

## GenAI for tax, legal, and audit functions

Don't compromise trust, quality, controls, or confidence for potential efficiency savings

# GenAI in regulated functions

Generative AI (GenAI) enables new ways of doing business, more quickly and with fewer resources. Among its many benefits, GenAI powered technologies can help tax, legal and audit departments access and generate information more easily, often with greater precision. That translates to improved speed and quality at a lower cost. Many in-house legal, tax, and finance groups are considering using GenAI to automate repetitive tasks such as generating first-draft documents, R&D tax-relief identification, expense categorization for tax purposes, and due diligence support.

However, to assess the value proposition of a GenAI use case, it's important to weigh the human effort required to complete a task without GenAI against the effort needed to validate or fact-check the AI

system's output and to understand its potential effect on existing governance, systems and controls, including any regulatory compliance requirements.

Although GenAI offers many benefits, it also has potential for harm when used inappropriately or in a way that is contrary to professional standards and expectations. Ask ChatGPT about the risks of using AI tools for legal services, and it returns concerns related to bias, transparency, security, reliability, hallucinations, liability, and ethics—all matters that should be important to any business and the professionals working with AI. To reap the rewards of GenAI while also managing its risks, tax, legal and audit departments need a clear, rigorous framework for ensuring trust, quality, control, and confidence.

## Trust

Legal, tax, and audit departments typically work with sensitive legal and financial data. Exposing such information to GenAI models raises security, confidentiality, and privacy issues. Navigating these issues requires trust in the people and systems that touch data at every point of the workflow lifecycle. On the input side, the security of the data model is paramount; a data breach can endanger a company's reputation, trigger regulatory consequences, and violate privacy and confidentiality obligations. For output, AI-produced results require validation that are both accurate and reliable.

For example, legal due diligence for M&As is incredibly labor intensive. Massive amounts of documentation must be rigorously examined for liabilities, compliance issues, and other risks. All M&A data provided to the AI must be housed in a controlled environment—a secure structured database accessible only to authorized lawyers.

For tax and audit teams, questions of trust arise in the areas of data strategy, governance, and assurance. Is the AI model doing what professionals expect it to do, and operating in line with business objectives? To state the obvious, a GenAI tool requires much different training and oversight than a human employee. The technology has the power to massively accelerate anomaly detection, but the results still require human review. While GenAI could be trained to review disclosures and narratives in financial statements, looking for discrepancies in the financial documentation, it still requires an element of human validation. This is an area that is widely recognized in emerging codes and legislation governing GenAI use.

# Quality

GenAI can save businesses huge amounts of time and money, but GenAI adopters need to be careful they don't sacrifice quality or control. A single inaccuracy—for example, a mistake on a tax return or legal brief—could trigger fines or penalties, or damage a business's reputation. Risks for GenAI include invented information, also known as AI “hallucinations”; legal risks such as plagiarism, copyright infringement, and liability for errors; privacy and data ownership challenges; and lack of transparency and accountability.

When used well, however, GenAI can drive rapid, high-quality insights in areas historically requiring extensive time and effort. For tax professionals, GenAI can greatly reduce the need for manual processing of transactions, reviews, and other workflows. In [forensic accounting](#), for example, it can

identify questionable transactions, data anomalies, and missing data fields, then clean or check that data for accuracy.

Legal departments may use GenAI to summarize documents, generate transcripts, and perform legal research. But even as AI models learn and improve, human intelligence will continue to play a crucial role in verifying their output to prevent hallucinations and fake citations. There are limitations, however, especially when available training data for the model is limited. In some specialized areas of tax cases, for example, the quantity and quality of data and precedent in the public domain may [reduce the ability of the model to generate reliable and comprehensive conclusions](#).



# Control

Lawyers, auditors, and tax specialists are expected to maintain high ethical standards and professional judgement. When it comes to AI, that means, for example, ensuring human oversight and review when sharing sensitive data with a large language model or asking AI to find reference cases. Such oversight is essential to counter the current technology's propensity for "confabulation" or "hallucination"—e.g., inventing reference cases that do not actually exist.

The fundamental challenge here is capitalizing on AI's power without losing control. After all, what's enthralling about GenAI is the ability to simulate human thinking and behavior so convincingly. Of course, human thinking and behavior are often far from perfect, predictable, or socially acceptable. AI can amplify and exacerbate systemic bias—propagating and systematizing existing social biases and misinformation.

Navigating such pitfalls means repeatedly assessing the adequacy and appropriateness of AI governance and risk management. Ongoing training and rigorous safeguards are essential in order to reinforce sound judgment and ethical decision making; retain control

over sensitive data; and protect individual rights, privacy, confidentiality, and intellectual property.

Assurance and governance may not be at the forefront in the initial stages of using GenAI, but they become increasingly important as that use scales. Because the inner workings of AI are opaque by nature, businesses should consistently confirm that AI models are working as designed, and that their results can withstand scrutiny. Equally important is to understand which data sets are being used, which permissions are required, where data and outputs are shared, how to ensure its accuracy and origin, and any local or national regulatory rules that may apply.

To control and protect data used in tax, legal, and audit workflows, organizations, for example, may build a structured tool for massive storage, which is then fragmented using criteria-based permits (type of matter, country, risk type and level, etc.). This provides the data framing and context needed prior to GenAI analysis, while protecting information that cannot be shared.

# Confidence

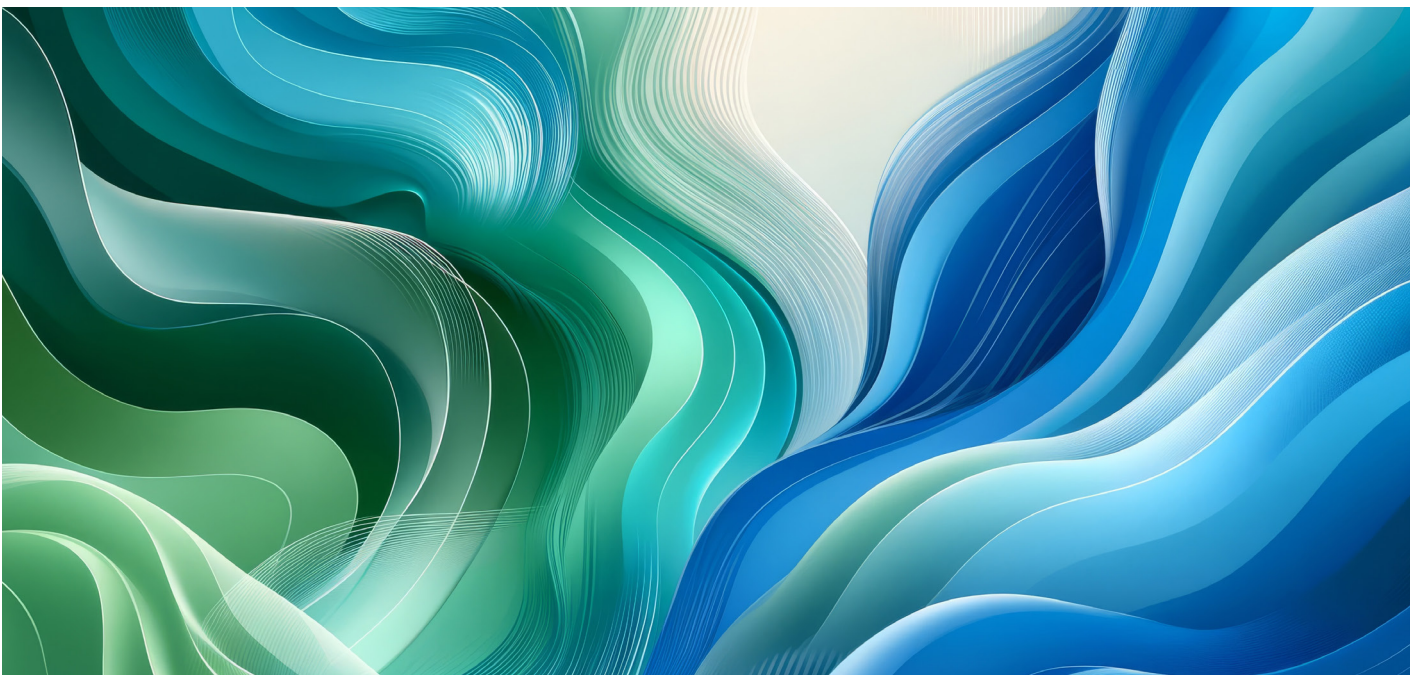
Businesses want to be sure that they're not only in regulatory compliance today, but that today's actions won't make them noncompliant tomorrow. With AI, that translates to using GenAI responsibly, so much so that many business leaders are calling for increased global collaboration around AI regulation and development. Among the more than 2,800 leaders around the world Deloitte [surveyed](#) in late 2023, 78% said that more governmental regulation of AI is needed, while 72% said there is currently not enough global collaboration to ensure responsible development of AI-powered systems. These results demonstrate an understanding that the unique and complex risks associated with GenAI may be too powerful and far-reaching for individual

organizations to regulate themselves.

A legal professional or compliance officer using GenAI, for instance, could speed up manual processes by combing through public regulation sources using predetermined criteria—not only generating a summary of the referred regulation but analyzing its impact, risk, and duration. While review is likely to be relatively straightforward for less sensitive use cases (e.g., basic proceedings, proposals, or marketing materials), most legal experts agree that, for ethical reasons, detailed human review is crucial when dealing with more sensitive or nuanced information.

# Summary

The allure of GenAI is self-evident, and the potential benefits are enormous. But GenAI should not exist in a vacuum. When adopting this powerful technology, pay attention to its associated risks that could threaten brand, reputation, customer trust, or regulatory and legal compliance. Human oversight, assessment, other risk mitigations, and creativity are, and will remain, essential components of legal, tax, and finance functions—helping to ensure and maintain accuracy, confidentiality, trust, and control.



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