[Introduction]
With the rapid behavior changing disruption of recent years, and the ongoing stream of corporate governance failures. ACCA has been digging deep into how interconnected risks such as climate change and geopolitical issues are influencing the way we approach risk management. This podcast series will look at what risk culture means and to what extent risk and accountancy professionals understand its impact on performance.

[Voiceover]
Everyone is talking about AI, how it affects companies, communities, and the people within them. Thinking, how do we weigh the short term versus the long-term implications? From an accountancy perspective? What are the worst-case scenarios? And how do we deal with them? But also, what are the good ones? And how can we facilitate them? Dr. Roger Miles, the behavior at risk specialist and member of ACCA's special interest group on risk culture.

[Dr Roger Miles]
I think, let's say to start that AI is potentially an enormous force for good for problem solving. And to give you an example of that, I was talking to an AI developer recently who showed me how they're able to put a vast quantity of unstructured data into an AI data funnel and isolate instances of misconduct. And this AI is party trick is it can isolate two or three threads of conversation across that huge expanse of data, and identify where there is incipient misconduct, where people are beginning to behave in a way that's not okay.

[Voiceover]
When it comes to the immense disruption caused by AI, our members should really think about how they map out the good, the bad, and the uncertainty, how they inform leaders to take on the right risk.

[Dr Roger Miles]
This is a topic that I'm really engaged in, because my training is in the perception of risk. I'm interested in the psychology of how people make sense of the world and how you can design controls. In order that we can make the most of risk opportunities, we really shouldn't make the mistake of seeing risk as simply hazard or downside. Risk is the balance of hazard and opportunity. What we should always be looking for in any organizational system is responsible risk taking. Now, the issue I have with AI coming into this activity space, is that as human animals, we are challenged to make sense of the extent of change that this brings. What AI has done is absorb the totality of human thinking and creative output over a millennium, at least, and shove it all into a massive hard-drive effectively with a random search capacity. Think about this, it is sort of a machine with a godlike brain, except that there is no ethical filter in it. So, it's taking the entire let's say content of the internet. So, the human race in all its wonderful, but also awful forms and just showing that straight back at you. In terms of how we process all this, my worry is that the human race has just experienced the most massive cognitive shock. I think you have to look really hard back in history before that, probably something like Gutenberg and the printing press, for something which changed mankind engagement with their own existence. I think here you have a powerful thinking machine that has all of human knowledge for good and bad, clear evidence is that it teaches itself to cheat because that's what humans do, given the opportunity. A so-called Creative compliance is part of its makeup already that's in the system. You know, it's kind of not up for negotiation, it's already there. So, we need to have a conversation rather, as we did say 600 years ago, when printing started to be a mass disseminator of human knowledge and to challenge the authority and orthodoxy of thinking up to that point. With new powers come new responsibilities, and an awful lot of people even AI developers are admitting we haven't really faced up to the existential risks that AI presents the destruction of agreed norms in society. I don't want to sound apocalyptic here, but for people to function, there is a kind of optimism bias and a cooperative instinct that we all benefit from. And AI just punches a big hole in that and doesn't replace it with anything more constructive.

[Voiceover]
Accountancy professionals play an important role in promoting good governance. But when we consider how far the G and ESG has been lagging at even some of the most highly capitalized companies with mature risk frameworks, we then realize how vital re-allocating resources for this will be and where your risk culture can make a difference.

[Dr Roger Miles]
It's a perfect example for an accountant frame of mindset because we are in the business of detecting and preventing fraud among other professional duties. People were front running market fraud as soon as the electric telegraph was invented in the early 19th century. Now they're just using WhatsApp. Of course, they're going to use AI as another way of separating people from their assets. AI is starting to generate company identities, and file them through Companies House where all the identity checking thresholds which are in place have been subverted, because the AI has been taught to create a company name, which doesn't arouse suspicion. There have been several 1000 companies formed with AI generated fraudulent names in the last month already, and this is my point, it's here. Let's not pause for thought here, we actually need to get a grip on this right now.

[Voiceover]
This is especially true as we know AI is already exacerbating the rising pervasiveness of fraud.

[Dr Roger Miles]
Let's bounced back into optimist mode. So, a decade ago, I wrote a paper for Reuters called 'Games of Compliance'. And just for fun, we published an infographic that went with that was just a set of cartoons, illustrating the way that people game the rules and creatively breakthrough control systems that one graphic was the single most read item on Thomson Reuters regulatory intelligence that year, I would love to think because people were informing themselves about fraud protection, but a bit of me is suspicious that quite a lot of people went to it and thought, Oh, so that's how you do it. Now, the reason I refer to that is people take what should be perfectly robust sets of rules and bend them into their own preferred interpretation. That some scholars talk about regulatory capture, where you get entire industries sort of subverting the process of regulation to bend government to their own ends. Those who are inclined to break the rules now have far more powerful tools at their disposal.

[Voiceover]
Roger provides us with more food for thought about what that means.

[Dr Roger Miles]
It's not strictly AI, it's actually 'the compute', and this is that compute as a noun, and is the quantity of thinking machines that you can apply to a task of doing something. The compute that we now have, is truly awe inspiring and I love that we can put it to address certain tasks. I can remember back in the 80s being given a random number generating machine. Now, the old assumption of audit was that if you looked at a randomized sample of the books that you were checking, that would be a reasonably representative way of checking and catching out if you found one thing that was out of place in that randomized sample, then of course, you'd apply a risk-based sample and dive deeper, absolutely fine. What we now have the compute to do is 100% sampling. Just think about that. So actually, you're not sampling, you're looking at everything all the time, because the machine is constantly vigilant in a way that the human brain simply doesn't have the capacity to be.

[Voiceover]
With new powers come new responsibilities, and even AI's developers are saying, we haven't really faced up to AI's new existential risks.

[Dr Roger Miles]
Everyone says: "Oh but, we're doing this for the right intentions". One of the talks that I give is about this thing, the law of unintended consequences. Where we started optimistically, we ended up with a mess. One of the problems that we've seen coming out of ESG, score-carding development, carbon credits; which are I think, wide open to abuse, regulatory arbitrage. So, playing off these five, or six, or even seven, now, I think, different ESG rating tools against one another, and basically going with the one which imposes the least burden on the company using it. So, there are plenty of examples of games where even well intended control systems themselves, become co-opted. All of those kinds of factors, among others, give large vested interests confidence that they can basically play the game against the regulators and ultimately against social interests. Now, fascinating to me that the developers of AI are popping up now and saying, Actually, we would like regulation. Could it be that they are alarmed by what they see? Could it be that they've developed a social conscience? I'll leave the audience to think about that.

[Voiceover]
Roger reminds us that good accountants and good auditors won't just look at what the numbers say. They will look for the behavior behind the numbers.

[Dr Roger Miles]
I can see that the education sector is in a state of absolute turmoil about AI, with kids handing in chat GPT generated essays. The problem has been that education has gone with the written exam model for the last couple of centuries. And we now have this standard practice of teaching to the test. Sadly, we've been less good at maintaining that deeper, older tradition of critical thinking. We need to re-acquire that habit of questioning. Why is this person saying this thing to me in this medium at this time? If you question all information using those questions, it will very quickly teach you the habit of identifying a vested interest and questioning where something comes from. Questioning the origin, questioning the quality of the data questioning the motivation of the information provider, I think we do need to get back to this rather older style of learning of listening to conversations carefully. I listen for what I call conversational tells; the things that people say that betray a thought process that shows that all is not well, because that's a powerful indicator for a certain cognitive style, a willingness to engage with new ideas, the understanding that their own knowledge is limited, and they need to look beyond the limits of their knowledge to get answers for things. That is the kind of thinking which we need to engage with, for a generation to get under the skin of AI and to use it better.

[Voiceover]
Let's conclude on the power of questioning.

[Dr Roger Miles]
Just a quick anecdote to finish on, when the first express railway was opened, in the 1830s. The day of the opening of the railway, the world's first public express train ran over and killed the VIP guests who had opened the railway. Because no one had thought to fit a warning signal to the train. There were no whistles, warning lights or any of that stuff. This machine that travels twice as fast as an express horse and carriage; that was the thing that set the benchmark before. Nobody thought that this might challenge our capacity to understand an oncoming hazard. Each new technology that's arrived, what tends to happen is here's the tech; here's a disaster; here's the regulation running along behind to catch up. Most of the time it kind of works sometimes catastrophically, it doesn't. We're in the real risk now of that catastrophe zone with AI.

[Voiceover]
These insights are part of many aspects of our overarching focus on risk. Our next episode will be on how we as a profession can help prioritize a pro-society approach to innovation and regulation.

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