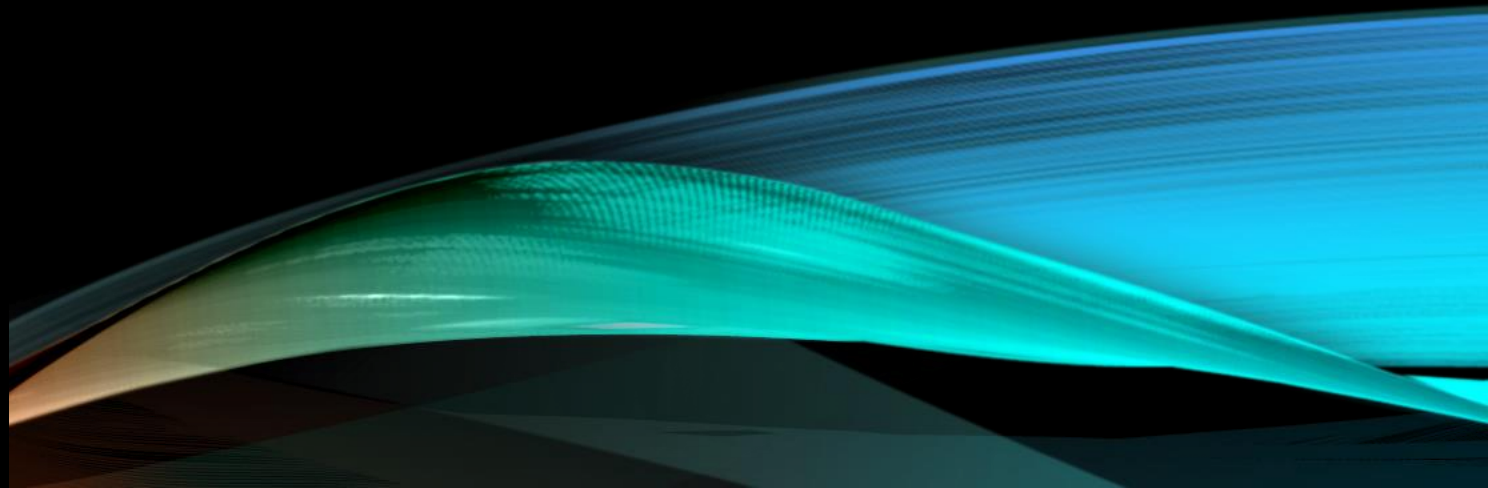# AI AS YOUR FINANCIAL AUDITOR

IMA NERC 2022

Speaker Background – Dave Sackett

Graduated from Westfield State University in 1992 with a degree in Business Management with a concentration in Accounting

Student IMA member

Cost Accountant to become a CFO

Member of Financial Executives International and on a national committee to investigate Finance and IT topics, like AI.

Writer for Forbes on topics like AI and Finance

Guest scholar for CFO.University with courses on AI and Blockchain
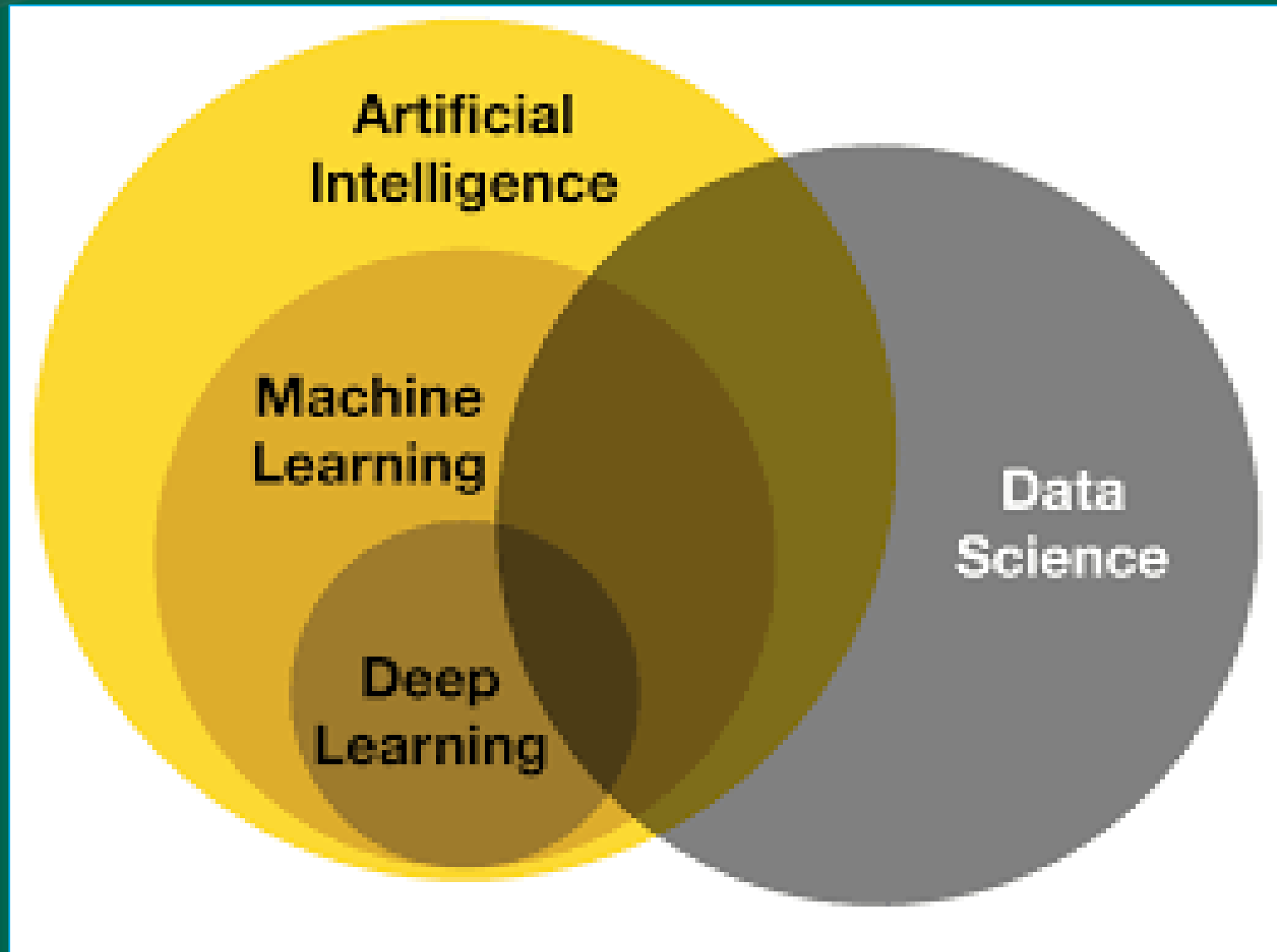
KIAZEN - Always Improve

Paper Ledger in 1993 for logging bank transactions

AI is tool to use in Finance and Accounting

Auditors who do not embrace AI, will be replaced by those that do

AI Definitions in this Talk

Source: https://deviq.io/resources/articles/ai-vs-ml-vs-data-science/

BENEFITS OF AI
FOR AUDITORS :

TIME SAVINGS
FASTER DATA ANALYSIS
ENHANCE CLIENT SERVICE
INCREASED LEVELS OF ACCURACY
MORE IN-DEPTH INSIGHT INTO BUSINESS PROCESSES

The value of AI to external auditors is too great to ignore

Audit Sampling

Robin Grosset, CTO of MindBridge AI once said, "Sampling is a coping mechanism for dealing with large data, because it is humanly not possible to examine each and every transaction." The alternative is to examine all of the data, which can be onerous and not very practical.*

Machine Learning can be used for this task
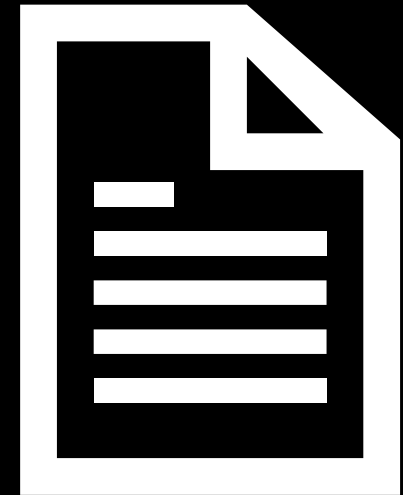
Unusual data can be identified

The Reason for Auditing is Not Changing, but the Tools Are

The audit is set to be further transformed by deep learning, a form of AI that can analyze unstructured data such as emails, social media posts and conference call audio files.

An AI Lie-detector exists by analyzing speech patterns and related context

Contract review example

Why is AI suitable for auditing data?

Machine Learning (ML)

A client auditing program can be taught what a normal transaction appears to be in big data.

As the AI program is exposed to analyzing more and more similar clients, transaction profiles are built.

The specific corporate accounting rules can be taught

Unusual transactions?

The AI auditing program could also be taught how to identify:

- Fraudulent transactions
- Violations in GAAP
- New or changed accounting policies, it was not taught
- Improper sign off on transactions
- Company policy violations
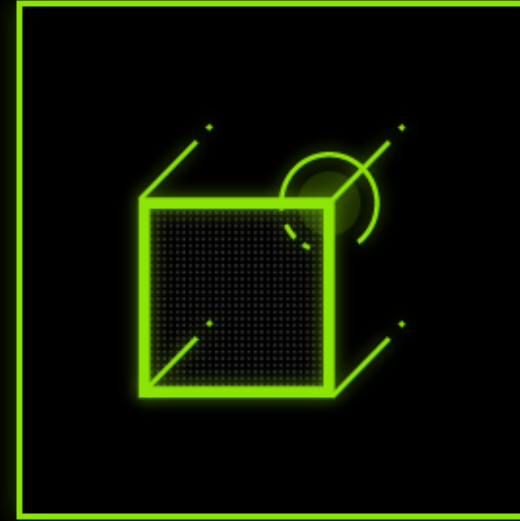- Manual Journal Entry transactions

Digital Smart Contracts Are Coming

Some business transactions will include blockchain's smart contract functionality in the future.

// HALBORN
Blockchain Cybersecurity Company

Contracts are can be programmed well or poorly

Smart Contract Audits

Halborn provides an exceedingly thorough analysis of a blockchain application's smart contracts in order to correct design issues, errors in the code, or identify security vulnerabilities. We perform both manual analysis and automated testing to make sure your smart contract application or DeFi platform is ready.
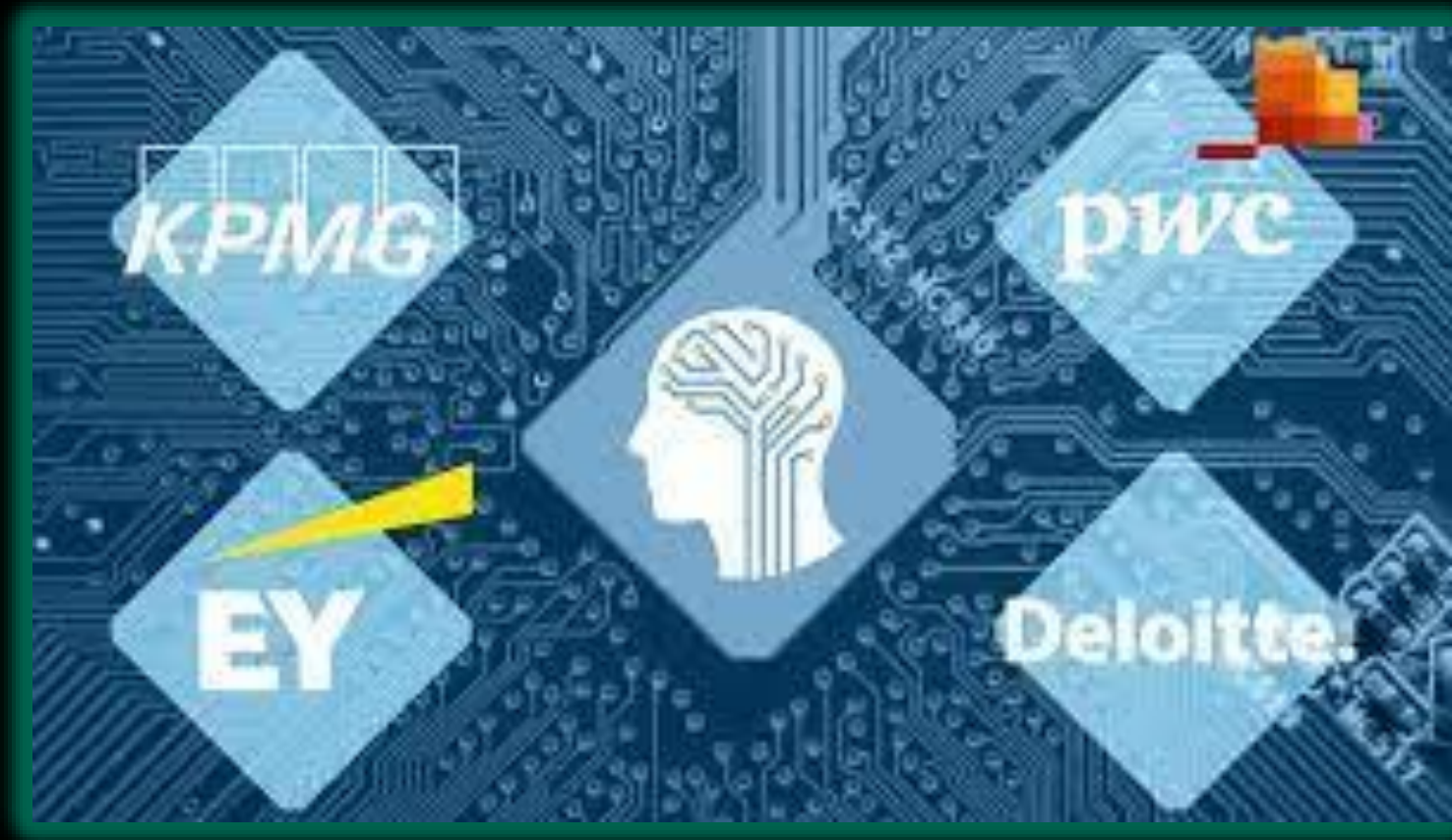
Forecasting & Reasonableness of the Numbers

How AI/ML can aid in budgeting:

•Traditional budgeting does not generate data at the same granularity as actuals. Artificial intelligence, on the other hand, can make granular forecasts.

•Based on historical run rates, AI makes it simple to incorporate organizational goals into operational expenses.

•It also simplifies the calculation of business drivers and their econometric impact on various P&L

Auditors will be able to forecast your historical numbers against internal and external business drivers

Source: https://tadaa.ai/ai-in-budget-season/

Big 4 Embraces AI for Auditing

Source: https://www.ft.com/content/0898ce46-8d6a-11e7-a352-e46f43c5825d

Big 4 Comment on AI Auditing

"We're building industry-specific advanced audit analytics for our audits that teams can apply to client data."

- Lara Abrash - Deloitte

https://www2.deloitte.com/content/dam/Deloitte/us/Documents/deloitte-analytics/us-da-advanced-audit-analytics.pdf

Big 4 Comment on AI Auditing

AI enables auditors to ask better questions and to interact more with CFOs, audit committees and company boards, adding value to the audit process. AI could contribute to providing better-quality audits – and an exciting future for auditors

EY
Building a better working world

https://www.ey.com/en_gl/assurance/how-artificial-intelligence-will-transform-the-audit

Big 4 Comment on AI Auditing

AI Audit for Cash enables cash audit procedures to be executed effectively by technology including AI. It covers these areas of the audit of cash:

1. Cash balances
2. Bank reconciliations
3. Bank confirmations
4. Foreign exchange
5. Financial condition

The process is fast, seamless and intuitive and the result is a more hassle-free, frictionless experience, driving audit quality, accuracy and reliability.

https://www.pwc.com/gx/en/about/stories-from-across-the-world/harnessing-ai-to-pioneer-new-approaches-to-the-audit.html

Big 4 Comment on AI Auditing

KPMG

New technologies mean that, as auditors, we will have more time to focus on risks that matter, and on more complex and judgmental areas.

Data-driven techniques will meanwhile enable quicker assurance over routine and frequent transactions, and we will move from auditing largely historical information, towards continuous monitoring that feeds real-time decision making.

https://home.kpmg/ch/en/blogs/home/posts/2021/10/automating-the-auditor.html

Delays for AI Internal Auditing Adoption

- No budget for software

- Lower perceived value to internal vs. external auditors

- Expected ROI vs. other corporate projects

- Company personnel are too busy to implement /Lack of Project Management

- Pandemic complications

- Great Resignation, focus to onboard new employees, train on core business

- Difficult to scale AI beyond initial use case

Student & Early Career Resources

Student IMA membership
https://www.imanet.org/students?ssopc=1

FEI Engage – Find CFO mentors
https://www.financialexecutives.org/FEI-Engage.aspx

CFO.UNIVERSITY – Online education for aspiring CFOs.
https://cfo.university/

Connect with me

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                member connections

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"The only real mistake is the one from which we learn nothing." Henry Ford