Transformation of Professional Services

How AI Is Disrupting the Professional Services (Audit, Tax & Advisory) Industry, and What We Can Do About It

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Introduction

Artificial Intelligence is no longer the future; it is the present. It's reshaping landscapes, altering industries, and transforming the way we live and work. With its rapid advancement, AI is causing disruption — for better or worse — in every field imaginable. While it promises efficiency and growth, it also brings challenges and uncertainties that professionals and businesses must navigate.

Impact of AI on Audit, Tax and Advisory Firms

AI is likely to have a significant impact on Professional Services firms that provide Audit, Tax, & Advisory services. The firms that are included in this category are the Big Four (Deloitte, PWC, EY, & KPMG), the next 3 (RSM, BDO, Grant Thornton) and the rest of the 80,000+ accounting firms in the US.

The AI technologies that have and will continue to impact, Professional Services firms are **Machine Learning (ML), Natural Language Processing (NLP), Robotics Process Automation (RPA) and Data/Predictive Analytics.** However, the single AI technology that is likely to have the greatest impact is **Generative AI.**

The impact of AI will be:

i. ***Automation of Audit and Tax Processes*** - An Oxford University study stated that accounting and auditing jobs ranked high on the list, with a 95% probability of automation. Tax accountants faced an even higher risk, with a 99% probability of being replaced by computers. [1] We believe that auditors and tax professionals are not going away, however, work that they do currently will be significantly automated. The role of the auditor and tax professional will evolve and become more consultative, and their role will be to help their clients safeguard against fraud and theft, be the first line of defense to monitor financial activities, ensure compliance, and provide insights to enable their clients to make better financial judgements.

ii. ***Improved Efficiency of Advisory and Support Services*** – For Advisory services, the human enabled by the Generative AI technology can become significantly more efficient, during every stage of the work, i.e., creating proposals, drafting reports, market research, analyzing market and client data, developing, and analyzing financials for planning or acquisitions, etc. AI and Generative AI can also significantly improve the efficiency and effectiveness

of support functions such as marketing, knowledge management, finance, etc.

iii. **_Creation of Recurring Revenue Streams_** - Data collected by the audit and tax professionals, can be used to create additional recurring revenue streams, leveraging data and predictive analytics, and provide insights to clients to run their business more effectively.

iv. **_Change in Approach to Client Pricing_** – The adoption of technology by the Professional Services firms will have a significant impact on how clients are charged for services and the overall bottom line of the business. With the increased use of AI, the number of hours to complete an audit, finalize tax returns, perform financial analysis, draft reports, etc., will all go down significantly. As most Professional Services companies tend to bill clients by the hour, this will immediately have an impact on the bottom line. Firms will need to revamp their pricing models to include a combination of flat fee and hourly billing depending on the work, charge a technology fee as a percentage of the proposed work, and have monthly recurring charges for managed services and analytics. The mix of these pricing models will determine the overall impact on the bottom line.

v. **_Talent_** – The most valuable asset in a Professional Services firm is its talent. The headcount, skills, capabilities, and location of resources will all be impacted by AI. AI has already impacted the more repetitive tasks performed by the junior resources. This could alter the pyramid model structure of most firms. Generative AI will take this a step further. Each professional will need to understand how to use AI to make their work more efficient and creative. Additionally, the professionals will need to develop more consultative skills. Finally, AI and automation will encourage work to be performed by shared services centers, often in lower cost locations, and/or even outsourced, when possible.

Technologies that are Likely to have the Most Impact

The AI technologies that have and will continue to impact, Professional Services are Machine Learning (ML), Natural Language Processing (NLP), Robotics Process Automation (RPA) and Data/Predictive Analytics. [2]

However, the single AI technology that is likely to impact Professional Services firms is Generative AI. **Generative AI** is designed to generate new content, data, or outputs that mimic or resemble human-created content. While previous AI solutions focused on the more manual repetitive tasks, and impacted the work done by junior professionals, Generative AI will automate some of the activities of the higher-level knowledge workers. According to a McKinsey study between 25 to 35% of the work done by business professionals will be automated due to Gen AI, by 2030 [3]. According to a recent Deloitte Tech 2024 report [4], "The most productive use of Generative AI won't be about replacing people but will instead focus on arming employees with tools that help them advance their productivity, knowledge and creativity which, in turn, will help drive innovation in the enterprise." Firms that can create their own Private Large Language Models (LLM) will be able to leverage the true potential of Generative AI and create a significant competitive advantage.

Impact of Generative AI on Talent

In a Generative AI world, leaders, and professionals with imagination to think "outside-the-box" on possible uses of the technology, and the ability to ask better questions, will achieve great success. Additionally, the skills that will be useful are going to be consultative skills, thinking strategically in a non-linear fashion, being client-centric and focusing on meeting the client's current and unmet needs, and becoming the C-suite's trusted advisor. This innovative mindset, the ability to deal with change, and the willingness to constantly learn and upskill on

the various technologies and how to leverage them to do work more effectively will be critical. To prepare the workforce for the integration of AI into their work, it is key to bring them along on the innovation journey as early as possible. The goal should be to have them be part of the process to innovate the business so that they take ownership of it, come up with ideas, help test them, and then champion their use when rolled out to the business. The key is to remember that innovation and change happens "at the edges" and they all need to be involved in making it happen.

The **biggest challenge in upskilling the workforce** for an AI-centric future is going to be the exponential pace of technological change, which continues to accelerate. Firm professionals are busy with delivering audit, tax, and advisory services. As they learn to use technology to help them perform their tasks more effectively, newer technologies could emerge, and professionals could constantly be trying to "catch up." The amount of change is not sustainable and can cause significant stress among professionals. Additionally, there would be a need for significant investment in creating frameworks for innovation, and then developing, testing, and rolling out tech-enabled solutions, supporting them, and driving adoption, putting a strain on the bottom-line of the business.
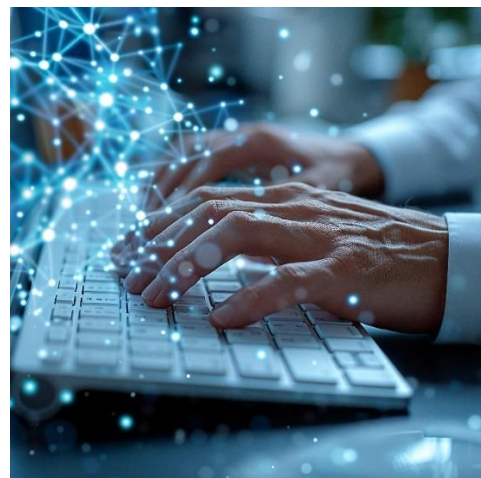
Ethical considerations on Use of AI

The single biggest ethical issue for Professional Services firms is compliance with existing laws and regulations, as they need to ensure that their AI applications adhere to industry standards and regulations. One example is that Professional Services firms often deal with Personal Identifiable Information (PPI) and financial data which is not allowed to cross country boundaries. This directly impacts the use of AI, as each territory in the firm's network would need to host the data within the country or region's boundaries, and educate it for local nuances, regulations, etc. This has a direct impact on the cost of the use of the AI-enabled tool or solution, to host, train and manage, and can often exceed the benefit of using the solution, especially in countries with smaller practices. Another important concern during the use of Gen AI is "hallucinations" where content that is not based on facts is created. To address these concerns, we recommend that legal professionals be brought into the discussion, before any decisions are being made regarding AI investments and their use, so that they can provide insights into the legal considerations of the use of the technology, and the cascading impacts on costs, implementation issues and adoption challenges.

Five Things for Professional Services Leadership to Do

Five things for leadership to do are:

1 **Understand the Impact of AI on the Business** – Bring in leading futurists, strategic thinkers, innovators, and business leaders to help understand the competitive landscape, how work is being done currently, the power of the technology, the future direction of technology, the societal and economic implications of its use and the opportunities for impact. For example, to transform the Audit business, we brought in a group of professionals from the business, start-up world, technologists and ran a one-day design thinking session, facilitated by a thought leader from a group whose sole focus was to help companies define their massively transformative purpose (MTP), prepare for unpredictable change, take a lead in tomorrow's world and take action. During this session the thought leader shared his views on how exponential technologies were going to change our world, pushed us outside our comfort zone, and this enabled us to develop a vision of what the "Audit of the Future" would look like, which we then used to create the roadmap and execution plan to transform the business.

2. **Have a C-Suite Sponsor** – Senior level C-suite sponsorship is critical as the leader helps set the "tone-at-the top" about the importance of using AI-enabled tools to transform the business and ensure support and buy-in from firm leadership, professionals, and clients. Additionally, the leader also develops the vision for the future of the business that needs to be communicated consistently across the network. A clear strategy and vision, followed up by a detailed roadmap, with multiple workstreams, to achieve that vision, are going to be critical for success. Each transformation project I have worked on has succeeded when we had a C-suite leader with the right mindset championing the project, who gave the team the financial backing, and the authority and responsibility to execute the transformation.

3. **Put the "Right" team in Place** – The right team, headed by a strong leader, needs to be established, and include people with transformation, functional, technology, data science, AI, and people expertise. One of the main roles of the team is to shape the interactions between key players, i.e., C-suite, business unit leadership, practitioners, customers, technology teams, technology & service providers, regulators, subject-matter experts, etc., through governance and protocols. Success for the team will be determined by the success of the business units and practitioners as they identify pain points, help develop solutions to address those pain points, and then adopt the new tools, technologies, and processes. When transforming the business at the mid-sized Professional Services firm, we created a team that consisted of people like myself with transformation experience, a technologist, a partner who had worked within the firm for many years, and knew the history of the firm, was close to the CEO, a tax leader focused on driving change within the business, the firm's CIO, a senior leader from the advisory practice, and a person heading the data practice. Having a team with such diverse skills enabled us to successfully develop a vision, roadmap, and an execution plan to transform the business and execute on it.

4. **Involve Customers and Professionals** – As we had mentioned earlier, innovation and change happen "at the edges." It is critical to treat customers and firm professionals as partners in the AI journey. Consumers and professionals bring deep insights into their needs and motivations and provide candid feedback on existing products and services, their current pain-points and identify gaps. They are often willing to work with the corporation to co-create solutions that better meet their needs, test them, provide feedback, and become early adopters. We successfully did this when we were in the process of transforming the Legal & Regulatory (L&R) division of a global legal information services provider and brought in leaders from various law firms, and ran a design thinking session, to get them to share with us the issues and challenges they were facing and the products and services they wanted from us. The information was then used to develop the areas of focus for the L&R division, lay out a roadmap and execution steps and then work on them.

5. **Establish Process for Experimentation** – Establish a process for experimentation, with a select group of strategic partners with expertise in the AI technology, tools, technologies, and resources, so innovators and professionals have a safe space where they can run agile experiments, create a minimum viable product (MVP), test the solution, iterate/pivot/refine or "fail fast" based on the feedback, and then eventually pilot the idea to a small user group, before rolling it out more extensively. Establish clear KPIs for success. I have used this approach multiple times to test out new technologies and develop solutions, to best meet the needs of the transformation efforts.

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Conclusion

I think the biggest misconceptions regarding AI in the Professional Services industry are that we overestimate what AI can do in the near term, and totally underestimate the long-term impact. To address this, the critical aspect is to recognize that AI is going to impact the business, understand the areas that will be most impacted, and then proactively experiment on using the various AI tools. To execute on the adoption of AI in the business, leadership will need to set up a team focused on continuously assessing the innovative technologies, developing solutions, testing them, failing fast, and then creating a Minimum Viable Product that can be rolled-out to the business, and then continue to iterate on improving the solution based on feedback. Additionally technical, marketing and change management support would be needed to ensure that the solutions are adopted effectively. The key to remember that adopting AI is not a one-and-done process. It is continuous and will need to be handled within the business accordingly. Also, innovation cannot be done at the center, it will need to become a part of the DNA of all professionals, who are closest to the clients and can now experiment with the innovative technologies to drive change.

Sources:

1   Debunking the Myth, Artificial Intelligence cannot replace accountants. Nov 2, 2023.
2   Descriptions of Technologies – Below is a description of the various AI technologies:
    • Machine Learning (ML) – Machine learning can help detect unusual patterns or anomalies in financial data, contracts, etc. By training models on historical data, the AI system can learn what is typical and flag instances that deviate from the norm. This is particularly useful for identifying potentially fraudulent activities or errors during the audit, forecasting future tax liabilities, optimizing tax planning, and identifying potential issues or areas for improvement.
    • Natural Language Processing (NLP) - NLP is used to analyze and understand written or spoken language. In audit and tax automation, NLP can be applied to review large volumes of textual data, such as financial statements, tax statements, contracts, and regulatory documents. This can help professionals extract relevant information and identify potential risks or anomalies and understand laws expressed in text.
    • Robotics Process Automation (RPA) - RPA involves the use of software robots to automate repetitive and rule-based tasks. In audit and tax, RPA can be applied to automate routine procedures such as data entry, data validation, invoice processing, and reconciliation.
    • Data Analytics & Predictive Analytics - AI-driven data analytics tools assist audit and tax professionals in processing and analyzing vast datasets quickly. AI can be applied to gain insights from complex datasets, identify trends, and make informed decisions. Predictive analytics models use historical data to make predictions about future events. In audit and tax automation, this can be applied to forecast financial trends, assess the likelihood of financial misstatements, or predict potential areas of risk.
3   Generative AI and the Future of Work in America. McKinsey Global Institute, July 2023.
4   Tech Trends, 2024, Deloitte, January 2024

About the Author:

Nita Sanger is the CEO of Idea Innovate Consulting. She is a business strategy and digital transformational executive with 25+ years of experience in advising large, complex, global, services businesses and high-growth companies to innovate, transform and grow. She worked at a Big Four firm advising large, complex, global services businesses, and transformed two of Deloitte's multi-billion-dollar business lines. Additionally, she developed and executed a transformation and growth strategy at a mid-sized Audit, Tax and Advisory firm that enabled them to get PE funding. Nita also advised and worked as a member of the C-suite, of several high growth companies, taking them to the next level, with revenues ranging from $10M to $9B. She has a long history of leading transformative efforts to improve companies and business lines, and maximize value via increased organizational revenues, market share growth and improved margins. She can be reached at nsanger@ideainnovate.com.

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