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FINANCIAL STATEMENT AUDIT IN THE ERA OF ARTIFICIAL INTELLIGENCE

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Muradova K. Z., Sliunina T. L. Financial Statement Audit in the Era of Artificial Intelligence

The aim of this article is to analyze the implementation of artificial intelligence in corporate accounting, particularly the process of preparing financial statements, and its impact on changes in auditing procedures. AI is a key component of the modern business environment, aimed at minimizing the influence of human factors and automating routine tasks that require accuracy and consistency. However, there are currently risks, including the «black box» risk, which involves a set of data and decisions that form the basis of the final response to the user, the risk of using low-quality data, and the risk of bias. There are also legislative requirements for the ethical use of artificial intelligence in various areas of human activity. The primary document regulating these rules is the AI Act, developed by the government of the European Union. The article explores the implementation of artificial intelligence in enterprise accounting, which can cover all operational processes leading to the final data in financial reporting. It is found that AI can significantly enhance the accuracy of financial reporting by minimizing the impact of human factors and providing room for specialists to focus on strategic tasks. A potential approach from enterprise management regarding AI monitoring to prevent potential risks and ensure compliance with legislation is presented, along with an approach to developing new audit procedures to evaluate the effectiveness and accuracy of AI in preparing financial statements and testing the reliability of the data utilized by this tool. Further research could focus on examining how enterprises adapt to changes in AI-related legislation, the development and emergence of new trends in AI usage and internal controls within organizations, as well as the development of standardized AI auditing practices in companies with the involvement of certified auditors.

Keywords: artificial intelligence, accounting, financial reporting, auditing procedures, automation, risks, managerial control.

Fig.: 1. Bibl.: 14.

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Мурадова К. З., Слюніна Т. Л. Аудит фінансової звітності в епоху штучного інтелекту

Метою статті є аналіз впровадження штучного інтелекту в бухгалтерський облік підприємств, зокрема процесу складання фінансової звітності та його вплив на зміну аудиторських процедур. ШІ є ключовим елементом сучасного бізнес-середовища, спрямованим на мінімізацію впливу людського фактора та автоматизацію рутинних завдань, які вимагають точності та безперервності. Проте на сьогодні існують ризики, зокрема ризик «чорної коробки», що містить набір даних і рішень, які стають основою фінальної відповіді користувачу, ризик використання неякісних даних, ризик упередженості. Також існують законодавчі вимоги до етичного використання штучного інтелекту в різних сферах життєдіяльності людини. Основним документом, який регулює ці правила, є AI Act, розроблений урядом Європейського Союзу. У статті досліджено впровадження штучного інтелекту в бухгалтерський облік підприємства, який може охопити всі операційні процеси, що приведуть до фінальних даних у фінансовій звітності. Виявлено, що ШІ може значно підвищити точність фінансової звітності, мінімізуючи вплив людського фактора, забезпечуючи простір для фахівців у вирішенні стратегічних завдань. Було наведено потенційний підхід з боку керівництва підприємства стосовно контролю ШІ на предмет попередження потенційних ризиків та відповідності до законодавства, а також підхід до розробки нових аудиторських процедур для оцінки ефективності та точності ШІ в підготовці фінансової звітності та тестуванні надійності даних, які використовує цей інструмент. Подальші дослідження можуть бути спрямовані на дослідження адаптації підприємств до змін у законодавчих вимогах для ШІ, розвиток та появу нових трендів у використанні ШІ та нового контролю на підприємствах, а також вивчення розвитку напрямку стандартизованого аудиту штучного інтелекту підприємства із залученням сертифікованих аудиторів.

Ключові слова: штучний інтелект, бухгалтерський облік, фінансова звітність, аудиторські процедури, автоматизація, ризики, управлінський контроль.

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Artificial intelligence (AI) is basic thing for everyone and today there are a there is a wide variety of AI instruments that workers can use. This is the most dynamic and fast developing technology which helps humans to focus on deep analysis and significant decisions. Google presented almost about six hundred cases where their clients used AI in their businesses. Microsoft signed significant contracts with Big-4 accounting companies. When it comes to the audit procedures, the main and final part of it is the audit of financial statements. The audit opinion about the representation of financial statements is the face of the audit company that represent fear, compliance, skepticism and professionalism.

When planning an audit, the engagement team should consider possible risks that can arise in the client's operational business. The practice of using artificial intelligence in accounting and preparing financial statements became more popular in client's daily routines. This practice has given rise to several problems and uncertainties, the main of which are the volume of AI's engagement, the entire complex system related to AI thinking process and data quality. Considering the timing of the audit, artificial intelligence is a two-sided thing: on the one hand, it gives certain opportunities, but on the other hand, it could hide difficulties and challenges.

From the client side, there are different options where they can use AI. For example, German developer of the popular accounting program SAP offers to use AI in various cases. Users can automatically analyze expenses, make an accounts receivables reconciliation to identify problematic clients. During FS preparation, SAP AI can find a misstatement and provide a way how an accountant can solve it, which decreases the possibility of misstatements made due to human factor. American application Oracle AI is very effective for financial statements preparation. Oracle automatically consolidates and analyzes data from different sources, including, general ledger, accounts payable listing, bank payments. Also, Oracle compares this data and identifies differences which need to be solved by an accountant. Then, Oracle can draft a financial statement.

Going back to the audit, the main question is how to provide an effective audit and assess the impact of using artificial intelligence, in which additional procedures could appear in the near future in target to test AI work.

Analysis of the last research and publications.

AI generated financial statements are a fresh prospect for the finance sphere that currently not studied well. The biggest investigations were made by Big-4 accounting firms, accountants associations and leading Indian IT firms.

According to the KPMG survey [1] in May 2024, 64% of companies expect that auditors will have a new

role to evaluate their use of AI and test AI controls and 100% companies reported that their boards have taken strategic action regarding AI, 57% of companies will be ready to implement generative artificial intelligence for financial reporting in the next three years. In 2025, KPMG rolls out AI Trust [2], enabled by ServiceNow agentic AI, services which helps clients to ensure AI reliability, accountability and transparency. This instrument helps to assess the risk level of AI solutions, to ensure they meet necessary policies, risk standards and business needs. In addition, this tool has dynamic regulatory applicability assessment which monitors changing regulatory and compliance landscapes.

PwC's 28th Annual Global CEO survey in 2025 [3], consolidated over 4.7 thousand responses by chief executives in every region of the world economy shows their high expectation for generative artificial intelligence implementation. Currently, GenAI is quite new technology which is starting to be adopted in business. However, half of CEO's believe that they will increase profitability of their company in the year ahead with AI and for now, 33% have a high degree of trust in their AI instruments. In 2024, PwC predicted the higher trust in AI but shared a recommendation to be careful with this technology – each company should think deeply about this technology and estimate the value of processes and always remember that humans should be in the first place [4]. Current year shows a huge difference between these two points of view. AI went from untrusted new toy for startups to perspective instrument for everyone. This new philosophy impacted the mindset of business. Moreover, in 2025 PwC changes its logo as part of a broader brand refresh aimed at modernizing its visual identity and better reflecting its focus on technology and artificial intelligence.

The other Big-4 company Deloitte made a prediction of possible risks related to the AI. For example, risk of the low quality of data and input messages that can cause bad responses and misstatements. To avoid this risk, Deloitte predicted that there will be new audit procedures for Informational Technology General Controls (ITGC). The auditor will test the architecture of AI and source of data and controls.

According to statistic by Google Trends, over 2025-year global search interest for the terms “GenAI” and “AI compliance” within the finance category demonstrate quite seasonal pattern: around late November till Early December 2024 could indicate a period of heightened focus or announcements related to GenAI capabilities relevant to year-end financial processes or strategic planning for the new year. That's an interesting hypothesis after December 2024 – the higher interest in GenAI during February – end of April could be linked to the busy season

in audit as companies finalize their year-end financial statements and undergo external audits. While pattern of “AI Compliance” search interest, characterized by lower volume and sharp peaks, but suggests a more dynamic series that could be linked to the developments in AI regulation and governance within the financial sector. There was a progression towards implementation of the EU AI Act and USA AI regulations focusing on data privacy, bias and transparency (Fig. 1).

countants about the possible problems with clients, which invoices can be paid with delay. On the other side, AI is a good support for expenses monitoring. SAP automatically scans the expenses that are made by the entity for the compliance with the entity's policies and prognoses. In the worst scenario, the system warns the accountant that expenses do not relate to the specific account or there are some unusual transactions made by the entity. It's also helpful for auditors during

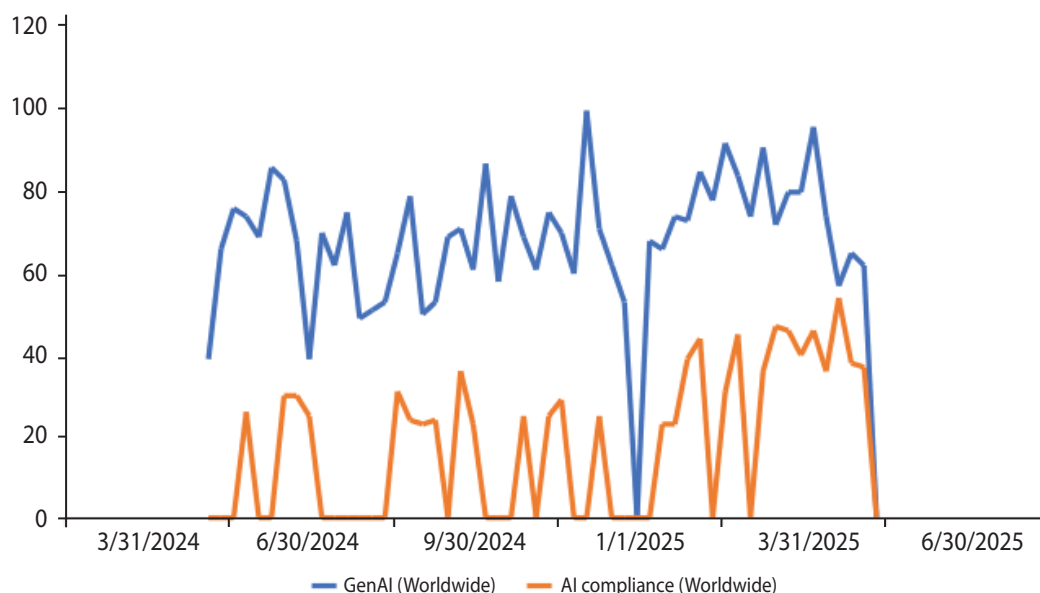


Fig. 1. Global search interest for the terms “GenAI” and “AI compliance” [5]

Aim and Scope of the Study. The aim of this exploratory study is to consider the integration of AI tools in the preparation of financial statements and their impact on the audit process. During the last two years audit firms discovered the potential of AI and required from clients to confirm the level of implementation of these instruments and its impact on financial statements data. This study aims to explore both the opportunities and challenges that arise from increasing reliance on AI in accounting. Specifically, the main target is to evaluate how auditors can assess the effectiveness of AI tools in financial statement preparation, and determine the additional procedures that may be required to test the reliability of AI-driven data and algorithms.

Artificial intelligence exploded into business agendas over two last years. Starting from the technical support during business processes to driving financial statements preparation. AI can be helpful for accountants by providing complex data structuring for analysis and perform simple, recurring tasks automatically. For example, application SAP (Systems, Applications and Products) implicates AI in accounting instruments. Now SAP users can do accounts receivable reconciliation with AI and tell ac-

their initial assessment of management's controls, that this instrument is an additional control instrument for their client. SAP also have AI instruments for financial statements preparation which identify typical mistakes in closing balances which makes future financial statements more accurate, reducing the influence of the human factor.

There is more powerful instrument from the United States named Oracle AI, which demonstrates significant potential in automatic financial statement preparation. The offer contains the following services:

- ✦ automatic data consolidation from different resources, for example, general ledger, bank payments listing, accounts payable and receivables listings;
- ✦ identification of problems, misstatements, uncertainties which require accountant's attention;
- ✦ prepare the financial statement's draft versions, including basic forms like balance sheet, statement of profit and loss, cash flow. In addition, system can provide a detailed explanation for statements, including the reason for differences in financial statements line items;
- ✦ fill different types of regulatory forms, including tax invoices and declarations.

These two examples of how generative AI can drive financial statements effectively at the present time. This is an exciting potential that boosts efficiency and accuracy of numbers and information. However, business remain hesitant to fully rely on these tools due to significant concerns such as “black box issue” referring to the opaque nature of some AI decision-making processes, thrust issues, hallucinations where AI generates incorrect or fabricated data and the lack of the informational technology general controls (ITGC). Furthermore, this instrument requires huge money investigations for implementation, testing and maintenance.

There are two types of AI: basic machine learning model and generative artificial intelligence. Machine learning algorithms can be predicted as it uses one or two layers of networks, so developers can fully know their product, however, they can hide the inner work process on purpose due to their intellectual property rights. Generative artificial intelligence is “organic black box”, where users can make some input and see some output without any possibility to see how this output was created [4]. This happens unintentionally, even the developers do not fully understand the whole internal work. The main reason why it happens is hidden in their learning process which is the multilayered neural network [6]. that allows us to receive original pictures, deep analysis, and solve any problems in natural human language. Each layer is a bundle of code with multiple neurons that was designed as the human brain. Each neuron is an individual unit that receives input, processes it and produces an output. The Large Language Models (LLMs) work based on the natural language understanding (NLU), natural language processing (NLP) capabilities and transformer architecture which was trained on the huge amounts of data and have a billion parameters for patterns capturing, recurring word combinations.

Understanding of the AI types and structures, auditors can build their strategy of potential risk assessment. Here we have following potential risks:

- ✦ *data risk*: means the potential of having a contractual issue due to low quality data that client used, problems with propaganda and intellectual property;
- ✦ *model and bias risk*: client should be compliant with principals of ethical and responsible AI;
- ✦ *prompt or input risks*: AI can give a low-quality output due to the poor query from client and client used in own financial data;
- ✦ *hallucinations and nonsensical responses*.

The risks themselves determine the necessary requirements for the company's responsible person. PwC issued a special playbook for risk executives [7]

to help them with AI implementation. Under risk executives we should consider following positions:

- ✦ chief information security officer;
- ✦ chief data officer and privacy officer;
- ✦ for the chief compliance officer;
- ✦ for the chief legal officer and general counsel;
- ✦ for internal audit leaders;
- ✦ chief financial officer and controller.

The existence of these positions in the client's company is an additional point for better risk assessment, it gives the understanding that this enterprise has responsible team members which cover AI's related risks in specific business areas. PwC keep attention on the following main business roles and their actions:

- ✦ *chief information security officer*: a senior-level executive who leads and manages an organization's information security program and develop procedures to protect information access from cyber threats. According to this position, this person should always bring newer cyber countermeasures, build an endpoint detection and response platform with GenAI to detect problems, generate executive threat scenarios and take care of local AI-related data against unauthorized use;
- ✦ *chief data officer*: prepare data inputs for AI, limits data sets with different level of privacy, protect organizational data from sharing with external generative AI models;
- ✦ *chief compliance officer*: keep up with new laws related to the use of AI, assess compliance posture and quickly update it, assess how AI impacting company's productivity;
- ✦ *chief legal officer*: limit IP exposure, mitigate risk of copyright, assess enterprise's potential ability to deal with legal claims, including communications, regulatory violations and biases problems that could arise from GenAI;
- ✦ *internal audit leaders*: understand the company goals in the relation to the GenAI, audit the data sets that AI used, provide reliability, fairness and bias tests;
- ✦ *chief financial officer*: prepare internal control and statutory requirements over financial reporting related to the GenAI, working on improving the human resources, confirm that the external auditors are aware of changes.

In an ideal scenario, all positions should collaborate to create and maintain a reliable GenAI system. They should set up a risk management network, work with the thrusted AI-providers and look forward to creating their own tools for improving systems. Furthermore, they have a higher authority to engage other employees to use AI in their work, to share and design possible use cases.

From the other side, auditors should understand which AI provider their client has, this is helpful to set up the level of trust in this instrument. For example, IBM provides an enterprise-grade LLMs named “Watsonx”, where they reduce the level of potential hallucinations that can cause damage to the client’s reputation [8].

The IBM’s largest partner, Microsoft, provides one of the most popular AI technologies called Copilot for enterprises. Moreover, the Big-4 companies started to use this instrument on daily basis and have thrust in it. The main reason is hidden in the privacy policy and corporate features. Copilot can work with corporate datasets, ensuring that information will not go outside. Additionally, company can tell Copilot which data to use to prevent hallucinations and build thrust in the source of data that Copilot use, solving the issue of “Black box”. Microsoft also guided by their own responsible AI principles [9] leveraging existing policies, laws and their own expertise. Furthermore, Microsoft fill the gap in the official policies and norms by these personal principles:

- ✦ system should treat all people fairly;
- ✦ reliable and safe performance, including all possible conditions and contexts;
- ✦ respect privacy and security;
- ✦ instruments should be open for everyone and be inclusive, understandable and under people’s control.

In 2025 Microsoft issued a Responsible AI transparency report, and the company confirmed that they also took a part to become more compliant with regulatory requirements, including EU AI Act.

Regarding the regulation of AI, the major implication in the European Union related to the EU Artificial Intelligence act which entered into force on August 1, 2024 [10]. However, document will be applicable in August 2026 with the following exceptions:

- ✦ article 4 regarding prohibitions and AI literacy obligations became applicable from February 2025;
- ✦ governance rules and the obligations for AI models will be applicable from 2 August 2025;
- ✦ rules for high-risk AI systems have an extended transition period until 2 August 2027.

AI literacy is the definition for skills, knowledge and understanding needed for parties to make informed decisions about deployment of AI systems [11]. Additionally, it covers potential opportunities, risks and potential harm associated with AI. The parties related to this article are an AI provider and client’s representative. For example, from the client side it could be chief financial officer and chief legal officer. The European Union developed the AI Literacy Competency Framework to enhance AI understanding across all lev-

els of the organization ensure responsible and effective AI experience. The main purpose of this framework is to consider technical knowledge, education and training of each employee who is dealing with AI.

European Union’s AI act also differentiates the level of risk depending on the deployer’s business sphere. The high-risk could be considered for the enterprise working with personal data to assess aspects of human life. If an auditor has a client who is related to the vehicle manufactures, civil aviation, rail systems, health, banking, insurance, this means that their AI systems have a high-risk. From the one hand, this means that the auditor will provide a deep testing of their systems, test if this system is compliant with EU AI Act and if this compliance was checked by client’s management. Auditors will pay more attention to these clients compared to the AI systems of goods producers, for example companies producing pencils. From another hand, AI act gives no plans for emergency scenarios, especially for high-risk systems. Another problem is this act will be applicable for European Union’s countries, whenever companies mostly use US or Chinese AI, which can cause the slow down deployment of AI in Europe. AI act can’t be updated as soon as AI updates comes.

Company’s management can assess AI system compliance using available tools. The European Union proposes to use a tool called capAI which was developed by researchers at the University of Oxford. This assessment can help client and auditor to understand how AI systems align with newest AI Act implementations, high-level ethics principles and trustworthiness of the development and operation of AI.

Considering the information mentioned above, when clients use artificial intelligence to create financial reports and drive operational side of business, auditor should build effective procedures to assess AI instruments, including the following:

- ✦ develop the auditor’s knowledge about business administration, AI trends and types of business models;
- ✦ engaging AI-auditors in the audit will be the near prospective;
- ✦ testing of controls of data-inputs which company use;
- ✦ learn about different AI models, distributors and being always informed about regulatory changes.

Entire world business moving to the next prospective – AI audit. Considering the technological development and improvement of AI systems, this process will be the future of consulting. Harvard Journal of Law & Technology highlights a significant need in providing governmental AI audits [12]. Audit should

be executed by professional, certificated auditors. However, there are no strict definitions of who is the AI auditor and what exactly they audit, because no effective laws straightforwardly regulate it. In July 2025 the British Standards Institution (BSI) issued a new guidance BS ISO/IEC 42006:2025 [14] and this is the first global standard in this spectrum.

This is the first step to protect business from AI potential risks. The guidance regulates auditors and certification of AI management systems, addresses possible challenges and ethical principles related to the artificial intelligence. Focus was kept on the management system and on process of certification artificial intelligent management systems (AIMS), not on the AI system themselves. By this standard, business should engage certified auditors who complain with competence and reliability requirements. Now, the organizations in finance, healthcare, defense, or government, which are in the high-risk AI sector and registered in United Kingdom, should amend themselves with this standard. The problem is the lack of details. The guidance keep target on the auditors and certification bodies, not on the technical deep dive into the AI's model code, type or data that it's using. Furthermore, it doesn't provide any sector-specific criteria. For example, healthcare diagnosing or financial banking companies should comply with this guidance, but they simply can't work exactly align with general AI-assessment. It's important for high-risk area. Also, there are no experience or pass/fail criteria for testing. To sum up, the AI will audit by people with lack of experience with real clients, who also doesn't know which specific requirements they should apply.

AI audit by structure looks like a simple financial audit: clients can hire an internal AI-auditor, which currently is not the best decision due to the lack of experience and standards for creating internal management approaches and understanding of effective and applicable AI systems. Another option is engaging an external auditor. From this point of view, it could be highly recommended to engage a compliant, experienced auditor. Nowadays, there are no strict standards for AI audits. In this case, big auditor firm will use internal guidelines and principles which was made based on their research and experience. External auditors assess compliance with human rights, confidentiality and other sector-specific regulations. The next feature could be crucial for companies, which use AI to prepare financial data and perform operational business – accuracy. Clients can receive an independent opinion regarding the quality of product from the deployer, creating credibility for the company deploying the AI.

The control testing of data should be a valuable part of AI-audit, because the quality of data inputs is

directly linked to the accurate response. For preparing financial data and performing operational procedures it is crucial to have structured and accurate data. The approach for this kind of assessment can be like the audit of financial statement. Auditors will use computer-assisted audit techniques (CAATs) to test the integrity of a client's computer-based accounting system. Data will go through format, range, compatibility, validity, exceptions, sequence, and totals check [13]. As an example of CAATs, auditors can use packaged programs, which select samples and perform arithmetic calculations, purpose written programs for carry out tests. Each audit company is developing CAATs. For the AI inputs there could be several additional procedures. The auditor can test how the client's data is linked to the AI system and if the system can explain which data was used and whether there is data from the Internet. The main idea here is to prevent the risk of hallucination when AI doesn't know how to respond accordingly and hallucinate facts to give an answer. Next point is to test the algorithm itself, because AI systems should be explainable and easy identify which data was used for output preparation. Users need to understand how and why AI made this decision and generate the output. Also, AI should be able to trace what specific information and source data used for creation of this output. It will help to identify that the system uses right logic without any misstatements or manipulations.

The final, yet equally significant aspect that the auditor should consider is trends in the sphere of artificial intelligence. Facilitating targeted training programs for auditors to acquire a comprehensive understanding of existing AI models, their distribution mechanisms and the credibility of their respective providers. Moreover, AI auditors should be always keep updated with regulatory changes. Auditors need to know how AI works, how to work with this system too, and how to assess data which is using. Being brave to learn more about this instrument it's a key to have appropriate risk-management flow and improve the quality of audit. And personally, for auditor it means that this specialist allowed to work with clients, who used AI in operational routines and preparing a financial data.

CONCLUSIONS

Artificial intelligence became a synonym of human's daily life, and this also applied to business. Companies trying to find all possible ways to increase productivity and achieve more benefits from their investments, from processes of customer's consultations to the invoice processing. This also related to accounting, where accuracy and occurrence are the most valuable for all users. The highest level of automatization will decrease the risk of misstatements and missing impor-

tant information. The bright example today is incredible SAP business AI which support automation of routine tasks, including order and payment management and master data maintenance, and at the end preparing accurate information for financial statements. Everyday this implementation developing to become more complex and powerful tool. Integration of AI tools in the preparation of financial statements and using of AI during operating business increasing, enhancing efficiency and accuracy of financial statements. This goal can be reach by the one principle – reducing the impact of human's factor. AI can do work accurately according to its experience and algorithm, maintaining consistency and reliability. This instrument counting on the company's internal data-driven insights, can evaluate multiple factors and scenarios to suggest the best course of action. Furthermore, the main benefit is to automate repetitive and mundane tasks, freeing up human workers to focus on more complex and creative activities. AI can maintain data and sort it by the relevant financial statement's lines, but human can decide how to properly present and use this data through strategic analysis and critical thinking.

The main point to consider for auditors is how exactly AI can impact preparation of financial statements? While AI offers significant opportunities for improving financial processes and providing sufficient financial information, it also has challenges and different risk levels, which necessitates new efforts from both client management and auditors to ensure the integrity and reliability of financial information. Auditor should test not only what's going on inside company, but to understand which systems this company use. Artificial intelligence makes this understanding difficult to achieve as it can't show the thinking process, which is called "the black box issue". Another problem is a fresh law and weak standard regulation, which gives the rise of various instruments with different algorithms where borders belong to the distributor. Today business faced with the main challenge – to start trust in AI. The possible way to make this is to invest enough time and money to develop and test this instrument. That's why only huge companies can afford it today. From the other side, governments also should collaborate with business to create unique, understandable, detailed framework to regulate AI across the region, it will cease the amount of companies, which are afraid to use the AI.

For auditors it means the increase of scope of audit. Beside of the basic test of controls, inspections of internal processes and automation, they will additionally assess the trust level in AI-instruments. These testing's will be future base for further audit as it can help to finally set up new levels of risks. With trusted AI, auditors can provide detailed audit, providing incredible

insights for their clients. For example, detailed recommendation list to inform what can be improved in the next financial year, where or when client has weak controls. Moreover, AI will not replace auditors, rather, it will give them new job opportunities and drive them towards evolution and more exciting challenges. For this future, auditors need to learn actual trends, having discussions with their clients, define the strict standards and what AI auditor should perform. It is crucial for now to study and improve standards and legislation regarding AI, so that in the future there will be accurate financial statements involving AI, assessed by certified AI auditors. ■

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