



JS | HELD

Find your expert.®

AI in Action:

Transforming Accounting and Auditing

SUTE (Online) | 24 October 2024 | Meredith Cheong

Adoption of AI in Accounting and Auditing

- Current Adoption Levels
 - As of mid-2024, only 10% of companies have widely adopted AI in financial reporting
 - However, nearly 72% are piloting or using it selectively
 - Anticipated that 99% of organizations will adopt AI into their financial reporting processes by end 2024
- Growth Rate of AI Adoption
 - Accounting sector is expected to experience a 30% annual growth rate in AI adoption from 2023 to 2028
 - AI in Accounting market size projected to grow from USD 4.73 billion in 2024 to USD 26.66 billion by 2029

Resistance towards Adoption

Reasons audit teams do not use artificial intelligence

The top reasons firms cited for not incorporating AI technology into their audits.

Reason	Percentage of survey respondents
Lack of training and infrastructure	23%
Technology is too expensive	17%
Technology is not useful	17%
Inability to access usable client data	13%
Technology is difficult to use	12%
Inadequate client controls for data integrity	4%
Concerns about others questioning the technology	4%
Client data privacy or security concerns	4%
Concerns about GAAS allowing the technology	3%
Technology's output is too difficult to use	2%
Lack of knowledge about technology	1%

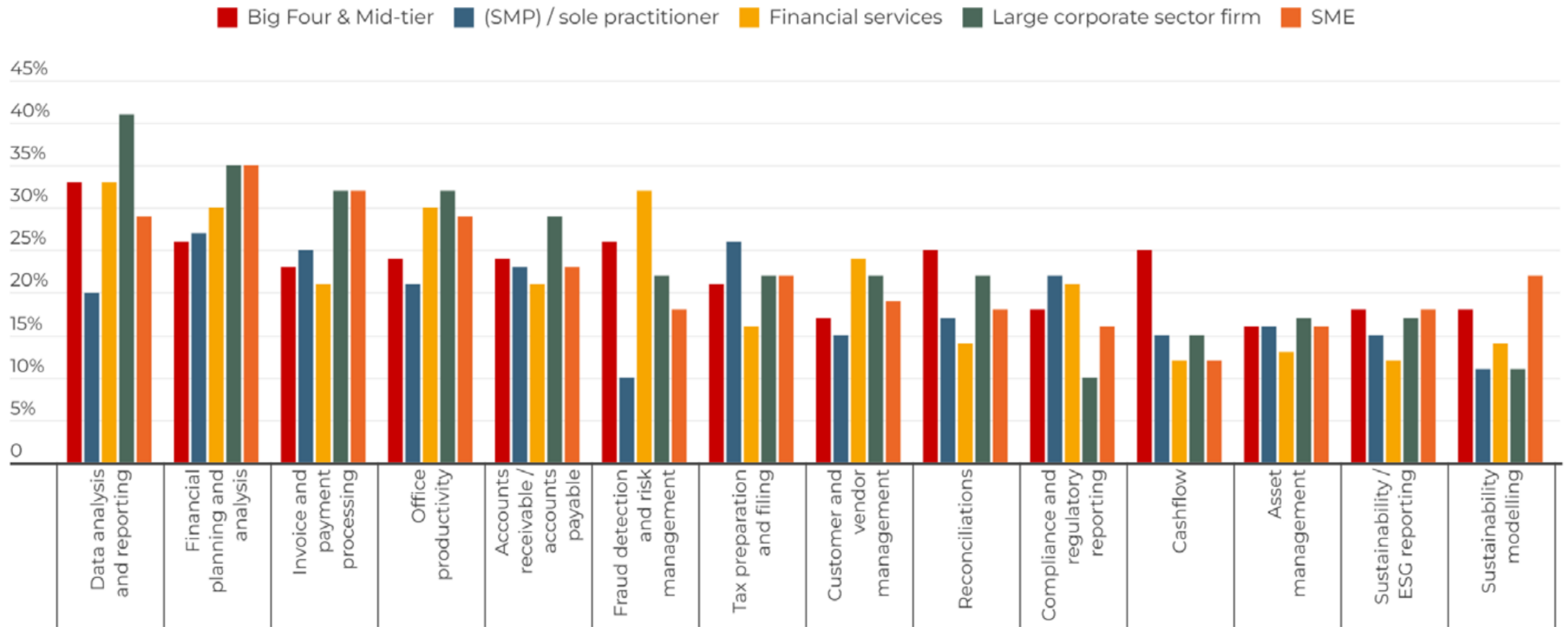
Source: AICPA Auditing Standards Board Technology Task Force.

Application of AI in Accounting and Auditing

- Bookkeeping
 - GenAI: Extract data from financial documents and automated general ledger entries
 - Machine learning: Consolidate relevant data
- Planning and Analytics
 - GenAI: Research and summarise the company's historical financial position
 - Machine Learning: Process large volumes of data to provide insights, minimise fraud risk
- Enterprise Resource Planning (ERP)
 - GenAI: Automate routine tasks, improve overall operational efficiency
 - Machine learning: Use of historical data to predict future financial performance

Application of AI in Accounting and Auditing

FIGURE 10: Sectors are focusing on different uses



Source - ACCA Report: The Smart Alliance: Accounting expertise meets Machine Intelligence

Example – Accounting analytics at Deloitte

Common applications for algorithmic forecasting



Top-down planning

Target setting
Integrated financial statement forecasting
Working capital forecasting
Indirect cash flow forecasting
Demand forecasting
Competitive actions and implications
Tax tradeoffs and revenue/profit implications



Bottom-up forecasting

Product-level forecasting
Market- or country-level forecasting
Direct cash flow forecasting



Function-specific forecasting

Customer retention
Inventory optimization
Employee retention and attrition modeling



External reporting

Market guidance
Earnings estimates

Source – Deloitte: *Algorithmic forecasting in a digital world*

Example – Auditing at KPMG

Examples of automated solutions for controls

Automation of business process controls

Manual	Automated	Other controls
<ul style="list-style-type: none"> Reconciliations Accounts receivable aging Cash transfers Journal entry analysis Fee calcs Loan review Nightly settlement Contract compliance 	<ul style="list-style-type: none"> Edit checks Validations Calculations Interfaces Reports 	<ul style="list-style-type: none"> Compliance Cyber security Payments Regulatory compliance Payments reconciliations Positive pay validation

Automation of IT controls

Change management	Logical access	Computer operations
<ul style="list-style-type: none"> Changes are authorized Changes are tested Changes are approved Developer access to production 	<ul style="list-style-type: none"> Passwords New users Periodic review Terminations Segregation of duties 	<ul style="list-style-type: none"> Incident management Backups Job scheduling Physical security

Intelligent automation will dramatically impact how work gets done.

232BN
Intelligent automation spending will reach \$232 billion by 2025—almost a 20X increase from today.

Source: KPMG LLP, "KPMG survey on the impact of intelligent automation on business and operating models" (2018)

49%

Nearly half of companies will use intelligent automation at scale within 3 years.

Source: KPMG LLP, "KPMG survey on the impact of intelligent automation on business and operating models" (2018)

600% AND 800% ROI

Recent research suggests a return on investment in robotic technologies between 600% and 800% for specific tasks.

Source: London School of Economics, "The IT function and Robotic process automation" (2015)

Strategically leveraging intelligent automation to create new business and operating models can yield **5X to 10X dividends.**

Source: KPMG LLP, "KPMG survey on the impact of intelligent automation on business and operating models" (2018)

30 percent

30% of processes in IT, customer engagement and finance/accounting will be impacted significantly by intelligent automation.

Source: KPMG LLP, "KPMG survey on the impact of intelligent automation on business and operating models" (2018)

Top 5

By 2020, smart machines will be a top five investment priority for more than 30% of CIOs.

Source: Gartner, "Gartner worldwide IT spending forecast" (2018)

50–60% of white collar work is automatable, and this will have a 30% labor cost reduction.

Source: Morgan Stanley, "Rise of the machines: Automating the future" (October 2017)

Example – Legal Services at Allen and Overy

The screenshot displays a legal document editor interface. On the left, a document titled 'ContractMatrix Draft' is open, showing a 'SET-OFF' section with sub-sections 38.1 and 39.1. The text in this section is partially obscured by a grey redaction box. On the right, a 'COMPARE' window is active, showing a comparison between the document's 'Set-Off' provision and a benchmark document. The benchmark document is identified as '5. 4#2. 1. LMA SFP - S5-Multicurrency-Revolving-Facility-Agreement-Compounded-Rate-and-Term-Rate(2004595851.2) Banking - Global' with a 'Very High' risk rating. The comparison window highlights differences in the 'Set-Off' provision text, such as 'Any A Finance Party may, if an Event of Default is continuing, set off any matured obligation due from an Obligor or the Borrower/Feeder Fund under any the agreement/Finance or Instrument Documents' versus 'A Finance Party may set off any matured obligation due from an Obligor under the Finance Documents'. Below the comparison window, there are buttons for 'EDIT' and 'CANCEL'. At the bottom of the comparison window, there are buttons for 'COMPARE' and 'VIEW DOCUMENT'. The main document on the left also shows a '39.2 Addresses' section with a list of addresses for the Parent, Lender, and Agent.

the fraud of the Agent) arising as a result of its taking, or failing to take, any actions pursuant to or in connection with this Clause 37.11, and

(f) the Agent shall notify the Finance Parties of all changes agreed pursuant to paragraph (d) above.]

38. SET-OFF

(a) Any Finance Party may set off any matured obligation due from the Borrower under any agreement or instrument (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

(b) Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

39. NOTICES

39.1 Communications in writing

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter.

0028052-0000057-KNO1-141397

39.2 Addresses

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

(a) in the case of the Parent or the Company, that identified with its name below;

(b) in the case of each Lender, the Issuing Bank, each Ancillary Lender or any other Obligor, that notified in writing to the Agent on or prior to the date on which it becomes a Party; and

(c) in the case of the Agent or the Security Agent, that identified with its name below,

ContractMatrix Draft

ADD PROVISION

Set-Off

+36 Set-Off-SET-OFF (a) Any A Finance Party may, if an Event of Default is continuing, set off any matured obligation due from an Obligor or the Borrower/Feeder Fund under any the agreement/Finance or Instrument Documents (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to that Obligor or the Borrower/Feeder Fund, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off. (b) Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

EDIT CANCEL

36. Set-Off

(a) A Finance Party may set off any matured obligation due from an Obligor under the Finance Documents (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to that Obligor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

(b) Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

5. 4#2. 1. LMA SFP - S5-Multicurrency-Revolving-Facility-Agreement-Compounded-Rate-and-Term-Rate(2004595851.2) Banking - Global Very High

COMPARE VIEW DOCUMENT

36. SET-OFF

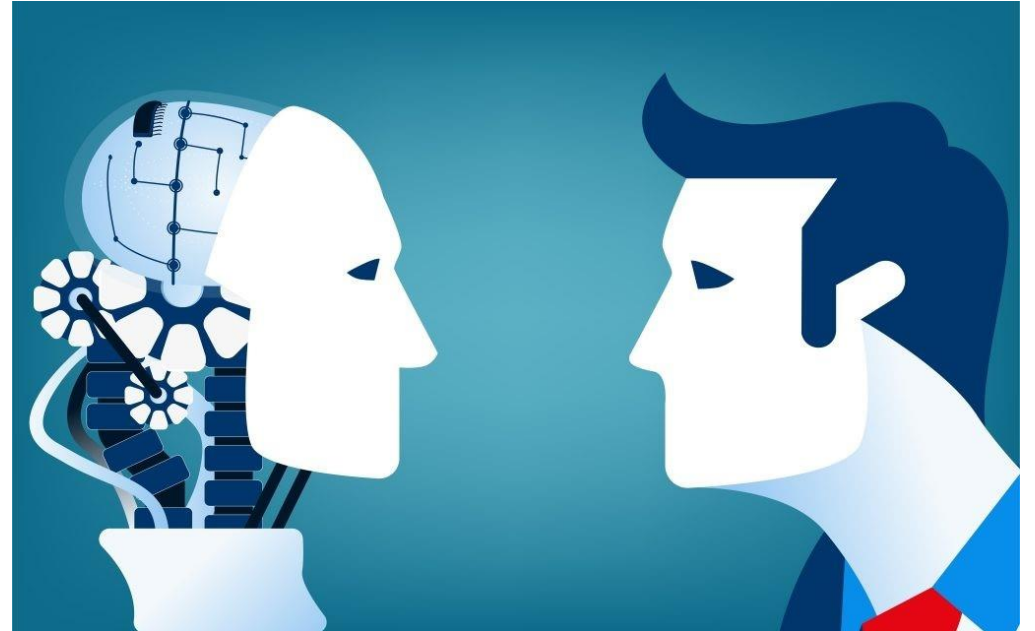
(a) A Finance Party may, if an Event of Default is continuing, set off any matured obligation due from an Obligor or the Feeder Fund under the Finance Documents (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to that Obligor or the Feeder Fund, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

(b) Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

FA045785_Amendment_Agreement Very High

Concerns about the Application of AI

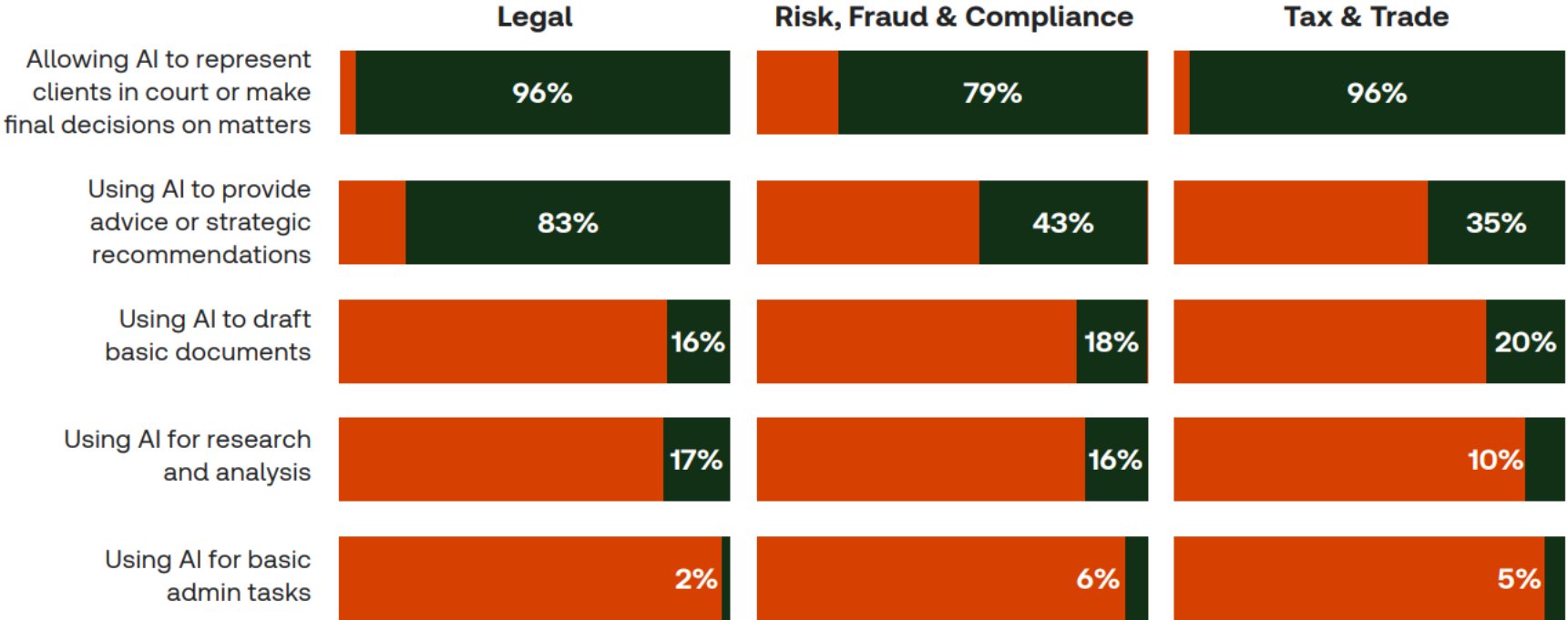
- Lack of Transparency
- Potential for Misinterpretation
- Judicial Decision-Making Performance
- Ethical Implications



Ethical Concerns

FIGURE 13:
Ethically, what level of AI involvement in your profession would you consider to be a step too far?

■ Ethically acceptable in principle ■ A step too far



Source: Thomson Reuters 2024

Example – Mata v Avianca

- Attorney Steven Schwartz cited six fictitious cases generated by ChatGPT in a lawsuit against Avianca
- Schwartz admitted he misunderstood ChatGPT as a reliable search engine
- Reduced trust in technology and legal professionals
- Takeaways:
 - Know the limitations of AI
 - Verify AI outputs
 - Apply human oversight

Example – TurboTax and H&R Block Bots

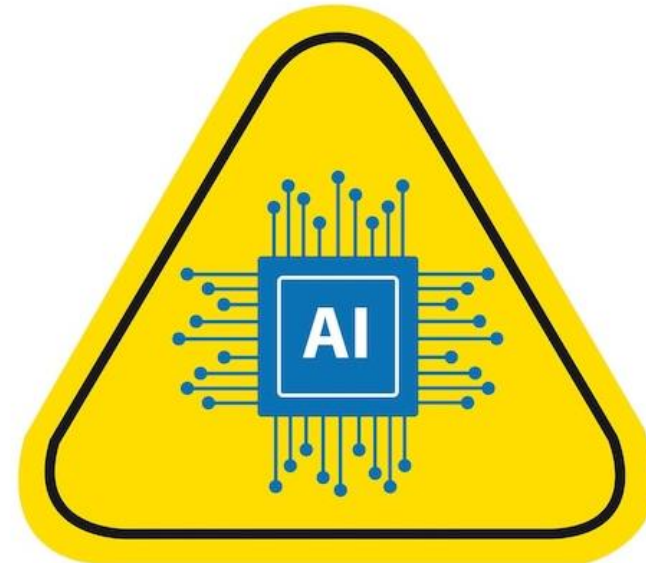
- Provided taxpayers with quick answers to basic inquiries
- However:
 - Inaccurate interpretation of complex tax laws
 - Responses limited to predefined options
 - Failure to consider unique circumstances that could impact a taxpayer's return
 - AI responses from TurboTax and H&R Block varied
- Taxpayers should not solely rely on AI-generated tax advice

Example – Auditing and Fraud

- Luckin Coffee
 - USD 300 million was reported as revenue through fake documents and fabricated sales figures
 - Despite using AI tools, fraud was flagged by an anonymous whistleblower, not the AI software
- Wirecard
 - EUR 1.9 billion of fraudulent transactions
 - Used financial reporting software that was compliant with standards
 - Complex transactions, deviated from predefined patterns
 - AI would unlikely have detected the fraud

Concluding Thoughts

- Need for careful oversight when integrating AI into accounting and auditing practices
- Importance of maintaining human judgment alongside technological advancements
- Ongoing discussions about ethical standards and regulatory frameworks



Citations

ACC (2024): "Practical Lessons from Attorney AI Missteps in Mata v. Avianca."

<https://www.acc.com/resource-library/practical-lessons-attorney-ai-missteps-mata-v-Avianca>

ACCA Global (2024): "AI Risk in Internal Audit."

<https://abmagazine.accaglobal.com/global/articles/2024/oct/business/ai-risk-in-internal-audit.html>

Allen & Overy (2024): "ContractMatrix."

<https://www.aoshearman.com/en/expertise/markets-innovation-group/contractmatrix>

Deloitte (2024): "Algorithmic Analytics to Improve Forecasting Processes."

<https://www2.deloitte.com/us/en/pages/finance-transformation/articles/algorithmic-analytics-to-improve-forecasting-process.html>

Deloitte (2024): "The Guide to Automated Financial Forecasting."

<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-the-guide-to-automated-financial-forecasting.pdf>

Forbes (2023): "Lawyer Used ChatGPT in Court and Cited Fake Cases."

<https://www.forbes.com/sites/mollybohannon/2023/06/08/lawyer-used-chatgpt-in-court-and-cited-fake-cases-a-judge-is-considering-sanctions/>

Journal of Accountancy (2024): "What AI Can Do for Auditors."

<https://www.journalofaccountancy.com/issues/2024/feb/what-ai-can-do-for-auditors.html>

KPMG (2022): "Internal Audit Intelligent Automation."

<https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2022/internal-audit-intelligent-automation.pdf>

Citations

KPMG (2024): "99 Percent of Organizations Expected to Adopt AI in Financial Reporting."

<https://kpmg.com/my/en/home/media/press-releases/2024/07/99-percent-of-organizations-expected-to-adopt-ai-in-financial-reporting.html>

PYMNTS (2023): "Law Firm Allen & Overy Debuts AI Contract Negotiation Tool."

<https://www.pymnts.com/artificial-intelligence-2/2023/law-firm-allen-and-overly-debuts-ai-contract-negotiation-tool/>

Thomson Reuters (2023): "Do Not Solely Rely on AI Tax Advice, Says Taxpayer Advocate."

<https://tax.thomsonreuters.com/news/do-not-solely-rely-on-ai-tax-advice-says-taxpayer-advocate-industry-responds/>

Thomson Reuters (2024): "Future of Professionals Report 2024."

<https://www.thomsonreuters.com/content/dam/ewp-m/documents/thomsonreuters/en/pdf/reports/future-of-professionals-report-2024.pdf>

Durolabs. (2024): Image

<https://durolabs.co/wp-content/uploads/2024/09/Robotics-human-scaled.jpg>

Freepik. (n.d.): Image

https://www.freepik.com/premium-vector/ai-blue-logo-caution-sign-white-background-with-copy-space_52079315.htm

Katoch, R. (2019): Image

https://media.licdn.com/dms/image/v2/C5112AQGw5Jcgc1nKJQ/article-inline_image-shrink_1000_1488/article-inline_image-shrink_1000_1488/0/1561587203187?e=1731542400&v=beta&t=Bki53Mf8FvgF-LVrdIUzogBYBnDHD4tghGAoO-Pbl3A

Bio and Disclaimer

Bio



MEREDITH CHEONG

Managing Consultant
Singapore

mcheong@jsheld.com

Meredith Cheong specializes in forensic accounting and the analysis of economic damages. She has experience in both litigation support and business interruption cases and has been involved in fraud investigation and fidelity claims. Her experience spans across multiple industries including manufacturing, hospitality, retail, and financial institutions.

Meredith routinely reviews financial statements and underlying accounting records in support of J.S. Held's experts in the course of Singapore court, international arbitral proceedings, or insurance claim settlement negotiations. She is familiar with the issues that financial experts often face when obtaining, reviewing, and reporting on financial records in the course of disputes and advisory engagements, and she regularly works directly with our clients and their counsel or external accounting teams to resolve those issues.

Meredith is a Chartered Global Management Accountant, Certified Fraud Examiner and ISCA Financial Forensic Professional.

Disclaimer

This publication has been prepared solely for discussion purposes at a seminar to be held on 24 October 2024. It should not be used or relied upon for any other purpose, nor should it be reproduced, in whole or in part, without the express prior written permission of J.S. Held.

This publication is for educational and general information purposes only. It may contain errors and is provided as is. It is not intended as specific advice, legal, or otherwise. Opinions and views are not necessarily those of J.S. Held or its affiliates and it should not be presumed that J.S. Held subscribes to any particular method, interpretation, or analysis merely because it appears in this publication.

We disclaim any representation and/or warranty regarding the accuracy, timeliness, quality, or applicability of any of the contents. You should not act, or fail to act, in reliance on this publication and we disclaim all liability in respect to such actions or failure to act.

We assume no responsibility for information contained in this publication and disclaim all liability and damages in respect to such information.

This publication is not a substitute for competent legal advice. The content herein may be updated or otherwise modified without notice.



JS HELD

Find your expert.®

J.S. Held, its affiliates and subsidiaries are not certified public accounting firm(s) and do not provide audit, attest, or any other public accounting services. J.S. Held, its affiliates and subsidiaries are not law firms and do not provide legal advice. Securities offered through our affiliate, Ocean Tomo Investment Group, LLC, member FINRA/SIPC. All rights reserved.