AI in Auditing: Opportunities, Risks, and the Future

Meet the Presenters

Ross Townsend, CPA

Audit Manager at Landmark CPAs in Little Rock, AR. He joined the Landmark team in 2021 after graduating from college. He primarily provides audit and assurance services in the for-profit, nonprofit, HUD, and other commercial sectors.

He plays an active role in internal training and development at Landmark CPAs. He leads initiatives focused on training staff in new auditing software and tools, helping ensure the firm remains at the forefront of technological advancement in the profession.

Rudy Lockehart

Staff Accountant at Landmark CPAs in Little Rock, AR. He provides experience auditing clients in agriculture, nonprofit, and governmental sectors.

He has hands-on experience with tools such as Datasnipper, Validis, and Teammate Analytics, and actively explores the integration of emerging technology to enhance workflows.


FINALLY PASSES THE CPA EXAMS
GETS REPLACED BY AI
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Agenda

- High-level Overview of AI and Development
- Opportunities of AI in Auditing
- Risks of AI in Auditing
- The Future of AI in Auditing
- Q & A Session

High-level Overview of AI and Development

What is Artificial Intelligence?
AI = Computers Performing Human-Like Tasks

- **Mimics** reasoning, learning, and pattern recognition
- Learns from data rather than relying on fixed instructions.
- Already influencing how information is analyzed and communicated
- AI is *not* a magic button; it requires human interaction.

What is Artificial Intelligence?
Core Types of A.I. Technologies

Machine Learning

- Finds patterns and relationships in large data sets
- Learns from examples and improves over time
- Generates predictions or classifications
- Common examples: Social media algorithms
- *Think "teaching a computer by example, not by code."*

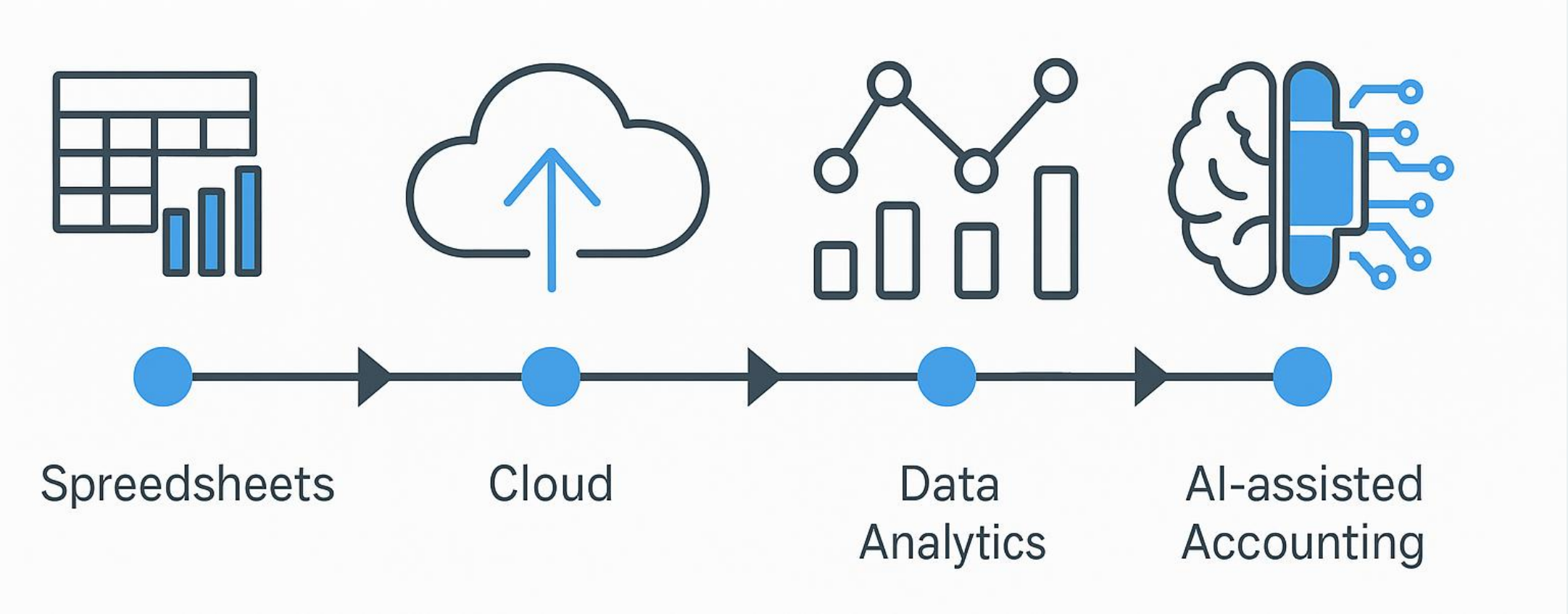
Generative A.I.

- Creates new content (text, images, or data) based on what it's learned
- Uses patterns from training data to produce realistic outputs
- Common examples: LLMs (ChatGPT, Copilot)
- *Think "a tool that provides the first draft, you provide the polish."*

Robotic Process Automation

- Automates repetitive, rule-based digital tasks
- Follows clear, predefined instructions; no learning involved
- Moves or inputs data across systems quickly and consistently
- Common examples: Data extraction, bank reconciliations
- *Think "a robotic intern who never gets tired."*

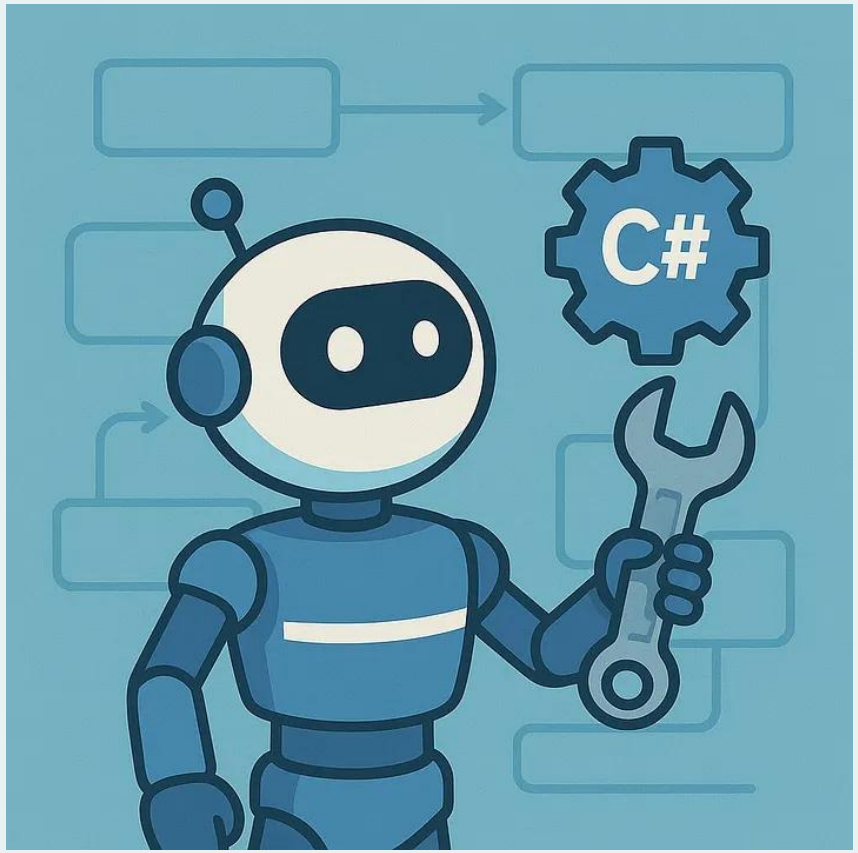
What is Artificial Intelligence?
Evolution of Technology in Accounting



What is Artificial Intelligence?
How Each Stage Changed the Audit Profession

Technological Advance	Impact on Auditing
Spreadsheets	Replaced manual calculations and paper schedules. Allowed auditors to perform faster recalculations and build electronic workpapers. Improved accuracy and reduced clerical errors.
Cloud-Based Accounting	Enabled remote access to client data and real-time collaboration. Increased efficiency in obtaining evidence and performing interim work. Introduced new risks around data security and access controls.
Data Analytics	Expanded audit testing beyond samples to full-population analysis. Helped identify anomalies, trends, and fraud indicators more effectively. Shifted auditor focus from data gathering to risk assessment and interpretation.
AI Assisted Accounting	Automates repetitive procedures like transaction matching and memo drafting. Supports predictive risk modeling and anomaly detection. Enhances audit quality and efficiency but requires human oversight and professional judgment to validate results.

What is Artificial Intelligence?
One Part of a Technological Ecosystem



- **AI is a tool**: Each serves a different purpose within a bigger toolbox.
- **Right tool, right job:** You wouldn't use a hammer for a screw; each AI tool serves a specific purpose.
- **You are the professional:** With human oversight, these tools streamline processes and enhance efficiency.

What is Artificial Intelligence?
From Understanding to Opportunity

- Using AI takes practice; it's a skill like any other.
- Advances in technology are creating new and exciting opportunities for audit professionals.

Key Point: AI isn't magic. It's the next step in the evolution of tools we've already been using.

Opportunities in Auditing

Audit Planning and Risk Assessment
In what ways can AI change traditional approaches?

- Reliance on manual data collection:
  - Client interviews for process understanding
  - Reading of board minutes, contracts, and agreements
  - Observation of client operations and controls
- Using AI's Natural Language Processing (NLP) to extract insights from documents and set expectations based on a variety of factors (industry, audit type, etc.)
- AI-driven transcription and summarization of client interviews.

Audit Planning and Risk Assessment
In what ways can AI change traditional approaches? (continued)

Data Collection	Integration of AI
Client Interviews	Utilizing AI tools to analyze financial and operational data before client meetings to: • Identify significant changes in account balances or processes. • Focus discussions on areas with potential risk or unusual activity. • Reduce time spent on general inquiries by targeting key issues.
Reading of documents	AI powered document review will: • Quick extraction of relevant information from board minutes, contracts, and internal memos. • Generation of customized questions based on document insights. • Enhanced auditor preparedness and relevance of interview topics. • Identify changes in documents through version comparison, highlighting terms, and flagging alterations

Audit Planning and Risk Assessment
In what ways can AI change traditional approaches? (continued)

Data Collection	Integration of AI
Observation of client operations and controls	Documentation of operations and control through: • Reading and summarizing internal polices and process documents. • Using notes from interviews and observations to build accurate process narratives/memos. • Creating consistent documentation across transaction cycles (e.g., revenue, purchasing, payroll).

Audit Planning and Risk Assessment
In what ways can AI change traditional approaches? (continued)

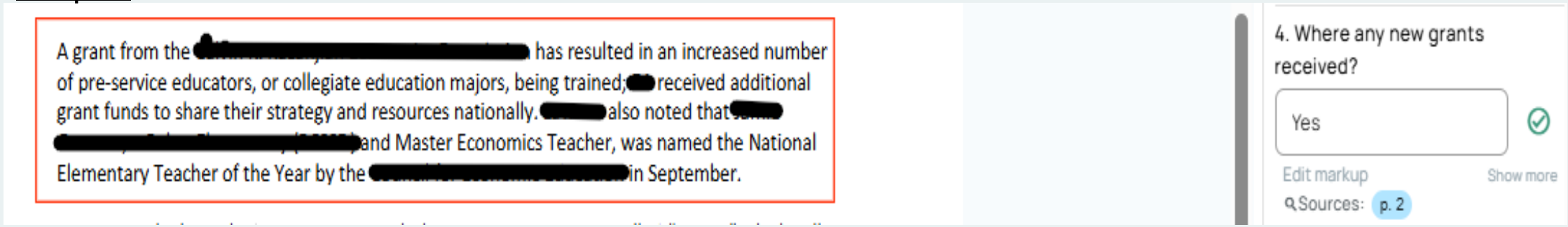
Example: Utilizing AI for Reading for Documents through queries

AI Tool used: Uplink

Document Analyzed: Board Minutes

Query Set: Where any new grants received

<u>Output:</u>



Audit Planning and Risk Assessment
In what ways can AI change traditional approaches? (continued)

Example: Observation of client operations and controls.

Document Analyzed: Notes from client meeting and documentation of revenue transaction cycle

Output: Creation of simple process narrative as seen here

Accounts Receivable (AR) Management: The company holds weekly meetings to review AR activities and collection efforts. [redacted] tracks AR details, including due dates and outstanding amounts, in a separate document. Collection processes begin after 30 days, and tickets/sponsor benefits are not provided until payment is collected.

Board-Level Decisions and Approvals: The board approves rate card pricing and unique proposals, with [redacted] signing all contracts. Decisions on charitable donation restrictions and barter agreements are also made at the board level. Financials are reviewed monthly by the board and director for accuracy.

Donation and Barter Agreements: Donations are unrestricted by donors but designated by the board for charitable purposes. Noncash donations involve a barter agreement where [redacted] provides equal ticket value in return. The cost of donations is determined in collaboration with the donating entity.

System Access and Financial Oversight: Full access to financial systems is granted to [redacted], while restricted access is provided to other key personnel. The company uses QuickBooks for accounting. Journal entries are processed monthly by [redacted], with no formal approval process currently in place.

Audit Planning and Risk Assessment
In what ways can AI change traditional approaches? (continued)

- Use of AI to analyze full datasets and identify risks
  - pattern analysis
  - account trends
  - anomalies identified
  - ratio calculations
- Development of procedures for identified risks or transaction cycles

Audit Planning and Risk Assessment
Use of AI to analyze full datasets and identify risks

Concept	Integration of AI
Pattern Analysis	AI models can find regular patterns and normal behaviors in accounting data. Machine Learning algorithms, like clustering and classification, can spot usual transaction flows or posting behaviors. When something unusual happens, like odd timing of journal entries, duplicate payments, or sudden changes in vendors, the system flags them. This helps auditors to: • Focus on unusual patterns that might be mistakes or fraud. • Group transactions by risk level, making it easier to allocate audit resources.
Account Trends	AI can help analyze trends over time. It uses predictive analytics and time-series modeling to compare what was expected to what actual in account movements. It can spot unexpected spikes, drops, or reversals that don't match the usual patterns. AI can also use external data, like economic indicators or market data, to explain these differences.

Audit Planning and Risk Assessment
Use of AI to analyze full datasets and identify risks (continued)

Concept	Integration of AI
Anomalies Identified	AI uses unsupervised learning, like autoencoders or isolation forests, to spot outliers in large data sets without needing predefined rules. These systems can keep learning what "normal" looks like for a specific client, industry, or season. Anomalies can include: • Materiality thresholds • Unusual journal entries • Round-dollar transactions • Duplicate vendors or invoices • Non-business-hour postings • Conflicts between subledgers and the general ledger The benefit is that it reduces the time spent on manual testing and helps focus on high-risk transactions.
Ratio Calculations	AI can help calculate and analyze financial ratios over different periods and for different entities. It can automatically calculate and compare liquidity, leverage, and profitability ratios. AI uses pattern recognition to spot deviations from industry norms. It can also combine these ratios with other data, like cash flow trends or operational KPIs, to produce risk scores or probabilities of material misstatements. This helps auditors focus on areas that might need more attention.

Audit Planning and Risk Assessment
Development of procedures for identified risks or transaction cycles

- Utilizing information gather to prioritize risks identified through:
  - Flagged account balances or transactions during analysis
  - Information identified during observation of document review
- Data-driven sampling for tests of controls or substantive testing
  - Focuses on transactions with higher risk indicators based on full data sets rather than reliance on random or haphazard sampling
- Documentation of planning or assessment process
  - Provides audit trail for rationale risk prioritization
  - Proposed audit procedures

Question

- For those implementing use of AI, what specific aspects of your audit process do you believe could be most improved by AI?

Enhanced Efficiency and Productivity

- AI automates repetitive auditing tasks, saving valuable time:
  - Testing
  - Data extraction
  - Workpaper and Financials Review
  - Sharing templates across the firm
- Improved data processing speeds enable faster decision-making
- AI tools reduce human errors, increasing audit accuracy
- Real-time insights optimize resource allocation and project management
- Upscale skills and capabilities of staff

Enhanced Efficiency and Productivity
Automation of repetitive tasks

Task	Use of AI
Testing of Details (TOD)	Auditor utilizes AI to perform TOD by using document matching tool. Document matching automatically links supporting documents (like invoices, contracts, or confirmations) to corresponding transactions or balances in the testing selection, ensuring accuracy and speeding up verification.

Time using traditional audit approach: 8 hours

Time utilizing AI: 3 hours

Time saved: 5 hours

Sheet Number	Contract Number	Price
9986	0002574	15.11
10326	0002591	15.56
9831	0002524	14.58
9790	2514	15.56
10353	2582	15.22
10272	2396	15.00
10272	2594	15.00

Delivery Sheet #	Contract Number	Price
009986	2574	15.11
10326	2591	15.56
9831	2524	14.58
9790	2514	15.56
010353	2582	15.22
10272	2396	15
10272	2594	15

Enhanced Efficiency and Productivity
Automation of repetitive tasks (continued)

Task	Use of AI
Data Extraction	Auditor utilizes AI to extraction of trial balances from multiple PDF files by using extraction tool. Data extraction automatically identifies and extracts key information (such as terms, amounts, and dates) from supporting documents and links it to audit workpapers, enabling faster verification and documentation of audit evidence.

Time using traditional audit approach:
Manual input - 8 hours

Time utilizing AI: 1.5-2 hours

Time saved: 6-6.5 hours

Accour	Investments	Cash	Accrued Income Receivable	Accrued Expense Payabl	Total Net Assets
4401	43,059,646.21	**19,584.36**	91,907.11	3,846.80	40,642,542.82
4509	2,012,761,724.64	**255,864.71**	-	179,195.20	1,871,738,176.67
4510	726,621,722.10	**447,285.13**	393,344.65	64,936.70	691,807,495.90
4511	448,331,143.06	**326,717.06**	506,900.87	40,244.00	432,401,998.93
4512	221,488,355.89	**615,432.03**	515,569.63	19,894.19	217,237,629.30
4513	186,053,534.65	**238,375.33**	855,458.28	16,791.66	187,066,702.42
4514	3,690,700,913.98	**(423,380.12)**	-	328,640.97	3,437,253,200.18
4515	6,043,371,869.96	**(77,638.98)**	-	536,568.58	5,570,058,910.12

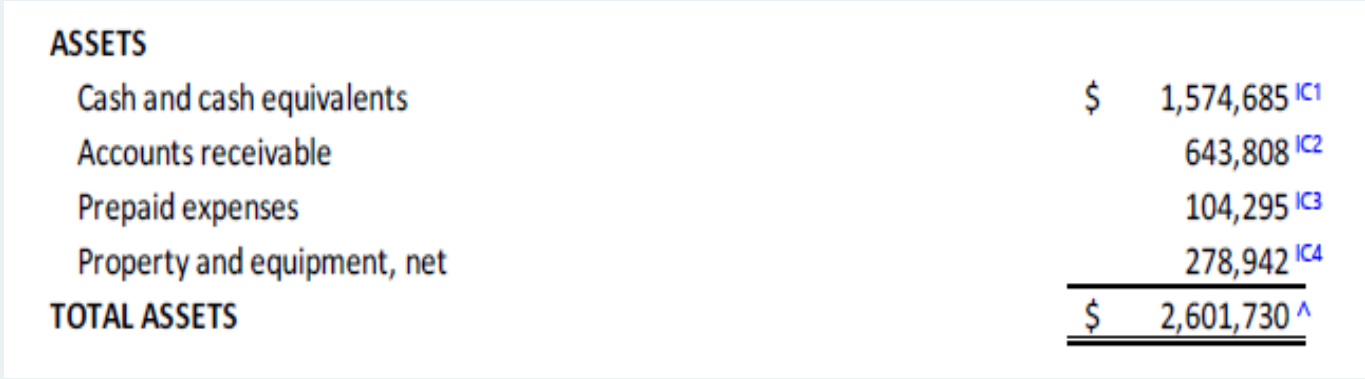
Enhanced Efficiency and Productivity
Automation of repetitive tasks (continued)

Task	Use of AI
Financials Review	Staff preparation or Management level review of financial statements by using Financial Statement Suite tool. Financial Statement Suite automates the extraction, cross-referencing, and validation of figures from financial statements to ensure accuracy and consistency across audit workpapers, significantly reducing manual tie-out and verification time.

Time using traditional audit approach: 2 hours

Time utilizing AI: 30 minutes

Time saved: 1.5 hours



ASSETS		
Cash and cash equivalents	$	1,574,685 IC1
Accounts receivable		643,808 IC2
Prepaid expenses		104,295 IC3
Property and equipment, net		278,942 IC4
TOTAL ASSETS	$	2,601,730 ^

Enhanced Efficiency and Productivity
Upscale skills and capabilities of staff

- Streamlined workflows allow auditors to focus on higher-level analysis
- Putting high quality tools in the hands of non-experts
- By utilizing these tools, staff can identify information they might not have caught on their own. Through this they:
  - Begin to develop an understanding of what to look for in the future
  - Begin to feel empowered by building their professional judgement
  - Accelerate learning and skill development
  - Improve work quality and efficiency

Question

- For anyone who is currently utilizing AI for their audit engagements, what other efficiencies are you seeing or for anyone who is not utilizing AI, how could you implement these tools into your firm?

Quality of Service

- More accurate analyzing of client information for risk assessment
- Enhanced accuracy of financials and consistency
- Deeper insights provided from more detailed review of potential fraud indicators, compliance issues, and processes
- Faster audit turn-around without compromising quality of work

Report Writing

- Footnotes to the financial statements
- Audit Findings and documentation

  - Utilizing AI search engines to search for specific instances of control issues if given enough context like state, entity names, fiscal year, type of control issue within databases like the federal audit clearinghouse

- Control issue write-ups

  - Summarize control failures to assist in verbiage used to communicate with clients and reporting

- Disclosure testing assistance

  - access to robust amounts of information and therefore give the ability to cross-reference with standards/requirements for disclosure needs

Report Writing
Footnotes to the Financial Statements

AI Tool Used: Microsoft Co-pilot

Prompt: Help me write a financial statement footnote under U.S. GAAP for revenue recognition of title sponsorship agreements.

Result: Footnote disclosure that can be tailored as seen here

Note X – Revenue Recognition

Revenue from title-sponsorship agreements is recognized in accordance with **ASC 606**, "Revenue from Contracts with Customers." The sponsorship agreements typically include the following performance obligations: naming rights, branding and marketing exposure, hospitality access, and media/promotional inclusion.

The transaction price is typically fixed but may include incentives contingent on metrics (e.g., attendance, TV ratings), which are estimated at contract inception and recognized only when it is probable that a significant reversal will not occur.

The transaction price is allocated to each obligation based on standalone selling prices using observable or estimated methods. Naming rights revenue is recognized at a point in time upon commencement, while revenue for marketing, branding, and hospitality is recognized over the event period as services are performed.

Deferred revenue as of [period end] was $[X], and revenue recognized during the period from these balances was $[Y].

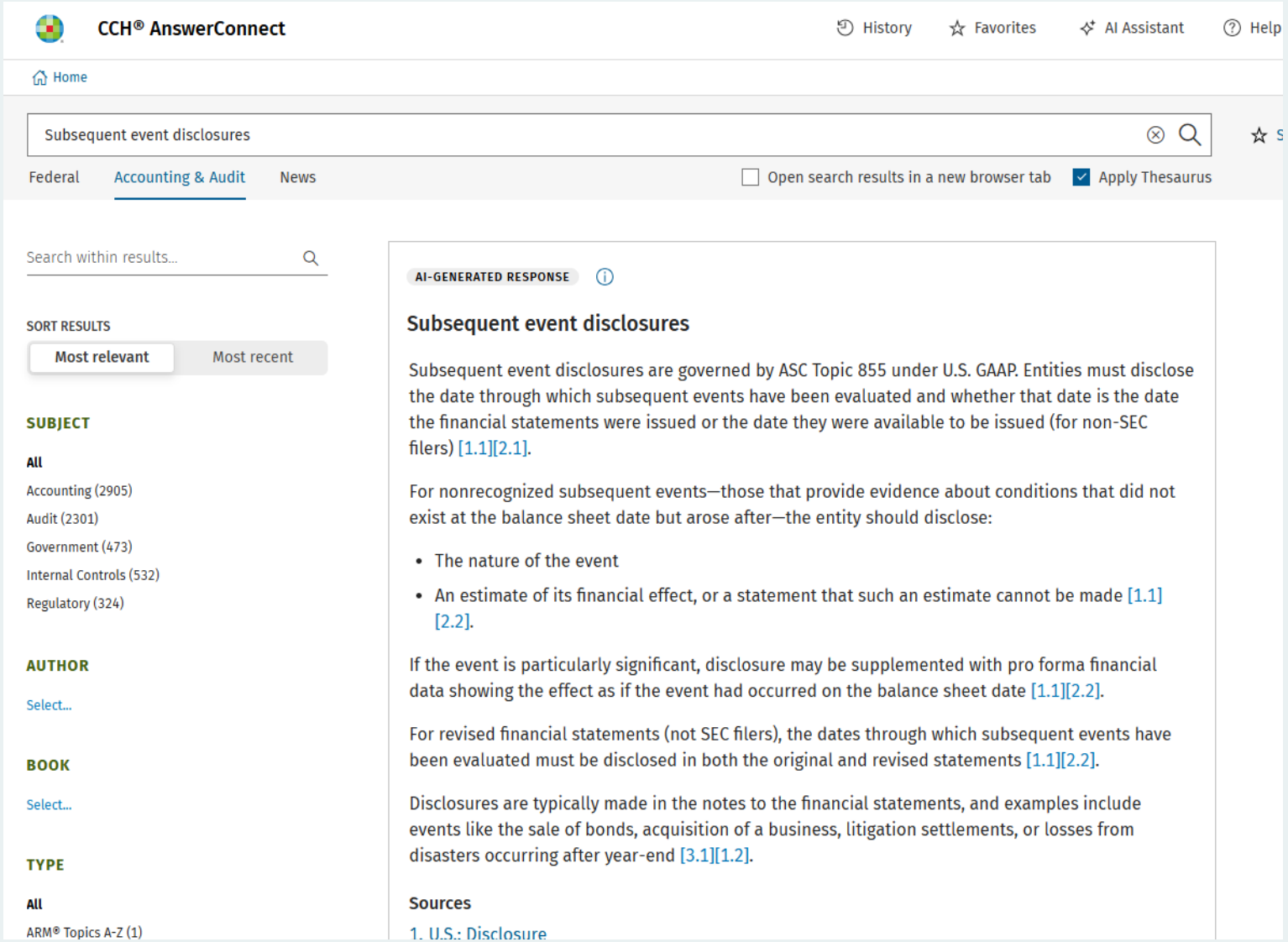
Incremental costs to obtain sponsorship agreements are capitalized and amortized over the period during which the related performance obligations are satisfied.

Research

- Utilize AI search engines
    - Wolters Kluwer built-in AI feature for CCH Answer Connect
    - Thompson Reuters AI-Assisted Research platform on Checkpoint
    - Microsoft Copilot
- Ability gather information across multiple industries, audit types, and applicable frameworks

Research
Utilize AI Seach Engines

- Example:



Question

- Is report writing and research using AI tools something that is currently being utilized by your firm?

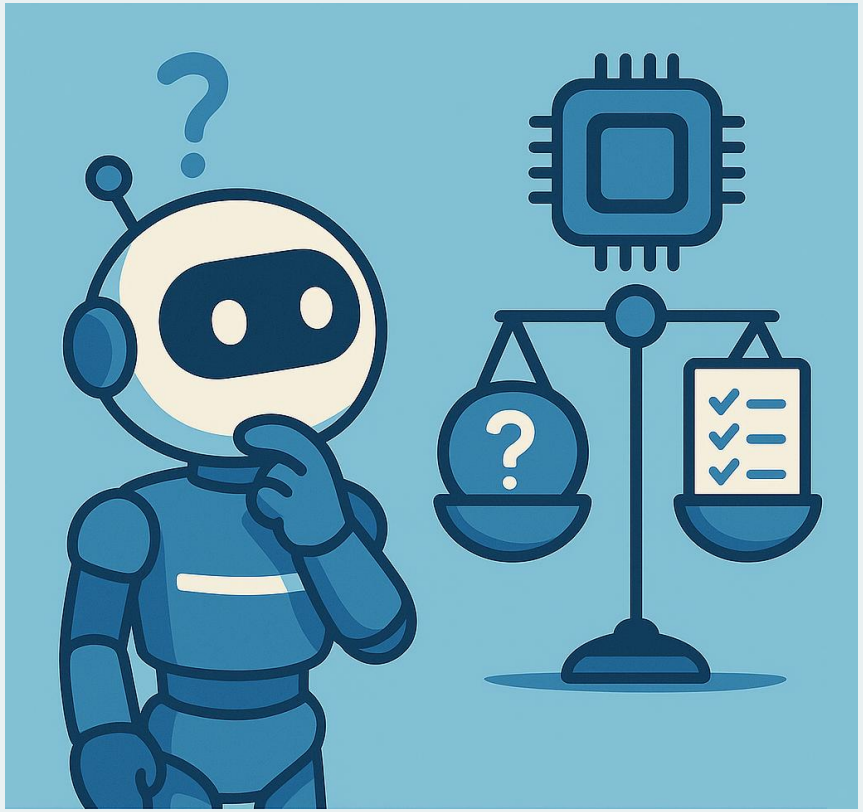
Software and AI Tools Available

- Excel Add-ins
- Microsoft Copilot (integrates with all Microsoft apps, including Teams, Outlook, PowerPoint, Word, and Excel)
- Datasnipper
- UpLink
- Thomson Reuters Audit Intelligence Analyze
- CCH AnswerConnect
- Trullion

Risks in Auditing

Risks of AI Use in Auditing
Balancing Innovation with Professional Skepticism

- New tools bring new risks; accuracy, transparency, and ethics remain essential.
- Auditors must validate data, methods, and outputs, not just accept results.
- Every new capability introduces new responsibilities.
- AI doesn’t replace auditor judgment; **it depends on it**.



Risks of AI Use in Auditing
Key Limitations of AI Technology

- **Data quality matters:** Garbage in = Garbage out
- **No true judgment:** AI (on its own) can't apply context, ethics, or professional skepticism
- **Hallucinations:** AI may generate incorrect or fabricated information when logic gaps or data conflicts exist.
- **Sometimes a "black box":** AI's internal logic can be unclear. We see inputs and outputs, but not how decisions are made. This limits transparency and makes validation against audit standards more challenging.

Risks of AI Use in Auditing
AI Audit Reliance

- Recent Issuance by AICPA Forensic & Valuation Services Executive Committee (September 2025)
  - Could also be applicable for audit engagements

Key Considerations:

1. "Whether the use of AI complies with engagement terms."
2. "Whether the security and confidentiality protocols of the chosen AI environment are consistent with requirements under protective orders, nondisclosure agreements, or similar agreements and confidentiality obligations."
3. "Whether rules, regulations, and norms in the relevant jurisdiction(s) influence how AI may be used and the need to preserve and/or disclose records evidencing the use of AI (e.g., prompts, responses, input/output data, etc.)."
4. "Whether points 1–3 above should be discussed with client and/or client's counsel prior to the use of AI."
5. "Whether the member possesses the knowledge, skills, and ability necessary to evaluate the output of the AI tool in the context of the engagement."

Risks of AI Use in Auditing
Professional Skepticism and Data Responsibly

- AICPA Code of Conduct still governs client confidentiality.
- Avoid feeding client data into public or unsecured AI tools.
- Use firm-approved platforms with data controls in place.
- Maintain professional skepticism; verify, don't just assume.
- Review outputs carefully and apply the professional judgment and standards required for the engagement.

Risks of AI Use in Auditing
Firm Quality Management – Best Practices

Governance and Compliance

- Establish clear policies: Develop a IT policy framework for AI use that aligns with legal and regulatory requirements and review it regularly.
- Audit AI systems: Periodically audit the AI systems themselves for bias, accuracy, and ongoing compliance with regulations and internal policies. (SOC reports)

Staff Training and Development

- Provide comprehensive training: Implement robust training programs that teach staff how to use AI tools effectively and verify the accuracy of AI-generated outputs.
- Foster AI literacy: Promote firmwide AI literacy by helping staff understand both the capabilities and limitations of AI tools.
- Emphasize human judgment: Communicate to staff that AI is a tool to enhance, not replace, human expertise, and keep human judgment central to the audit process.
- Involve leadership: Ensure firm leadership is engaged and informed to guide responsible AI adoption.

Risks of AI Use in Auditing
The Tools Have Changed; The Standards Haven't

- Judgment, supervision, and documentation remain the auditor's responsibility.
- Ensure the protection of sensitive client data when using AI tools.
- Train staff and promote a culture of awareness, experimentation, and accountability.

Key Point: AI may enhance performance, but accountability stays with the auditor.

Question

- What are the main risks that could affect your staff or firm using AI software and tools?

The Future of AI in Auditing

Continued Improvements and Developments

- Increase in demand by clients for more in-depth insight to operations
- Expanding AI tools for audit related uses

  - advanced developments of anomaly detection, pattern recognition, predictive risk modelling across audits

- Expansion of existing AI infrastructure
- Continued shift from traditional audit approach to a more judgmental and analytical approach

Continued Improvements and Developments (continued)

- Firm and/or audit specific customized AI tools
- Audit firms and software vendors collaborating to tailor AI tools to auditing workflows, risk models and regulatory requirements.
    - Increase in AI software and tools created for auditors by auditors
- Expectation of greater accessibility for small to mid-size firms through cost reductions
- Integration of AI across all stages of an audit
- Real-time data feeds and dashboards: AI will help monitor controls, detect anomalies on-going, not only at year end.

Continued Improvements and Developments (continued)

- Auditors and firms who embrace AI will gain in efficiency.
- Success depends not just on using AI-tools, but on aligning them with audit methodology, data quality, human factors and ethical considerations.
- Working with the AICPA, state CPA societies, and state boards of accountancy modernize professional standards to address AI use in audit engagements
    - Ethical requirements
    - Quality management standards
    - Audit methodology and professional guidance
    - Clarifying auditor responsibilities for reliability, documentation, and review under audit standards
- Ongoing education and transparency are essential to maintain public trust as AI becomes standard in audit practice

Young Audit Professionals

- Evolving skill sets

  - Employing the use of non-accounting majors and non-traditional accounting background (Information systems, data analytics, etc.)

  - Shift from information collecting to information analyzing and interpreting

  - Auditors to play a strategic role in advising, recommending, and providing support through research and information

  - AI tool oversight

  - Prompt design

  - Interpreting results

Young Audit Professionals (continued)

- Shift to younger generation in the workforce
- New changes to CPA Exam
    - ISC discipline focused on information technology, security and data management
    - Strong pass rates for ISC
- Continued changes from states reducing the barrier to entry for obtaining CPA
    - Reduction of 150 rule
    - Experience

Young Audit Professionals (continued)

- CPA Exam Pass Rates

2025

Section	Q1	Q2	Q3	Cumulative
AUD	44.30%	49.05%	50.03%	48.01%
FAR	41.67%	43.52%	43.07%	42.80%
REG	62.03%	63.58%	66.05%	63.94%
BAR	37.64%	47.26%	39.46%	42.55%
ISC	61.23%	71.96%	66.91%	68.21%
TCP	74.94%	80.63%	76.68%	78.06%

Question

- Is there anyone already seeing a shift within young audit professionals for involvement in new technologies and skills?

Shift to Higher-Value Activities

- Elimination of repetitive manual work leading to efficiency and cost savings.
- Freeing up time for partners and upper-level management to:
    - Take on additional client facing work
    - Focus on firm growth
- Ability to adding to audit services including:
    - It controls
    - AI related compliance
- Adding to value of CPA's being the most trusted advisors

Final Questions?

Thank you

Ross Townsend, CPA
Audit Manager
rtownsend@landmarkcpas.com

Rudy Lockeharrt
Staff Accountant
rlockehart@landmarkcpas.com