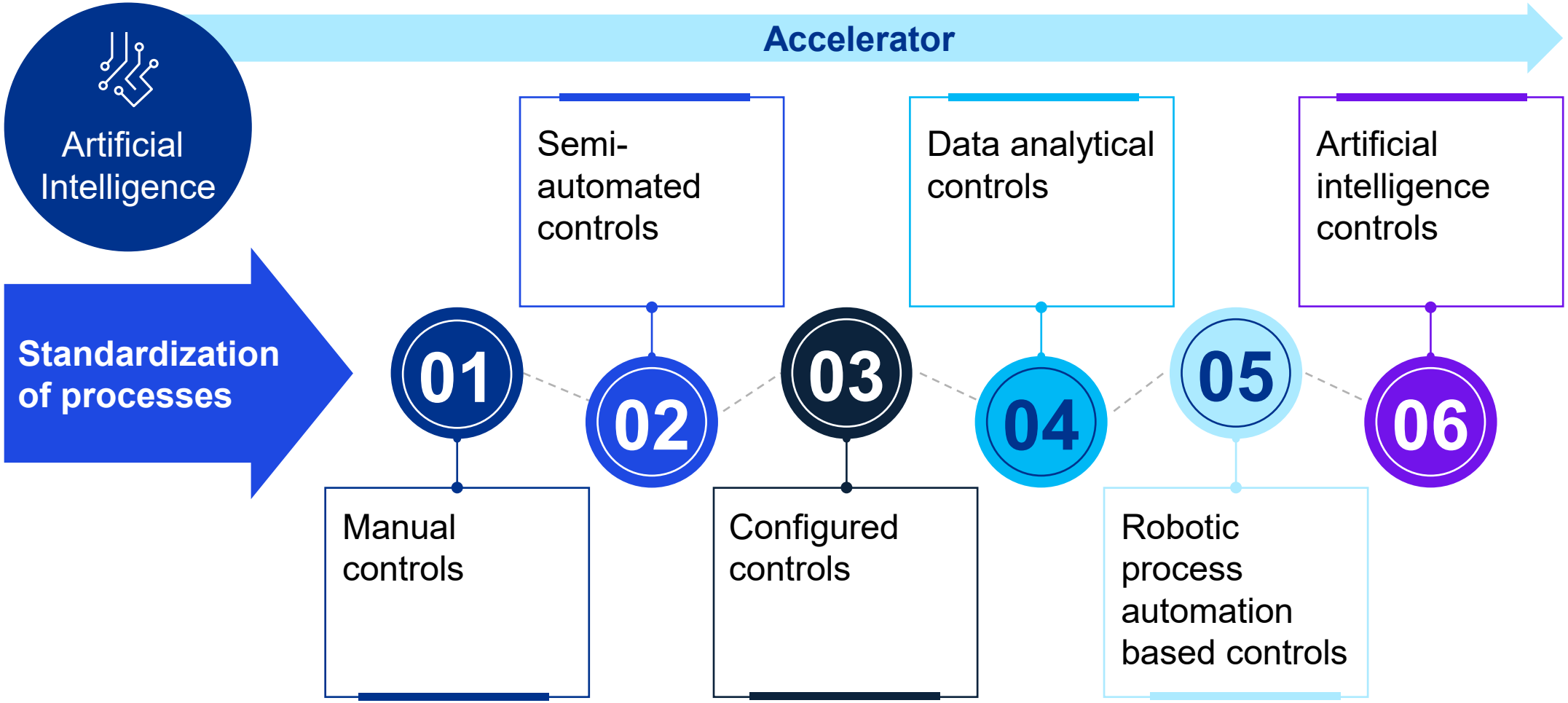


1 SOX function as a control's advisor and driver of change

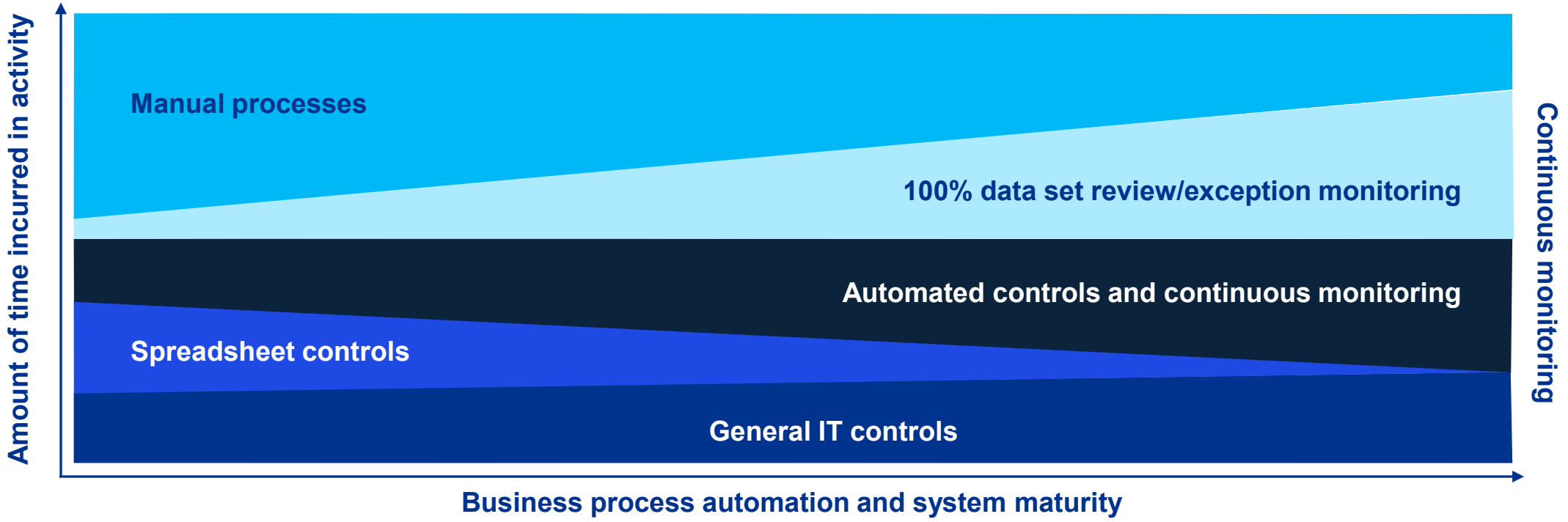


Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

1st line optimization



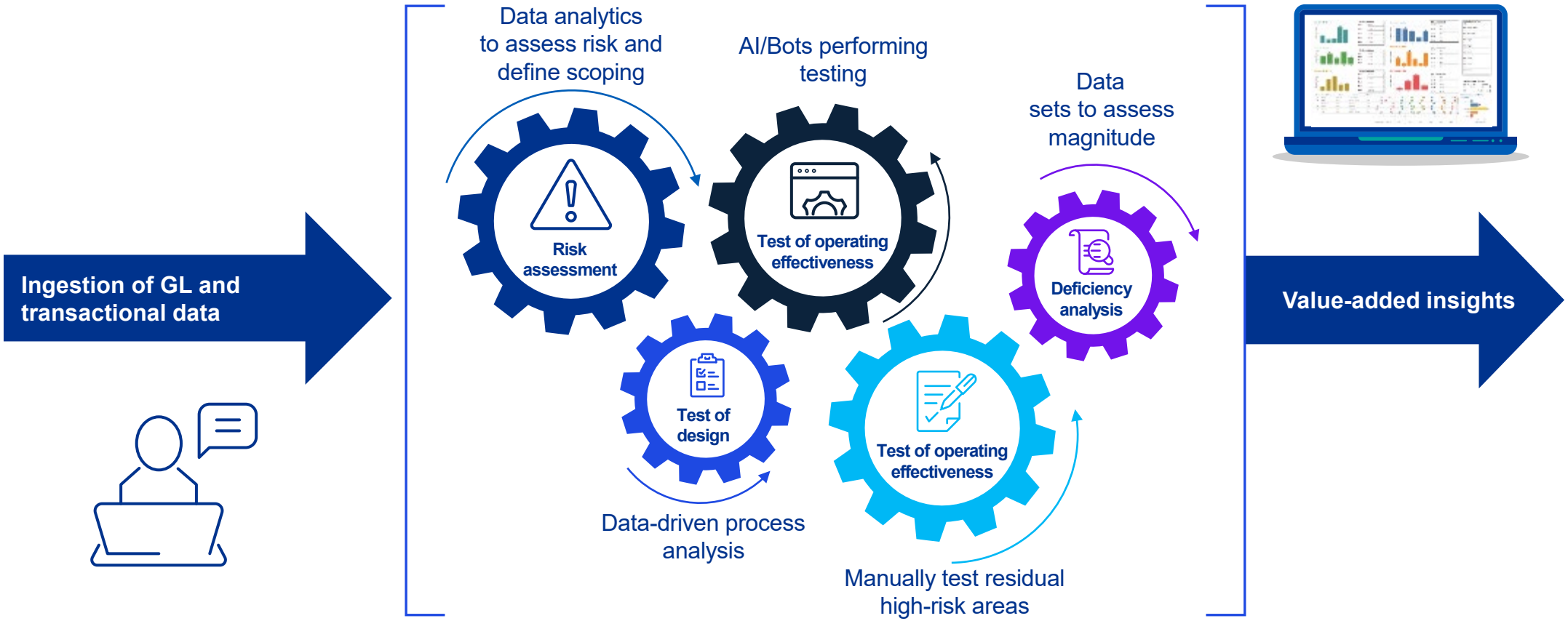
2 The future of controls execution and testing



2 The future of controls execution and testing

The enablement of automation in ICFR testing (2nd and 3rd line)

Tech-enabled and data-driven approach



The benefits of data, analytics, and insights

Use of data analytics continues to be a powerful tool to help assess risk and provide insights to assist management decision-making on process improvements and control effectiveness.

Data Analytics and technology can enable:

Enterprise data is leveraged for risk insights and action

- Aggregating relevant enterprise information
- Automating the flow of information into insights

Audit coverage is broader than ever before, with risk appetite in mind

- Offering visibility to trends across an entire population
- Move from “sample-based” to “exception-based” testing and full population coverage
- Allowing internal audit to target its approach more meaningfully

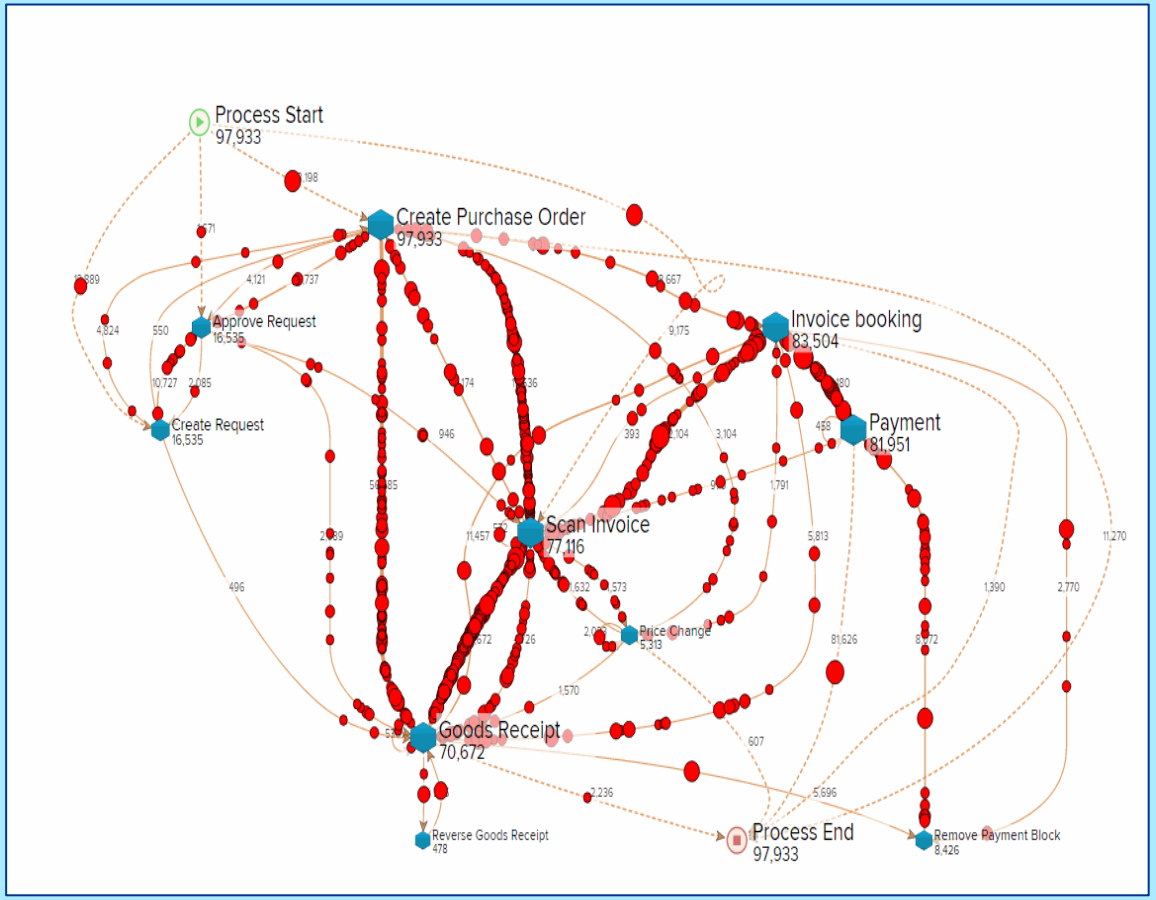
Data driven risk assessment enables smarter decision making

- Leverage risk to help make smarter business decisions with data-driven risk assessment, specific to technology risk domains
- Utilizing data science to better understand and make decisions about risk

Understanding of data flows

Dynamic, Ongoing and Fact Based

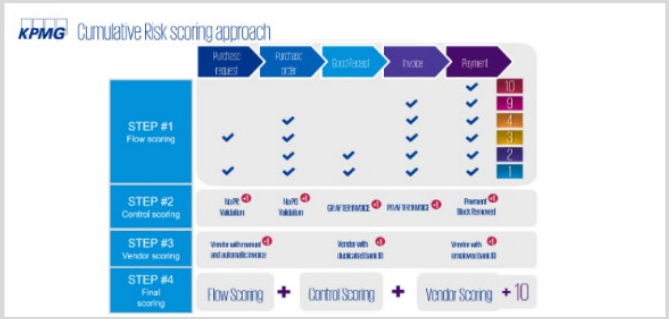
New approach is data driven and gives increased transparency



Process mining applications for Internal controls

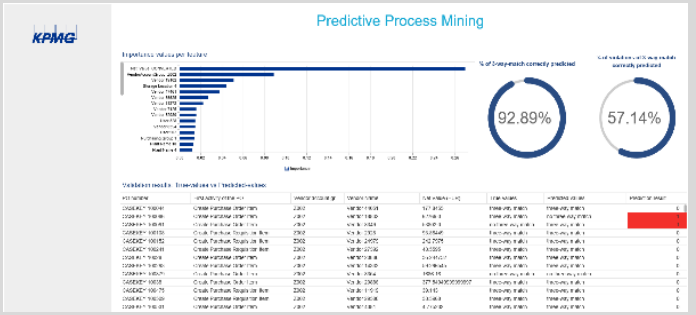
Segregation of duties

Risk analytics

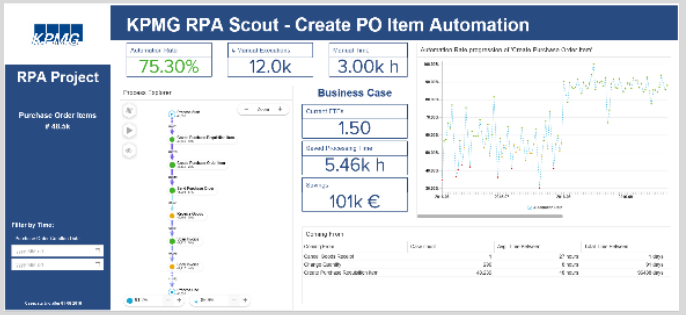


Conformance checking

Predictive analytics



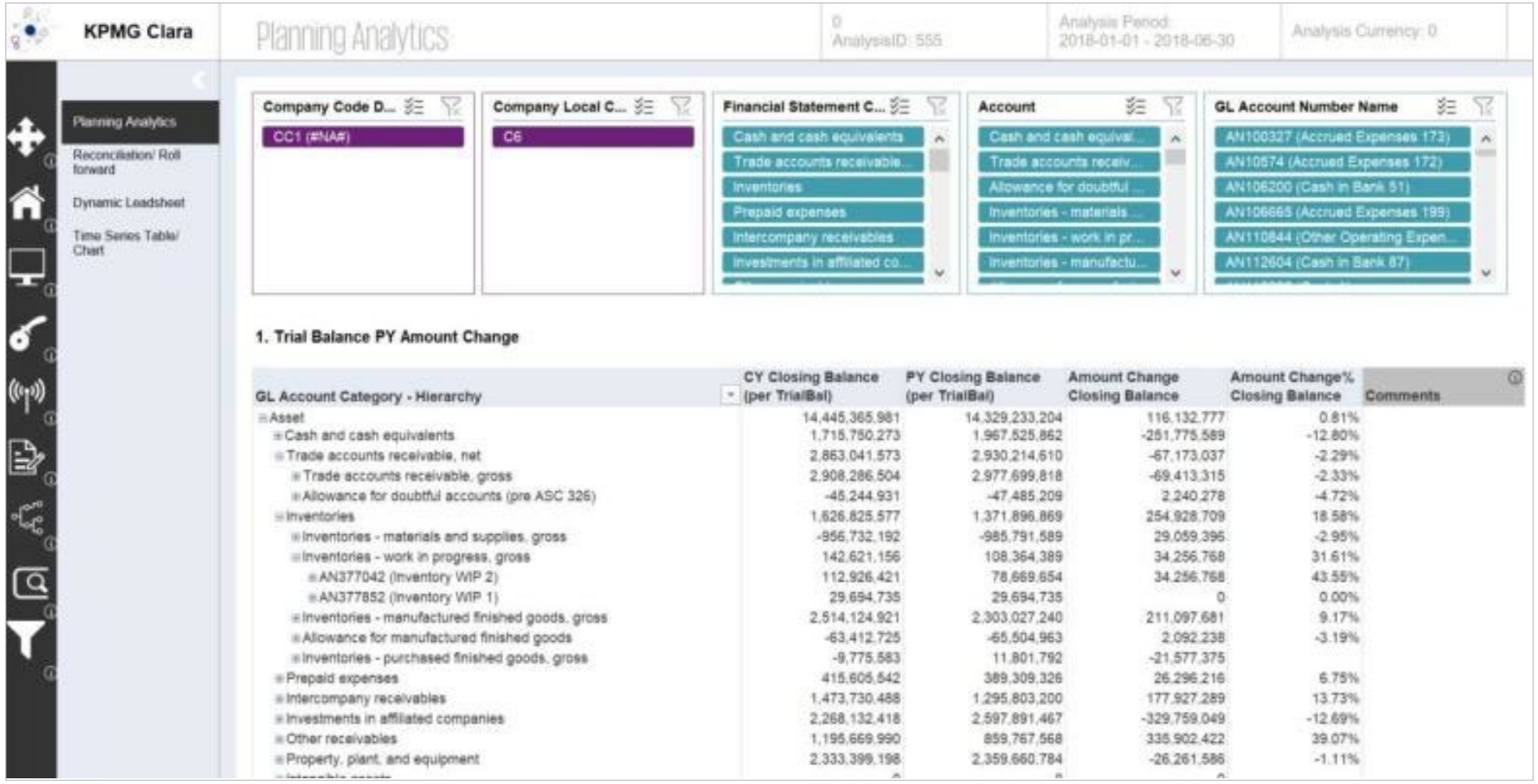
RPA analytics



02

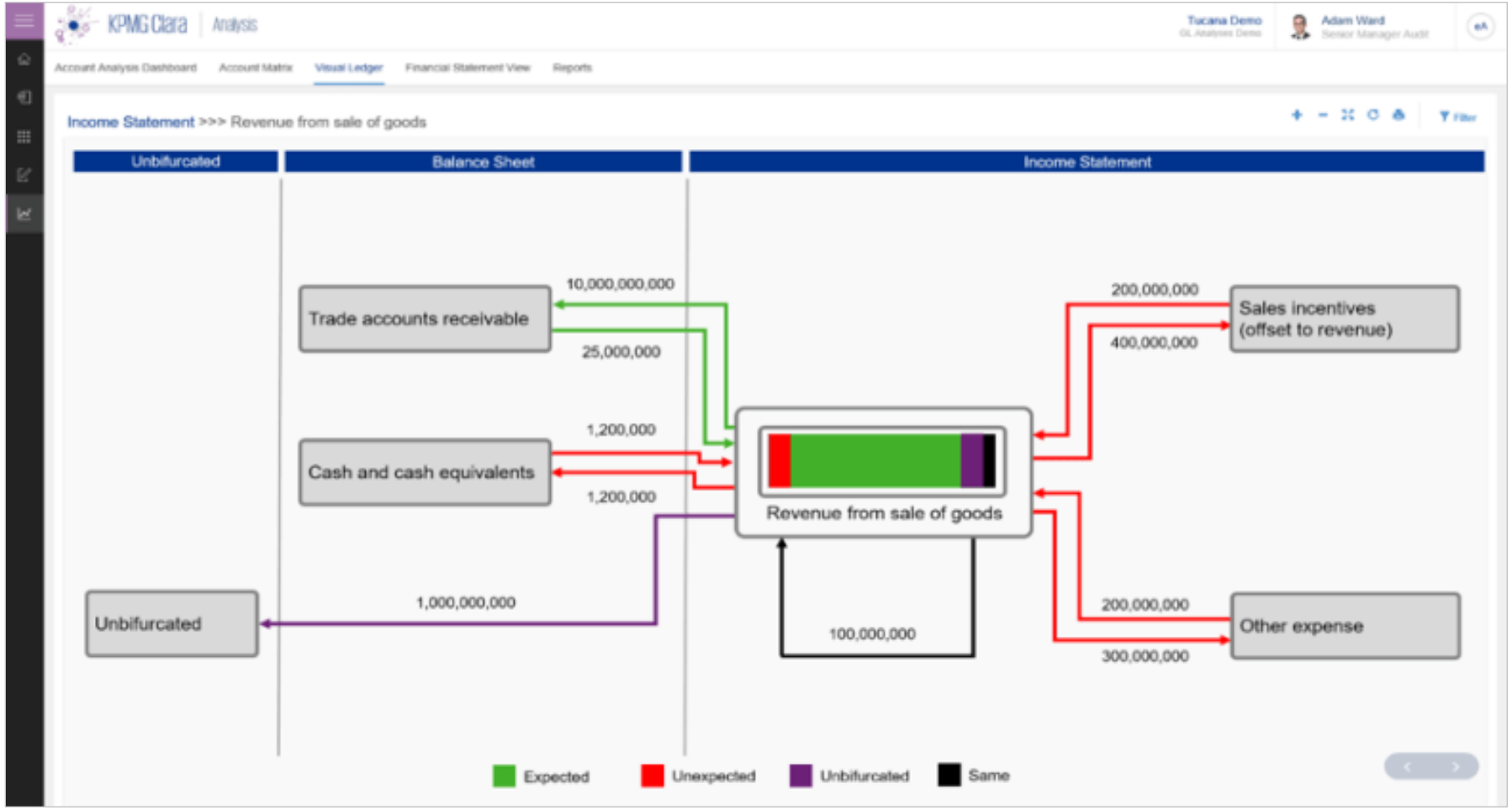
Practical examples of analytical tools

External auditor risk assessment analytics



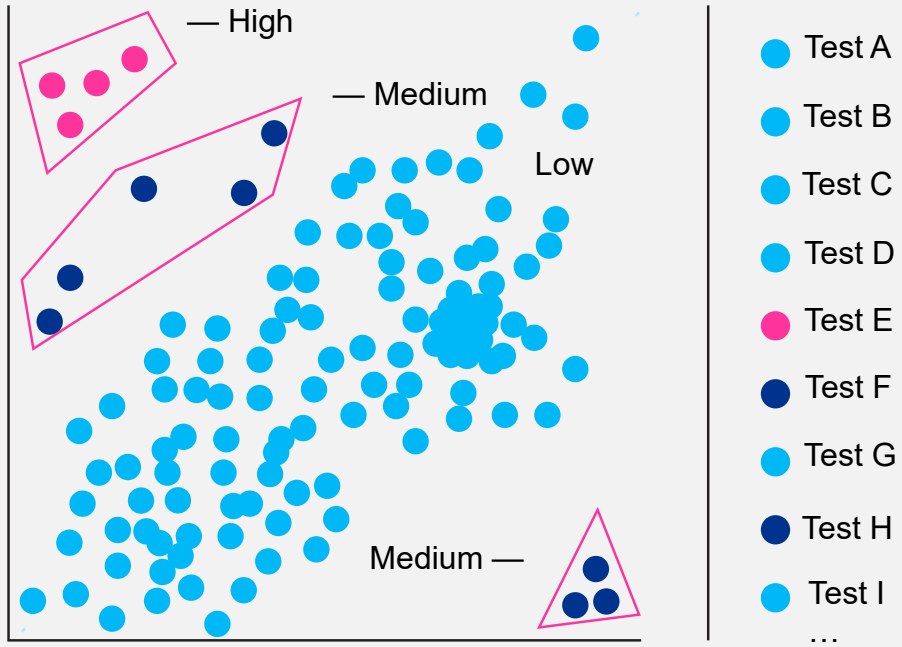
GL Account Category - Hierarchy	CY Closing Balance (per TrialBal)	PY Closing Balance (per TrialBal)	Amount Change Closing Balance	Amount Change% Closing Balance	Comments
Asset	14,445,365,981	14,329,233,204	116,132,777	0.81%	
Cash and cash equivalents	1,715,750,273	1,967,525,862	-251,775,589	-12.80%	
Trade accounts receivable, net	2,863,041,573	2,930,214,610	-67,173,037	-2.29%	
Trade accounts receivable, gross	2,908,286,504	2,977,699,818	-69,413,315	-2.33%	
Allowance for doubtful accounts (pre ASC 326)	-45,244,931	-47,485,209	2,240,278	-4.72%	
Inventories	1,626,825,577	1,371,896,869	254,928,709	18.58%	
Inventories - materials and supplies, gross	-956,732,192	-985,791,589	29,059,395	-2.95%	
Inventories - work in progress, gross	142,621,156	108,364,389	34,256,768	31.61%	
AN377042 (Inventory WIP 2)	112,926,421	78,669,654	34,256,768	43.55%	
AN377852 (Inventory WIP 1)	29,694,735	29,694,735	0	0.00%	
Inventories - manufactured finished goods, gross	2,514,124,921	2,303,027,240	211,097,681	9.17%	
Allowance for manufactured finished goods	-63,412,725	-65,504,963	2,092,238	-3.19%	
Inventories - purchased finished goods, gross	-9,775,583	11,801,792	-21,577,375		
Prepaid expenses	415,605,542	389,309,326	26,296,216	6.75%	
Intercompany receivables	1,473,730,488	1,295,803,200	177,927,289	13.73%	
Investments in affiliated companies	2,268,132,418	2,597,891,467	-329,759,049	-12.69%	
Other receivables	1,195,669,990	859,767,568	335,902,422	39.07%	
Property, plant, and equipment	2,333,399,198	2,359,660,784	-26,261,586	-1.11%	

Analyzing journal entries

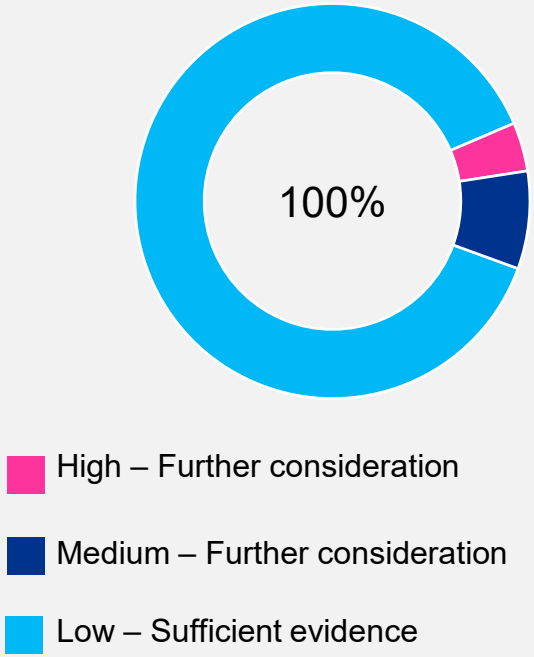


Transaction analysis

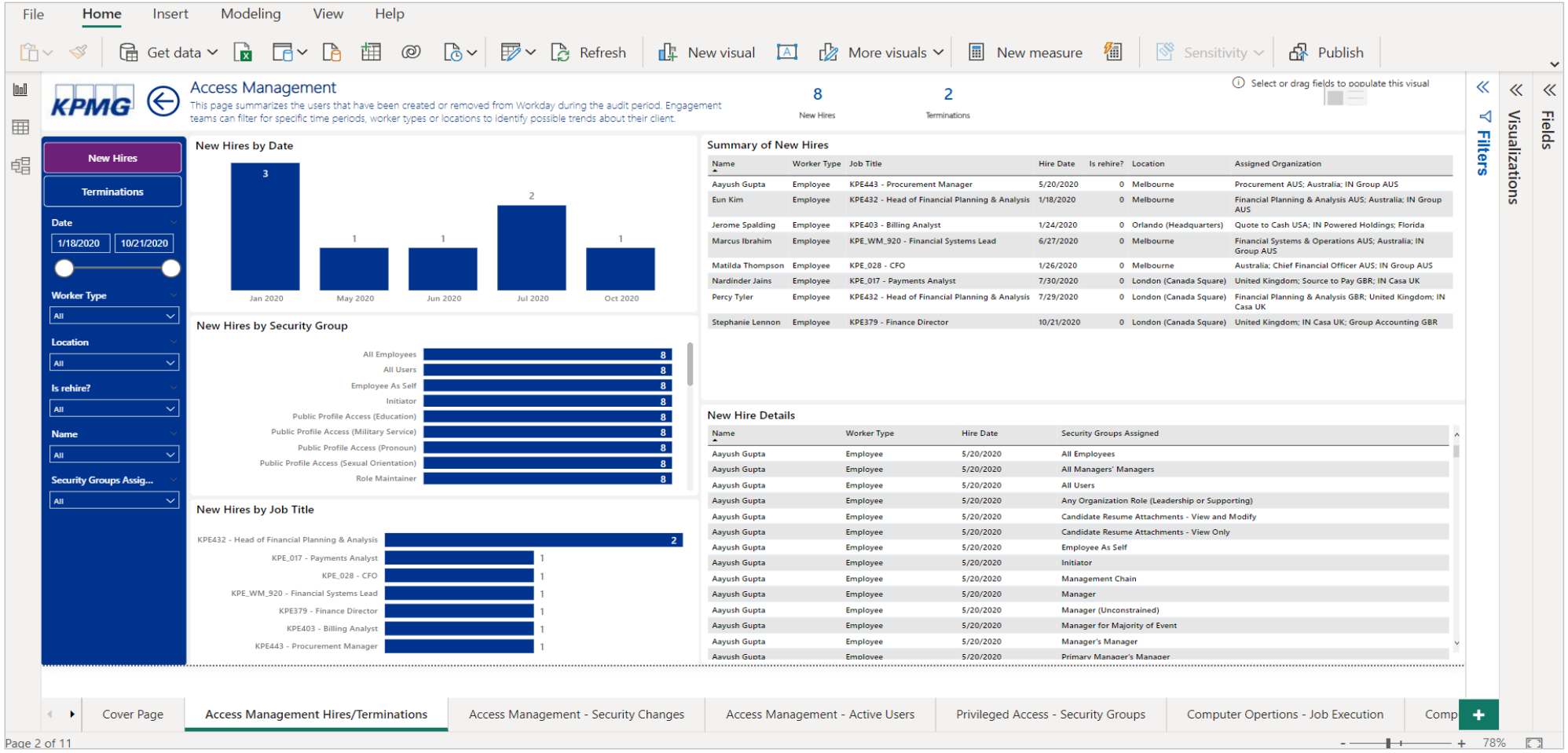
Not all transactions in a population have the same risk profile



Illustrative scoring profiles, actions, and insights



General IT risk assessment dashboard



Continuous control monitoring

1) Extract – Transform

- All relevant data inside ERP systems will be collected daily and consolidated into a central database
- Interfaces to all major systems are available using standard software (e.g. Xalerts)

2) Analytics

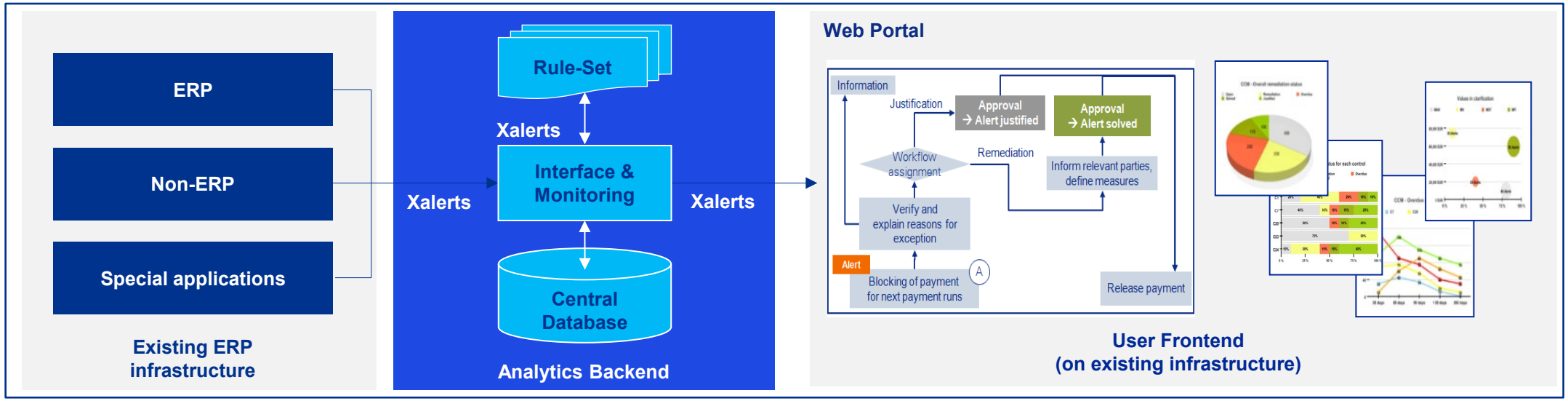
- Daily automatic scan of critical issues (role conflicts, fraud, suspicious trans-actional patterns, etc.) for R2R, P2P, O2C or H2R processes
- KPMG has a large knowledge base including over 1300 standard controls

3) Workflow

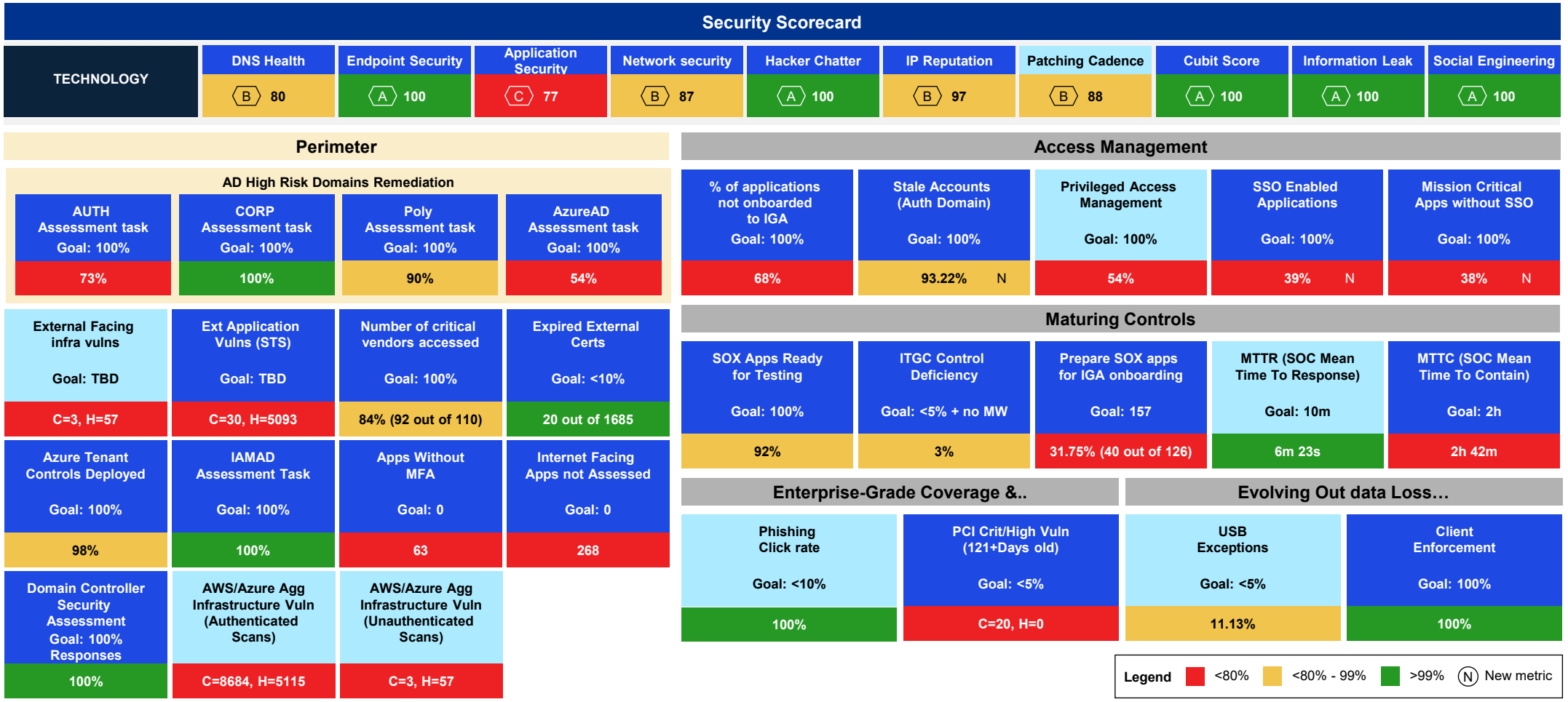
- Critical issues will be forwarded for investigation and remediation
- Self-learning system to minimize false-positives
- High usability through E-Mail notifications, reminder and escalation processes

4) Dashboard

- Provision of customized management dashboards including KPIs and drill-down features for evaluation and reporting purposes



Example continuous monitoring dashboard



03

The benefits of automation

External auditor benefits and objectives of automation

- Analyze the environment at key points in the audit cycle as needed in alignment with standard risks.
- Example: Pre-implementation, Audit Planning, Roll-forward

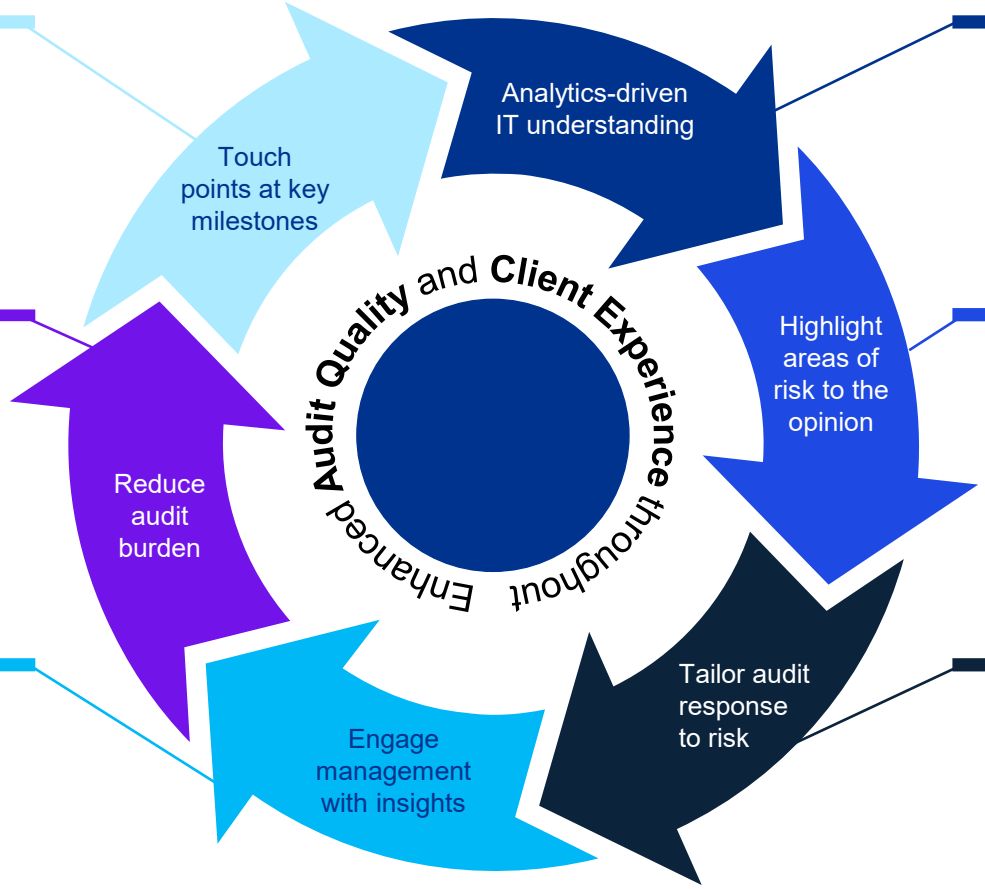
- Gain a fact-based understanding of the environment including number of user, areas of peak activities, and unusual events

- Data is at our professional's finger-tips which will allow them to answer questions that would have historically required a follow-up
- PBCs manually obtained in the past are available to teams by default

- Highlight risk events that are more likely to result in a Significant Deficiency or Material Weakness

- Engage with an informed understanding of the environment
- Eliminate the need to ask “introductory” questions

- Ensure controls are responsive to the risk environment
- Determine if factors exist that would impact our Risk Assessment or nature and extent of procedures

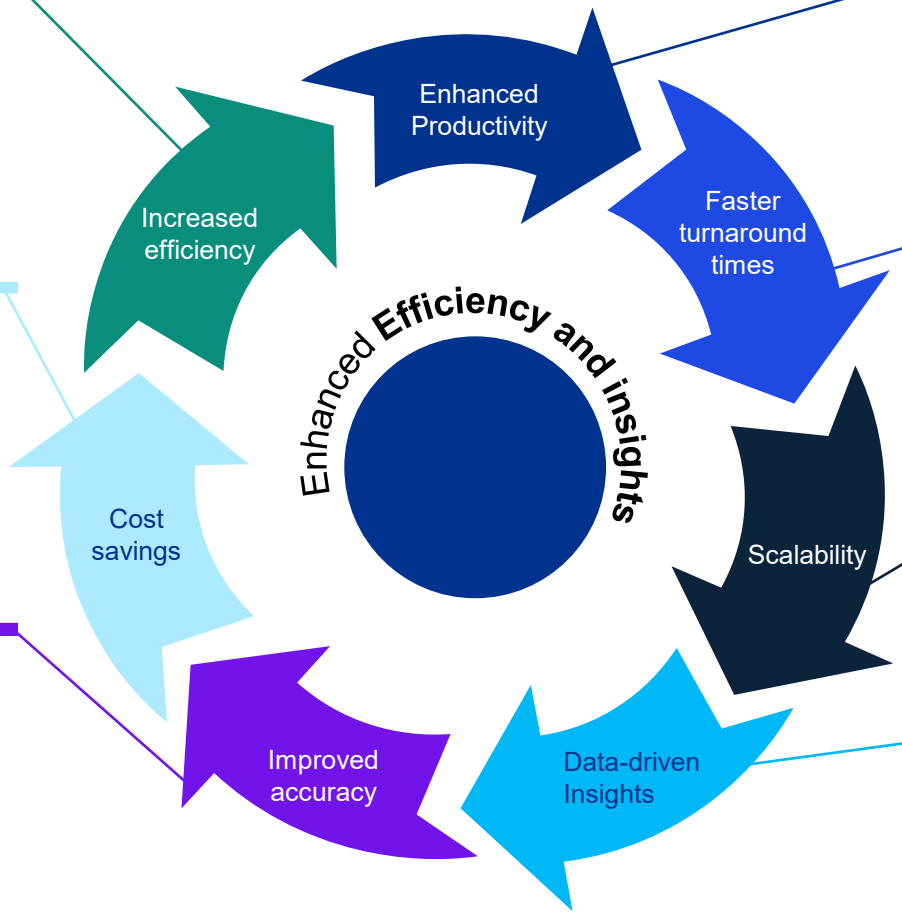


Company benefits and objectives of automation

- Streamline repetitive tasks, reducing the time and effort required to complete them
- Free up time to focus on more important and strategic activities

- Reduced labor costs associated with manual tasks
- Minimize errors and rework, leading to cost savings

- Eliminates the risk of human error, resulting in more accurate and consistent outcomes
- Beneficial for tasks that require precision and attention to detail



- Leads to increased productivity and output

- Expedite processes
- Improves customer satisfaction and helps gain a competitive edge

- Enables scale without significant increases in resources

- Generates data that can be analyzed to gain valuable insights
- Data to make informed decisions, identify trends, and optimize their operations

How are organizations applying Gen AI to their F&A functions?

CenAI Use Cases

Financial Planning & Analysis


Plan | **Analzye**

- Create a first pass narration of company performance
- Assist in calculating and analyzing financial metrics
- Improve forecast accuracy with challenger models
- Identify trends or patterns of financial performance.
- Run hassle-free simulations or optimizations

Accounting & Bookkeeping


Transact | **Account**

- Process documents to extract and record key information
- Uncover patterns that can be used to optimize financial operations and forecasting (e.g., analyzing aging of AR, delinquency)
- Automatically maintain the general ledger (e.g., such as recording transactions and reconciling accounts)

Compliance & Risks


Control | **Comply**

- Scan for new upcoming regulations
- Assist in compliance with financial regulations and reporting requirements
- Improve speed and accuracy in identifying potential areas of non-compliance
- Create realistic and accurate synthetic data to simulate scenarios

Fraud & Crime


Detect | **Secure**

- Analyze financial data to identify anomalies and flag potential fraud or errors
- Identify transactions that may be in violation of anti-money laundering regulations or other financial regulations
- Identify financial risks related to market fluctuations, credit risk, liquidity risk, interest rate risk, and operational risk

Publish & Advise


Report | **Advise**

- Assist in generating financial and analysts reports
- Provide financial education, helping understand key financial concepts
- Analyze peer comparison data from central repositories to assess a company's performance relative to its peers

GenAI use cases being applied today

GenAI targeted use cases

Planning, Budgeting, & Forecasting Balance Sheet Effectiveness Procure-to-Pay Optimization	Revenue & Margin Optimization Spend Patterns Observations T&E & Fraud Augmented Surveillance	Intelligent Collections (AR/AP) Treasury & Cash Active Mgmt. Cash, O&M, Capital Forecasting	Profitability Optimization Period Close Automation Tax Planning & Reporting

04

How to get started on your journey

How to get started: Identify and prioritize opportunities for automation

Good candidates for automation are the control processes and test procedures which have fairly structured data and involve low to no judgement. True benefits of automation are realized when the process is high volume, transactional and repeatable.

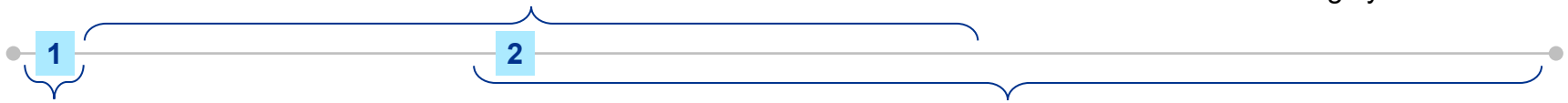
Rules based automation

1 **Basic** Process Automation

2 **Enhanced** Process Automation

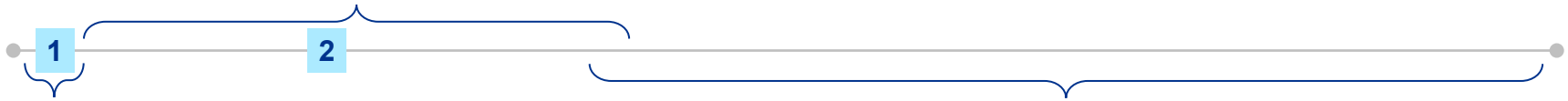
How structured is the **data?**

Structured — Highly Unstructured



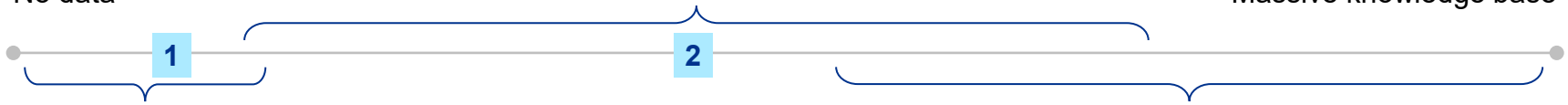
What is the **decision-making** process?

Explicit & documented logic — Judgmental



How extensive is the **knowledge base?**

No data — Massive knowledge base



Select automation use cases overview

Illustrative use cases for control performance

- **Use case 1 - RPA:** Generating UAR artifacts to perform reviews
- **Use case 2 - AI:** Risk based identification and review of User Access
- **Use case 3 - RPA:** ERP critical user access / SOD review
- **Use case 4 - AI:** Risk based identification and review of high-risk changes
- **Use case 5 - RPA:** Monitoring of environment for cloud system additions

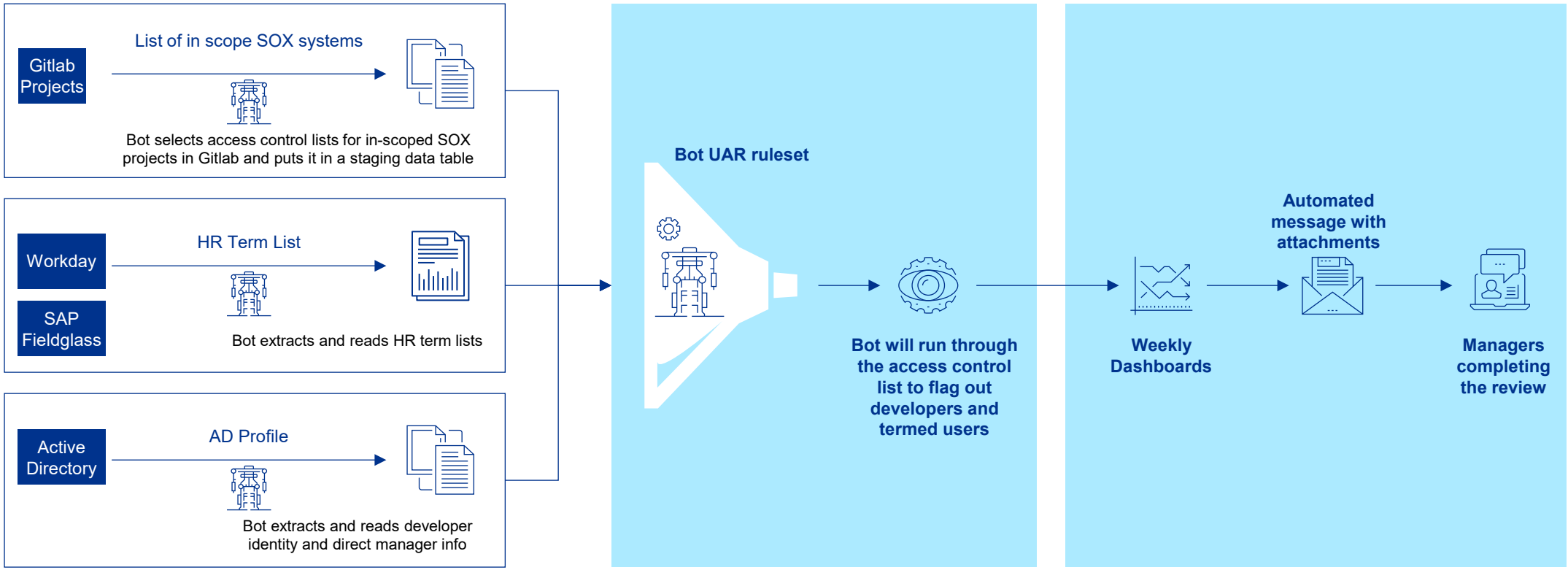
Use cases for validation and monitoring

- **Use case A - RPA:** Legacy Change Management using information from ticketing system
- **Use case B - RPA:** Agile SDLC Monitoring Automation
- **Use case C - RPA:** Monitoring for vulnerability management

OPTION

UAR automation - GitLab: Illustrative process flow

On a quarterly basis, a review of users who have SOX relevant GitLab project level access is performed to ensure that access is restricted to those who are appropriate based on their job responsibilities. An automated workflow enhances this process by pulling change data from GitLab analyzing against SOX requirements. The workflow will continually monitor changes and assure segregation of duties to then sent to managers for verification.



What questions do you have?

Thank you!

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