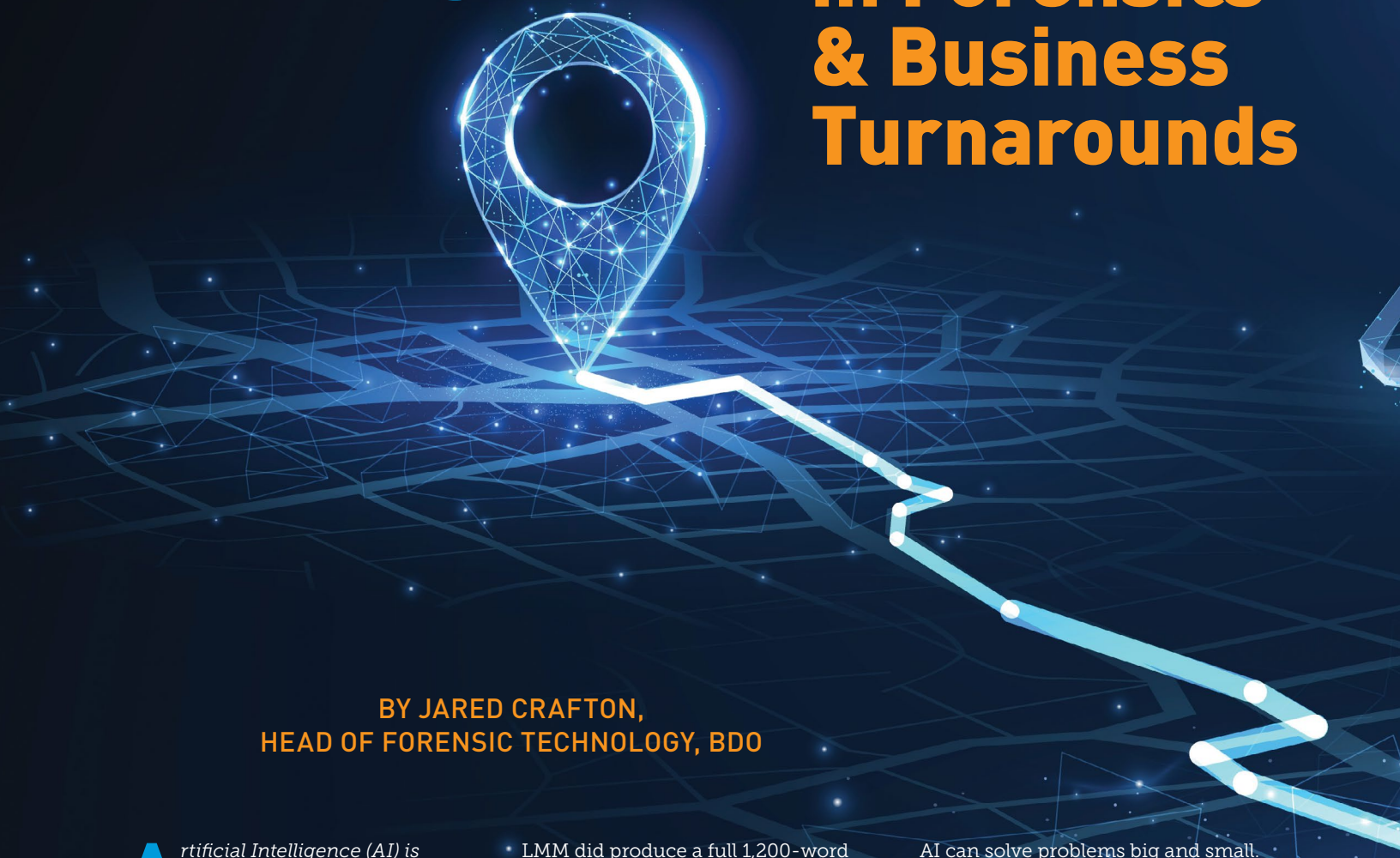
NAVIGATING THE AI BUBBLE in Forensics & Business Turnarounds



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Artificial Intelligence (AI) is revolutionizing various sectors, and its impact on business turnarounds and forensic accounting is particularly transformative. The ability of AI to analyze vast amounts of data, identify patterns, and make predictions is changing how companies approach financial distress and fraud detection. This article explores how AI is reshaping the landscape of business turnarounds and forensic accounting, offering unprecedented efficiency, accuracy, and insights.

The above paragraph is the verbatim output of a large language model (LLM) chatbot when asked to author this article. Honestly, it's not bad. The LMM did produce a full 1,200-word article, but it fell apart after that first paragraph. This exercise presents a microcosm for what many turnaround professionals face every day.

Can you use AI to make your job easier? Can it increase the power of analyses? For anyone who studied computer science and/or has been a fan of science fiction, it's remarkable how quickly AI has become commonplace as dinner conversation. But these discussions are not what many expected. Much of the sci-fi canon focuses on AI and human conflict, so one may expect more skepticism as AI becomes part of daily life. Lately, plenty of conversation focuses on how AI can solve problems big and small.

Discussing the usual caveats about data quality, privacy, and ethical considerations doesn't create too much resistance. This is both encouraging and terrifying. The encouraging part is that great technology is likely to be adopted quickly. The terrifying piece is that so much of the focus is on progress—with less attention paid to the ramifications of that progress. This has led to the proliferation of AI companies, models, apps, products, and more popping up overnight. The rate of investment in AI, particularly generative AI, is greatly outpacing revenue in the market.

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Companies are placing huge bets by spending on chips, hardware, and data sets—all without any guaranteed returns on investment. Companies must make smart choices in how they are investing in technology, people, and processes to avoid overspending on AI. With regulation and guidance trailing innovation, turnaround professionals must navigate the advent of this new technology and not get caught on the wrong side of a proverbial videotape format war between VHS and Betamax.

AI's Impact on Forensic Accounting & Legal Processes

AI has become a cornerstone in the broader forensics field, significantly reducing legal expenses and enhancing the accuracy of fraud detection and document analysis. For instance, AI has long been implemented to emulate transactions, scrutinize documents, and detect fraud. In 2012, a pivotal legal ruling in Da Silva Moore vs. Publicis Groupe endorsed the use of technology-assisted review, an AI application, as a routine procedure during the discovery process of litigation across the nation, resulting in a multibillion-dollar reduction in legal expenses over the previous dozen years. Within the realm of forensic accounting, a team used a predictive model to settle a case with the Department of Justice as early as 2009. They modeled over a million transactions, looking for potentially improper payments with a complex AI that used structured (transactional) and unstructured (words) data. This early experience with AI positions forensics professionals to apply an appropriate amount of skepticism to AI use cases.

The Power of a Customized Use Case

AI implementations should always start with a strategy and use case before being rolled out across the whole organization. Many clients with have been provided a budget and direction to incorporate AI into their processes but little guidance. With AI being touted by some as a cure-all for every problem, where should you start? Will you get the most benefit from using AI to detect the root cause of a fraud? Or will it be from using generative AI to increase engagement with customers? There's little doubt many in the turnaround industry have been approached by software and service providers offering such opportunities. It's crucial that clients first define their own use cases based on problems they are trying to solve, as opposed to just picking from what is available in the market.

As companies become more complex, fewer existing solutions will work across all organizations. AI models must be customized to fit each individual company's data sets, the company's business processes, and their people. An effective AI service provider will adapt to the unique attributes of an organization and place this at the core of its offering. Be wary of promises by service providers and software vendors who tout the ability to revolutionize even small tasks with off-the-shelf products.

The Importance of Collaboration in AI Proof of Concept Projects

Once an AI use case is selected, a proof of concept (POC) or pilot project is generally recommended. Start small, monitor for small wins, and then scale it up. One of the most important, yet most frequently overlooked aspects to a POC, is defining the collaboration between diverse stakeholders. When a business is looking to implement AI, it is typically a collaboration between an individual unit, information technology, and a service provider or internal data scientists. It is prudent to include legal and/or compliance teams in this process to assist with the ethical, privacy, and regulatory considerations. While this could create challenges, because it puts a lot of "cooks in the kitchen" and may be dependent on a business's competing priorities, it is critical to define the collaborative steps while in the POC phase so that once you are ready to scale up, everyone is aligned. Organizations can even leverage AI for collaboration in various ways, such as using the built-in notetaking function for meetings or automating communications with stakeholder groups. These methods can all be included in the POC plan.

Continuous AI Management, Engagement & Optimization

Another common pitfall is thinking that AI is technology that you can "set and forget." Truly transformative AI requires constant nurturing. This starts with change management strategies around how the technology will be deployed and utilized. Robust training and communication plans, updates to policies, and identification of potential friction in the rollout should be considered before AI models are adopted. A process should be in place to continuously monitor the performance of the AI models with real key performance indicators for measuring its success. The cadence for retraining the models must also be considered. With new data being added to organizations daily, opportunities

to improve the model are frequent, but it can be inefficient to retrain too often. Much like the model itself, the implementation plan is constantly evolving. Not all these things need to be worked out in the POC stage, but it is often helpful to discuss the overall vision, including these nuances, before settling on a use case.

Predictions & Impacts of AI

So where does this leave forensics and turnaround industries? It is easy to look 20 years into the future and imagine both professions flipped on their heads by technology. Menial tasks might disappear completely, freeing analysts to work on higher level assignments while global business decisions made by machines might become the norm. What about in two years, though? The truly disruptive use cases may mostly involve technology literacy. There is still a large gap in technological literacy between those creating and those consuming complex analyses. Consider the interactive dashboards that have proliferated over the last 10 years. Technology has brought the power to slice and dice complex data in ways only limited by the imagination of the analyst. Yet many professionals may still feel uncomfortable clicking deep into data rabbit holes and may face challenges articulating the insights they have found, let alone being able repeat the results a second time.

Generative AI could provide a solution to bridge this gap. Technological development is nearing a point where users can ask a dashboard questions, in plain language, and reliably receive those same insights. Another transformative aspect of generative AI is changing the relationship with customers. A simple example is suggested language in emails. Many email programs now try to finish sentences for users, improving the writing of some but also allowing more standardization of a company's voice in interactions with customers. Expanding on this use case with generative AI, more first-level customer communications will likely be handled by non-human intelligence. The hope is that there will be less friction. The AI will have access to volumes of information that no single human could obtain, potentially opening the door to more helpful interactions. Being able to directly influence customer sentiment through communications would give turnaround professionals a powerful new tool.

Final Thoughts

Returning to the LLM that opened this article, here is its conclusion about the future of AI in forensic accounting and corporate restructuring. You can judge the accuracy, depth, and comprehensiveness of the message.

AI is transforming the business of turnarounds and forensic accounting by providing unprecedented efficiency, accuracy, and data-driven insights. From financial analysis and fraud detection to operational efficiency and customer insights, AI offers a range of tools and capabilities that can significantly enhance the effectiveness of these processes. However, successful implementation requires careful consideration of data quality, ethical and legal issues, and the need for specialized talent. By leveraging AI, companies can navigate financial distress more effectively, uncover hidden fraud, and ultimately achieve better outcomes. As AI technology continues to evolve, its applications in business turnarounds and forensic accounting are expected to expand even further, offering new opportunities for innovation and growth. J

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