

EACLN VIEWPOINTS

Artificial intelligence: opportunities and risks

May 2024



Artificial intelligence (AI) has the potential to transform a company's business, and its adoption across large firms is accelerating. Audit committees, charged with overseeing risk and the integrity of financial data, must keep abreast of the changes coming from the use of AI and how these impact governance responsibilities.

On April 10, 2024, members of the European Audit Committee Leadership Network (EACLN) met with Richard Jackson, global assurance AI leader, EY, and Paul Goodhew, global assurance innovation & emerging technology leader, EY, to discuss recent advances and deployment of AI and steps toward strong technology governance.

For a list of reflection questions for audit committees, see page 9. For the list of participating audit chairs, see Appendix 1 (page 11), and for guest biographies, see Appendix 2 (page 12).

This *ViewPoints*¹ covers key themes that emerged in the discussion:

[Seven characteristics of AI deserve attention](#)

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[AI's capabilities introduce new risks](#)

[Technology governance is key to balancing innovation and risk](#)

Seven characteristics of AI deserve attention

“In November 2022, there was a significant breakthrough moment when OpenAI launched ChatGPT-3, one of their early releases of generative AI technology. I would liken it to the launch of the smartphone. It created capabilities accessible to everyone,” said Mr. Goodhew. Governments, companies, and others are all grappling with appropriate use and regulation of AI, but without unified agreement on what constitutes AI. “There is no single definition of AI,” Mr. Jackson explained. But he added, “When thinking about it using a simple lens, AI creates and recreates human behavior. This adds context to why there are risks using it—because risks exist in humans.” An EACLN member noted that people’s use of the term is “a real challenge because people use AI to mean lots of things. Some of the AI is advanced data analytics; some of it is much more advanced than that.” Another agreed: “I can’t tell you where we are using AI. The term is dropped here and there but it is not clear what it is.”

There is no single definition of AI

Mr. Goodhew and Mr. Jackson examined definitions of AI from several organizations, including the European Union, EY, and ChatGPT itself. Mr. Goodhew and Mr. Jackson noted that while all definitions recognize AI as either software- or machine-based, there is inconsistency in acknowledging AI’s autonomy, its ability to infer insights from data, and its capacity to learn without explicit programming. These discrepancies in defining AI will complicate the creation of regulations and standards, especially as the technology advances.

	Software / machine-based	Highlights a degree of autonomy	Inferences from data	Learning w/o explicit programming
EU	✓			✓
NIST	✓	✓		✓
ISO	✓	✓		
OECD	✓	✓	✓	
ChatGPT*	✓		✓	✓
EY	✓	✓	✓	✓

* AI-generated based on prompt to ChatGPT

Mr. Jackson and Mr. Goodhew outlined seven characteristics of AI applications:

- Autonomous systems.** AI powers autonomous systems by enabling machines to perceive, reason, and act without constant human guidance, streamlining processes and improving efficiency. Mr. Goodhew said, “A famous example is the self-driving car, like Tesla, which uses a combination of sensors positioned around the vehicle that scan objects and gaps so that it can park and even drive down a highway autonomously.”
- Conversation and human interaction.** “Historically, when you called a help desk, you were asked to press a number to indicate if you wanted to speak to an assistant or do something else, such as set up a new bank account. When you call now, the system

will ask you a question and you will talk back to the system. It recognizes your words and directs your call accordingly. It can even understand the sentiment in your voice, and if you're frustrated, it can prioritize your place in the call queue," said Mr. Goodhew.

- **Goal-driven systems.** Goal-driven systems aim to find optimal solutions to problems by training machines to understand objectives, make decisions, and take action. AI-powered chatbots, for example, can provide highly directed, personalized customer support, guiding users through troubleshooting and resolving inquiries in real time.
- **Predictive analytics and decisions.** AI harnesses algorithms to analyze large data sets, identify patterns, and predict outcomes, which helps businesses to make informed decisions and mitigate risks. Mr. Goodhew gave an example of how this capacity is being used in mortgage applications: *"During the review process of applying for a mortgage, the lender will take a lot of publicly available information held by various systems to assess the borrower's credit worthiness. The algorithm will use this information to determine their credit worthiness score."*
- **Recognition and information gathering.** By employing advanced algorithms to analyze data, images, and patterns, companies can efficiently extract valuable insights from vast sources of information. For example, AI-powered image recognition systems in quality control processes can swiftly identify defects in manufacturing.
- **Patterns and anomalies.** AI detects patterns and anomalies by analyzing data sets to identify regularities or deviations from expected behavior. Using AI to monitor financial transactions, for instance, can help flag suspicious activities indicative of fraudulent behavior in real time.
- **Hyperpersonalization.** AI systems can analyze vast amounts of data to deliver highly customized content, products, and services that resonate with each user's preferences. *"When you use an online TV streaming service, you view the content, then when you go back into the app again, you find similar content. This is based off what you watched previously. It even customizes images you look at based on what you're most likely to click on. This is powered by AI that analyzes viewing patterns and preferences of similar viewers to predict and suggest content you might find interesting,"* said Mr. Goodhew.

AI will significantly change the business and auditing landscape

Most companies are in very early stages of deploying generative AI to streamline operations and enhance productivity. This early adoption lays the groundwork for more innovative uses that promoters promise will revolutionize how businesses operate and audits are conducted. Those benefits may require substantial changes, however. A recent McKinsey article noted, "The generative AI payoff may only come when companies do deeper organizational surgery on their business."² Members and guests explored how companies are currently

using AI and how it is likely to reshape the business and auditing environment.

Companies are deploying AI in more and more settings

Members reported how their companies are integrating AI into business processes:

- **Improving customer services.** Several members reported using AI in call centers. One described how it helps to better connect with customers: *“It helps our call centers to improve their calls with customers. What does AI do? We record hours and hours of conversations, and no human being would want to suffer listening and analyzing all that. It’s a nightmare. But AI doesn’t mind. It gives very interesting outputs, and it can help us to have better conversations with our customers.”*
- **Decision and process optimization.** AI excels in rapidly analyzing vast amounts of data, which can significantly speed up decision making. One member said, *“We’re using it to help optimize supply chains and optimize pricing decisions. It helps in decisions when there is a huge amount of analysis required. Employees can use it for assistance, but they don’t have to follow the recommendations.”*
- **Enhancing connections with global employees.** One member said, *“We had a short video where the CEO was connecting with worldwide employees at the same time. Thanks to AI, she appeared to be speaking all languages: Russian, Chinese, Czech, Arabic, etc. It was fascinating.”*

Audit chairs are eager to explore further ways to leverage AI

All members expressed interest in learning how AI could spark innovation within their companies. One described current exploration efforts: *“The whole company is working on how to implement AI where it makes sense in our different businesses. There are a lot of people working on this. They’re very excited about the potential use of these new tools.”* Mr. Jackson noted that teams across an organization can use AI for such diverse purposes as summarizing meetings and developing and checking software code. He emphasized that almost all corporate software developers are already using AI: *“Even if you’re considering not deploying AI or using AI tools or software, the capability is under the hood. In reality, AI is probably already in your company’s code.”* But he said that extracting maximum value from AI requires work: *“AI can do individual tasks such as writing memos and research, but to do exciting things, it requires multiple groups in the organization. It requires coordination. That’s where governance comes in.”*

“AI is impressive and advanced, and innovation is coming not every month but every week.”

—Beatriz Sanz Sáiz, global consulting data and AI leader, EY

Transformation in auditing and assurance is on the horizon

Members saw two demonstrations of new AI tools that EY has developed or explored for assurance engagements. They discussed how their companies could apply AI in similar ways:

- Automating the preparation of financial statements.** Thus far, uses of AI have been mostly in operational areas. But Mr. Goodhew noted the increasing use of AI to produce analysis and data for statutory financial statements. He said, *“A specific example we’ve seen recently is around the preparation of information for the financial statements, using generative AI capabilities to take a lot of information currently available, bring it together, and automate some of the analysis.”* Members noted that oversight is critical when using such automation. As one put it, *“Automated tools still need to be sense checked.”*
- Detecting anomalies across significantly greater volumes of information.** *“We’re primarily viewing this as a shift in quality of the analysis, as it allows us to move beyond traditional methods. AI can now leverage data to perform the heavy lifting of identifying anomalies across trillions of transactions, helping pinpoint areas of potential risk across a much broader spectrum. Whether it’s enhancing the quality of audits through deeper analysis or providing clients with deeper insights that AI is enabling, this is what excites us. This is the change we are enthusiastic about harnessing,”* said Mr. Jackson.
- Extending human capabilities.** One member said, *“Having AI generate the financial statements and using other AI tools to assure them is worrying in some ways. I’m interested in what we’re learning about how humans interact with it, add value to it, or how it presents risks.”* Mr. Goodhew responded, *“It’s not necessarily replacing what the human does but extending human capabilities. It’ll take humans days to go through analyzing the financial statements and review data points. AI can do it in minutes.”*
- Comparing and analyzing financial statements.** *“An analyst can now use AI to review a company’s financial statements, annual reports, and trends, and compare it with other companies,”* said a member, adding, *“When we put out our financial statements, should the audit committee consider that they’re going to be analyzed by AI?”*

AI’s capabilities introduce new risks

In a scam committed earlier this year, fraudsters used deepfake video technology to impersonate the CFO of a multinational Hong Kong company, deceiving an employee into transferring some US\$26 million to fraudulent bank accounts.³ *“You can’t trust anything just because you see it,”* said one audit chair. As companies increasingly adopt AI technologies,

they must navigate new risks. Members raised other concerns:

- AI can amplify human biases.** *“Technology doesn’t create bad behavior; humans do. Technology builds on the bad behaviors and amplifies them,”* said Mr. Jackson. He added, *“The quality of outputs is based on the quality and hygiene of the data that goes in. For example, in the case of mortgage lenders, if credit has been granted to a population of over- or underserved communities, this bias in the data is trained into the AI. It’s not the technology that introduces bias; it amplifies what is already there. The importance of trying to understand where there could be bias in the technology and how the quality of inputs can affect the financial information is paramount.”* But correcting bias can be difficult. Mr. Goodhew explained, *“There can be bias in the program where the programmers have tried to correct it but overcorrected. It’s important to look at how the technology was developed and understand the validity of the inputs and outputs. You can modify the algorithm to put emphasis on certain answers to correct bias, but this can lead to overadjustment.”*
- The democratization of coding can make internal fraud harder to detect and more costly to combat.** AI makes it possible for almost anyone to create code. Mr. Jackson explained, *“A lot of code is very specific. It requires exact syntax, and it’s highly repetitive. AI is able to take directions as simple as “I want the right code that will do X.” You say it in plain English, and it’ll translate it to the nuances and the syntax of what the code is required to do. And it can replicate it at speed.”* Members discussed how this can increase the risk of fraud. As one put it, *“You can see the scope for rogue coding and things going wrong.”* Another said, *“The problem is when someone really wants to commit fraud, it’s not easy to identify. If they’re clever and know what they want to do and are determined, they can use all the control measures against us. The more automated the control measures are, and the more tools are based on AI, the easier it is. When you know the mechanism, you can bypass the controls.”*

Ms. Sanz Sáiz, EY’s global consulting data and AI leader who was in attendance, described how coding can be used to input fake data such as bogus transactions:

“Synthetic data can be developed. It’s a new risk. I consider it to be the number one auditing risk in the new AI era.” One member asked, *“Data can be changed, the damage done, but there’s no trace?”* Ms. Sanz Sáiz replied, *“It’s impossible to distinguish.”* But, experts noted, new technologies are being developed that may soon be able to detect such frauds.

- Data privacy is becoming more complex.** *“There’s a new challenge: data privacy,”* said Ms. Sanz Sáiz. *“You can argue that a file or document has copyright protection, but policies that apply to knowledge are different to policies that apply to data. You can use generative AI to extract not the data but the knowledge from a document and use synthetic data to translate that knowledge into ‘real’ data and then move from there. Governance needs to adapt. We need to think about adopting new principles, starting*

with privacy.”

- **Using AI could create new cultural issues.** The nature and volume of easily accessible information is changing. Using AI tools to record team meetings makes it easier to recall key takeaways, but also increases accountability, which can affect working relationships. Mr. Jackson said, *“What if we have different takeaways from a meeting? What if I’m aggressive and I want to one-up on my colleague, so I pull up the transcription and prove that I was right? There are cultural impacts of that. We also know that different jurisdictions have different practices, policies, customs, and laws. How could you deploy that technology globally? This is something companies are currently thinking about.”*

Technology governance is key to balancing innovation and risk

Processes and controls need to adapt with evolving technology use. Members agreed that safe AI use across the company relies on strong AI governance. They discussed good practices:

- **Ensure data is ready to be used.** Mr. Jackson said, *“The biggest challenge is your data. A lot of the transformative things that people imagine, the capabilities to truly redesign the business, come down to the quality, availability, and hygiene of data.”* An audit chair agreed and added that every suspicious or unexpected data anomaly should be investigated: *“AI is perfect for digging very deep into your data, but you have to be aware of two things. One is the quality and integrity of data. The second is, when there’s an anomaly, don’t take it for granted. If it points to something, you really have to look at it.”*
- **Establish risk tolerance and safeguards.** *“You identify and control what you can control. You mitigate to the extent that it suits the risk tolerance of the company,”* said Mr. Jackson. *“If the algorithm is deciding what movie to watch, you’re probably content with 95% accuracy, but if it’s deciding how to treat cancer, you’ll want greater accuracy or assurance than that. It’s not that the technology is risky, but risk tolerance changes depending on the circumstance in which the technology is being deployed and what guardrails are put around it. You can’t put 100% guardrails around everything, but like you do with employees, you moderate the level of autonomy you give.”* One member responded, *“It’s about working out where your limits are and creating*

Key questions for audit committees

Mr. Jackson and Mr. Goodhew shared four questions that audit committees can ask to better understand critical aspects of their company’s AI security.

Strategy	What is your organization’s AI strategy?
Governance	Does your organization have a dedicated governance framework?
Visibility	Do you have visibility on how AI is being deployed across your organization?
Risk management	How is your organization identifying and addressing risks associated with the use of AI?

governance around these limits.”

- **Control internal access to confidential data.** AI tools increase the ease of finding and retrieving information across a company’s digital landscape. Robust data governance protocols, such as strict access controls and regular audits of file permissions, help safeguard confidential documents from unauthorized access. One member said, *“Before, if the company didn’t have perfect technology governance to protect its internal files, it didn’t matter because nobody was going to the OneDrive of the CEO to find documents. Now, because of AI, if the CEO makes a mistake like saving a document in the wrong place or without the right protections, everyone in the company can find and access the data.”*
- **Prevent information from leaving the company.** Most large language models (LLMs) are pretrained (the “P” in ChatGPT) and do not incorporate user prompts into their training sets. However, because they run on cloud servers, there is always a risk of data breaches and bugs, such as one in ChatGPT that let some users see chat history titles and potentially the first message from other people’s chats.⁴ A member said, *“The key concern for us is security, the confidential data of the company. We see the potential of AI, but we’re also concerned that people are using ChatGPT and tools to save six hours of work but may result in our data becoming public.”* One audit chair described an innovative way their company protects its data from becoming public but still lets employees use AI: *“The technology team created and rolled out an AI app across the company, particularly to prevent employees from using ChatGPT. I thought it was a smart approach. Information isn’t getting out of the company.”*
- **Be transparent on where AI is being used.** Members agreed that understanding where AI is being used is critical, especially to comply with forthcoming regulation: *“There are new rules coming on AI-related disclosures. There will be certain required disclosures, but you will also need to explain how you came to each decision, so it’s important to know, when using generative AI, where changes have been made by a self-learning tool because otherwise, we may get into deep trouble.”*
- **Balance hype and control.** EY’s Marie-Laure Delarue emphasized the importance of making sure to *“strike the right balance between the hype, press announcements, excitement around AI, and strong governance over AI. You must ask yourself, ‘Are we in control? Do we really know what the outcome is going to be?’ There are risks of early adoption of technology. It looks great, but it is in its infancy, and everyone is still learning.”*
- **Keep humans involved.** In most corporate settings, AI is not ready to be used without human involvement. An audit chair said, *“Call centers and the like may be driven by AI, but eventually if it can’t deal with the response, it kicks it back to a person.”* Several members emphasized the importance of involving a human to oversee decisions. *“This is something we’ve been talking about,”* said one. *“When you have to make an important*

decision, there has to be a human aspect because everything is not necessarily fine just because your AI application tells you what's going to happen. You always have to have a human involved in decision making.”

Reflection questions for audit committees

- ? How can AI be used to create opportunities for your company? What are the most critical risks in applying these technologies?
- ? How detailed is your knowledge about where AI is being used within your company?
- ? Where do you expect that AI will impact financial controls or statutory reporting?
- ? What formal policies and processes are in place around the use of AI? How is your current technology governance helping or hindering your company's adoption of AI?
- ? What accountability structures have you created around decisions made by AI systems, and how are these monitored and reported?
- ? How thoroughly has your board or audit committee discussed the impact of AI use on risk, risk management, and the internal control environment within the company?
- ? How does your board stay abreast of AI developments? What training and resources are provided to board or committee members to keep them informed about AI technologies and their implications?

About the network

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

About this document

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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Appendix 1: Participants

The following EACLN members participated in all or part of the meeting:

José Miguel Andrés Torrecillas, BBVA
Germán de la Fuente, Santander
Ana de Pro Gonzalo, STMicroelectronics
Carolyn Dittmeier, illycaffè
Renato Fassbind, Nestlé
Byron Grote, Tesco and AkzoNobel
Marion Helmes, Heineken and Siemens Healthineers
Liz Hewitt, Glencore
Pilar López, Inditex
Benoît Maes, Bouygues
John Maltby, Nordea
Nathalie Rachou, Veolia
Maria van der Hoeven, TotalEnergies

EY was represented by the following in all or part of the meeting:

Marie-Laure Delarue, Assurance, Global Vice Chair, EY
Jean-Yves Jégourel, Country Managing Partner, Germany, EY
Hildur Eir Jónsdóttir, Assurance Managing Partner, EY
Hermann Sidhu, EMEIA Assurance Leader, EY
Julie Linn Teigland, EMEIA Area Managing Partner, EY

Tapestry Networks was represented by the following in all or part of the meeting:

Beverley Bahlmann, Executive Director
Jonathan Day, Chief Executive
Todd Schwartz, Executive Director
Hannah Skilton, Associate
Abigail Ververis, Project and Event Manager

Appendix 2: Guest Biographies

Paul Goodhew is at the forefront of innovation for EY assurance services and is a partner sponsor for a range of initiatives across EY assurance as part of EY's USD 1 billion investment program in a next-generation EY assurance technology platform. In this capacity, Mr. Goodhew sponsors EY transformation workstreams and product development teams across topics including artificial intelligence, user experience, intelligent automation, and blockchain.

Based in London, UK, Mr. Goodhew engages with EY assurance clients and teams across the EY global organization to develop and scale EY's strategic response to emerging technologies, including the development of new technology products and technology-related services. In addition, Mr. Goodhew is a member of EY's assurance executive committee and EY's strategic innovation group.

Richard Jackson is the EY global artificial intelligence assurance leader and drives global efforts to accelerate the development and use of artificial intelligence technologies in EY assurance. Additionally, he collaborates with regulators, policymakers, and other EY AI professionals to develop new assurance services that cater to clients' needs in this rapidly evolving field. Mr. Jackson also serves clients operating in the technology and life sciences industries.

Mr. Jackson leverages his nearly 30 years of experience working with leading technology innovators to guide the investment of the EY organization's four-year commitment of more than USD 1 billion to deliver its next-generation assurance technology platform. Richard holds a BA in English from University College, Swansea University in Wales.

Endnotes

¹ *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.

² Eric Lamarre et al., "[A Generative AI Reset: Rewiring to Turn Potential into Value in 2024](#)," *McKinsey Quarterly*, March 4, 2024.

³ Jeanny Yu, "[Deepfake Video Call Scams Global Firm out of \\$26 Million](#)," Bloomberg, February 3, 2024.

⁴ OpenAI, "[March 20 ChatGPT Outage: Here's What Happened](#)," news release, March 24, 2023.