AFRC Accounting and Financial
Reporting Council
會計及財務匯報局

Embracing an AI-empowered Future for the Accounting Profession

25 February 2026

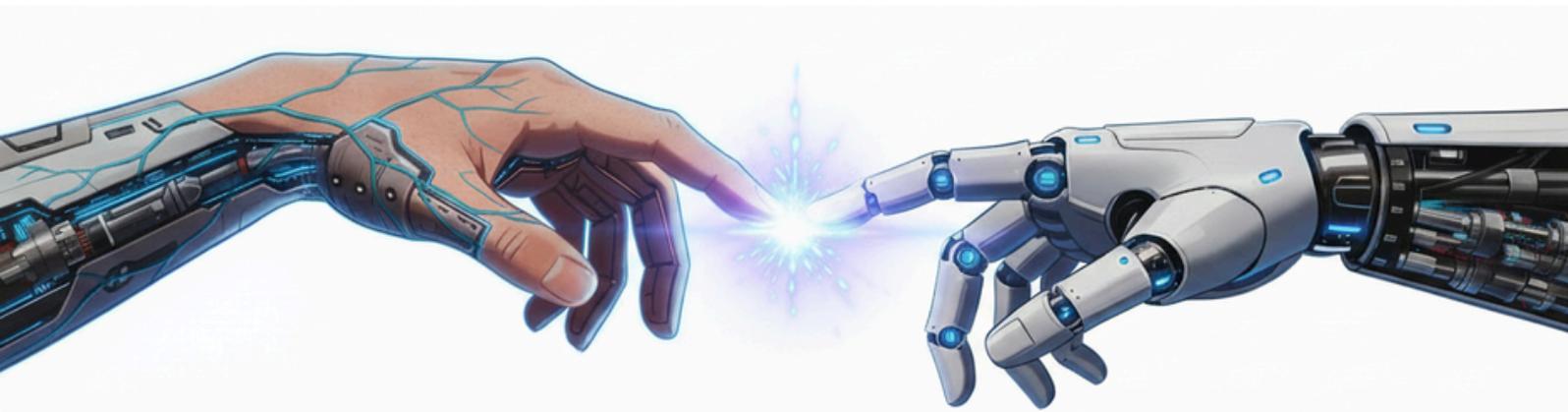Regulation　Governance　Development
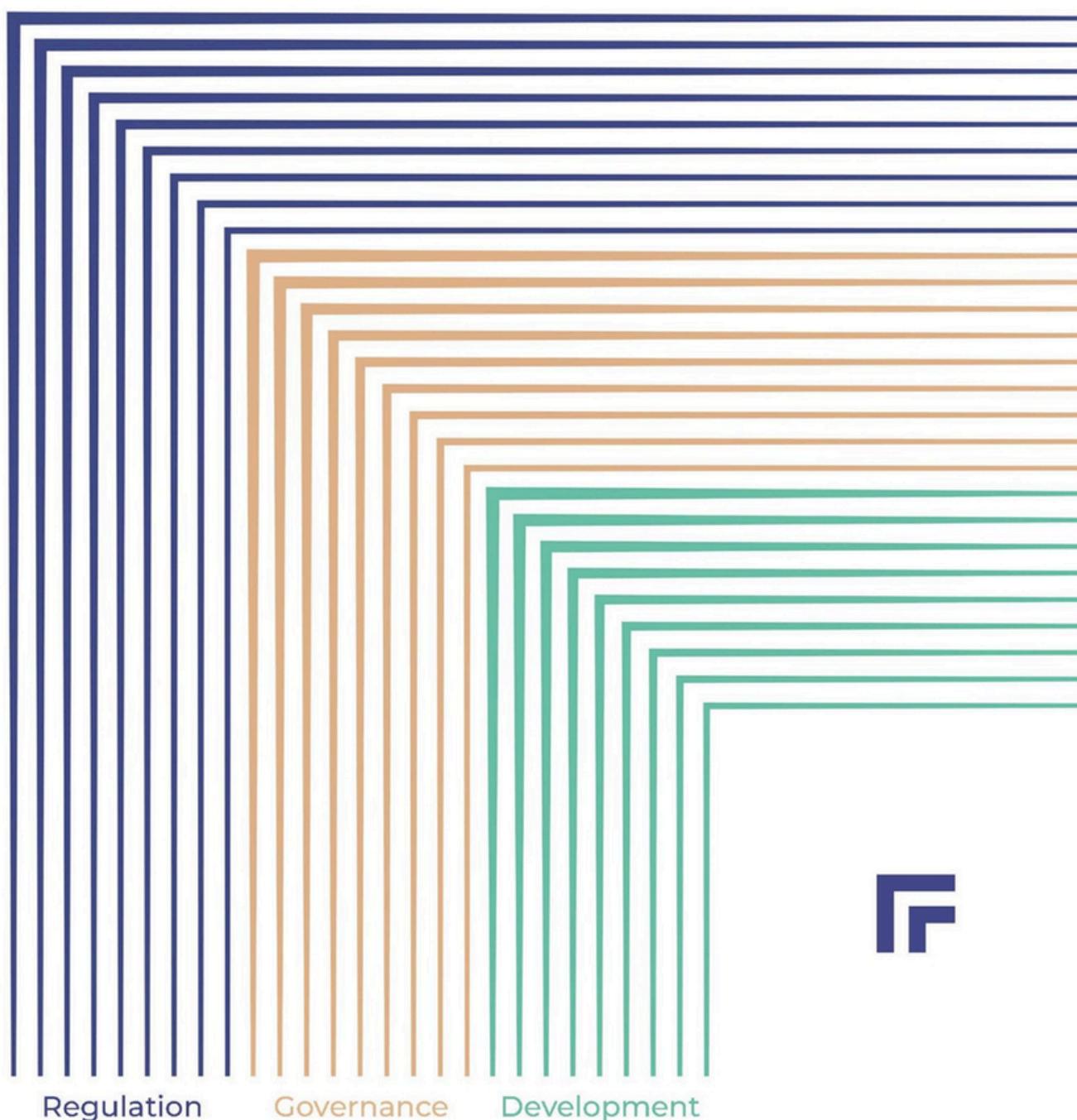
About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (**AFRC**) is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, the AFRC leads the accounting profession by upholding professional standards, safeguarding the public interest, and promoting the profession's healthy development.

For more information about the statutory functions of the AFRC, please visit www.afrc.org.hk.
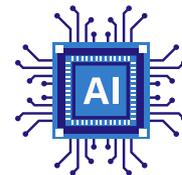
Table of Contents

Introduction

## Artificial intelligence (AI) is All Around Us

The rapid advancement of AI in recent years has transformed the world at an unprecedented pace. Seamlessly embedded in everyday life, AI increasingly influences our behaviours and decisions—often invisibly.

From predictive text on smartphones to search engines that deliver summarised, context-relevant, and personalised results, AI is fundamentally reshaping how we live, work, and interact with information. Its widespread integration is redefining daily experiences and transforming the boarder digital landscape.

Driving Innovation Through AI

Recognising its transformative potential, the Chief Executive's 2025 Policy Address identified AI as a strategic priority to drive innovation and economic growth. The Hong Kong SAR Government aims to promote the development of AI+ and expand AI adoption across government services and business sectors, fostering both "industries for AI" and "AI for industries".

2025
Policy Address
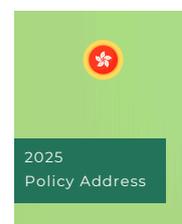
The accounting profession stands at the crossroads of this AI-driven transformation. By handling routine and administrative tasks, AI enables accountants to focus on judgment-driven, value-adding activities. This enhances efficiency and productivity while supporting the development of workforce capacity and skills. Yet, along with these opportunities come new challenges, particularly around governance, accountability, and professional integrity, that must be carefully navigated.

Purpose of this Publication

This publication is intended to provide practical insights into potential AI use cases relevant to accounting professionals, especially small and medium-sized accounting practices (**SMP**s), who are exploring AI in their professional work. Further details will be discussed in Section 1.

While harnessing the benefits of AI, the risks associated with its use should not be overlooked. Section 2 outlines common risks associated with AI usage and the necessary measures to mitigate the risks.

Sections 3 and 4 of this publication outline key considerations prior to AI adoption and underscore the importance of establishing a robust governance framework to ensure that AI is deployed in a manner that aligns with professional values and ethical standards.

Section 1

Potential Use Cases of AI

AI is often perceived as high-cost and resource-intensive. In practice, AI adoption can start with smaller, scalable applications that deliver immediate value while keeping risk manageable. Taking a phased and incremental approach ensures alignment with business objectives, lowers upfront cost, and allows smoother adaptation, laying the foundation for broader transformation that empowers accounting professionals. This section presents a range of AI use cases and their practical benefits.
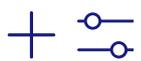
1. Intelligent Information Processing 🎤 **Ask**

Data Summarisation

AI can efficiently analyse and summarise large volumes of complex documents, such as contracts, policies, financial reports, and regulatory guidance, into **clear, concise summaries** that highlight key facts, material obligations, risks, and issues.

Semantic Search Assistance

AI-enabled semantic search allows accounting professionals to **retrieve information based on meaning** rather than exact terminology. By interpreting the intent behind a query and recognising related concepts, AI helps locate relevant technical resources, knowledge base content, and other materials more efficiently. This supports faster learning, smoother problem-solving, and more consistent access to information.

Document Organisation and Retrieval

AI can automatically categorise and organise documents within electronic repositories, including supporting records, correspondence, and working files. By tagging and grouping documents **based on content or purpose**, AI improves information retrieval and record management, reduces time spent searching, and streamlines workflows.
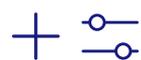
## 2. Screening and Due Diligence 🎤 **Ask**

Background Screening

AI can support **background screening, sanctions screening, and adverse news monitoring** for client acceptance, supplier relationships, and other business activities. Continuous monitoring enables changes in risk profiles to be identified over time, supporting informed professional judgement and sound commercial decision-making.
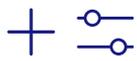
Advanced Data Analysis

AI can analyse complex and extensive datasets in a fraction of the time required for manual analysis. It can **identify trends, outliers, and relationships across diverse data sources**. These capabilities support performance analysis, cost management, and strategic decision-making by enabling more comprehensive and timely insights.

Continuous Anomaly Detection

AI can continuously monitor data to **identify unusual patterns or exceptions that deviate from expected norms**. By learning from historical and new financial performance information, AI facilitates earlier identification of potential issues and enables more timely investigation and response.

Financial Forecasting and Scenario Modelling

AI enhances forecasting and planning by analysing historical, market, operational, and economic data to **generate forward-looking insights**. Scenario modelling enables accounting professionals to **test assumptions** such as sales, rates, or regulatory changes. While AI improves speed and accuracy, human judgment remains essential to validate assumptions, assess realism, and interpret broader business implications.
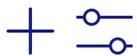
+ ⚙ 4. Accounting Process Automation 🎤 Ask

Data Extraction with Text Recognition

AI can process large volumes of financial materials, such as invoices, receipts, and statements, and quickly extract key information. Using advanced optical character recognition, it **converts unstructured sources**—including scanned documents, images, emails, and handwritten notes—**into structured data**. AI-driven validation checks improve completeness and consistency, reducing manual data entry, enhancing data quality, and allowing accounting professionals to focus more on analysis, review, and other value-adding activities.

Transaction Management

AI can assist with expense classification, invoice processing, and transaction review by automatically categorising entries, identifying duplicates, and flagging exceptions. This supports consistent policy application, reduces manual errors, and enables professionals to focus on higher-risk or unusual items. In audit contexts, AI supports risk-based testing through **sample selection, pre-populated templates, and initial cross-checks**. Professional judgement and reviewer oversight remain essential when interpreting results and forming conclusions.
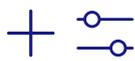
## + ⚙ 5. Communication and Content Creation 🎤 Ask

Content Creation

AI can assist in drafting emails, reports, briefing notes, presentations, and other client- or stakeholder-facing materials across multiple languages. Working within predefined templates and branding guidelines, it can help adjust tone, improve clarity, structure, and formatting, and suggest follow-up actions. This allows professionals to **focus on content accuracy, analytical insights, and effective message delivery**, improving overall quality and efficiency.

Audio and Video Translation and Transcription

AI supports collaboration in multilingual and geographically dispersed environments by providing real-time translation and transcription for meetings and presentations. Automated transcripts **offer an initial record, reducing manual note-taking** and supporting timely follow-up.
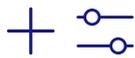
+ ⚙ 6. Compliance and Reporting 🎤 Ask

Timely Updates on Regulatory Developments

AI can **monitor changes** in accounting standards, regulations, and related guidance **across jurisdictions** and **provide timely alerts** or summaries. This helps accounting professionals remain informed and respond quickly to evolving compliance requirements.

Casting and Tie-out Checks

AI can support quality management by performing automated casting and tie-out checks across financial information and supporting documentation. Casting routines **verify mathematical accuracy** of subtotals, totals, and cross-casts within schedules or workpapers. Tie-out checks confirm that figures appearing in multiple locations—such as financial statements, working papers, and supporting schedules—are consistent and properly referenced.

Deadline Reminders

AI-enabled compliance tools identify applicable statutory and tax obligations **based on an entity's type, industry, and jurisdiction**, while accounting for varying deadlines and regulatory updates. Beyond date tracking, AI **monitors prerequisite steps and flags delays** such as missing data or pending approvals. Through risk-based prioritisation and escalation, AI focuses attention on higher-risk obligations as deadlines approach, supporting more effective compliance management.

__NOTE__: While the examples above illustrate potential AI applications, they may not be applicable in all circumstances. Accounting professionals should assess business needs before adopting AI solutions. Implementation should be supported by sound governance, oversight, and alignment with professional and ethical standards.

Section 2

Risks Involved in the Use of AI and the Measures to Address Them

While AI offers transformative benefits, it is equally important to understand and manage the risks associated with its use. The profession should remain vigilant and take proactive steps to address these risks. The following section highlights common challenges that warrant particular attention.

NOTE: *The risks outlined below are not exhaustive. Additional risks may emerge depending on the specific use case, the design and configuration of AI tools, and the effectiveness of governance, risk assessment, and oversight mechanisms in place.*

Hallucinations and Bias

Despite its advanced capabilities, AI may generate **inaccurate, biased, or misleading outputs**.

These issues may stem from limitations in model design, incomplete or poorly constructed prompts, or biases and errors embedded in the training data. As a result, accounting professionals should not rely solely on AI-generated outputs.

A **human-in-the-loop approach** should be adopted to ensure that human oversight and accountability are maintained throughout the use of AI. This requires professionals to apply professional scepticism, critically evaluate AI outputs, and verify results against authoritative and reliable sources so that professional judgement is preserved.

Lack of Transparency

Many AI models operate as **"black boxes"**, meaning that their **decision-making processes are not readily observable or easily interpreted**.

Factors such as the high variety, large volume of datasets, and numerous parameters, and complex mathematical relationships may contribute to opaque decision-making processes, thereby limiting transparency and explainability.

Accounting professionals **remain fully accountable** for all conclusions reached and should exercise professional scepticism when using AI.

The application of AI should be clearly disclosed, including the extent of its contribution to the decision-making process and how final conclusions were derived. This supports transparency, accountability, and trust in professional work.

Ethical Misbehaviours

The convenience of AI may increase the **risk of unethical misuse**, including dishonest completion of mandatory assessments, inappropriate delegation of work to AI, or falsification of supporting evidence.

Such conduct represents serious ethical breaches and may contravene applicable professional codes of ethics and regulatory requirements.

Accounting professionals must therefore **comply with legal and regulatory requirements and professional standards,** and ensure that AI is used responsibly and in alignment with the profession's core values.

Data Breaches

The adoption of AI introduces heightened **data confidentiality and privacy risks**, particularly when AI tools are deployed to process sensitive client or financial information.

Inadequate controls may result in unauthorised access, inadvertent disclosure, or secondary use of data beyond the original intended purpose.

To mitigate these risks, accounting professionals should **anonymise, mask, or** otherwise **remove identifiable information** before processing data with AI and tools, and ensure compliance with applicable data protection laws such as the Personal Data (Privacy) Ordinance and other professional obligations.

Lack of AI Literacy

The quality and reliability of AI outputs are closely linked to the quality of user prompts and the user's understanding of AI's limitations.

When accounting professionals **lack the ability to craft clear and precise prompts**, AI may produce responses that are irrelevant, incomplete, or misleading, even when they appear well-reasoned.

To address this risk, accounting professionals should **upskill in structured prompt design and output evaluation**. These capabilities, together with professional scepticism and appropriate human oversight, are critical to ensuring that AI is used responsibly and does not undermine the credibility of the profession.

Section 3
Key Considerations for AI Implementation and Solution Selection

In light of the potential risks associated with AI, the implementation of AI and the selection of AI solutions require careful, deliberate consideration. The following section highlights key areas that are critical to ensuring responsible AI implementation and alignment with professional values.

NOTE: *In selecting and implementing AI solutions, a range of factors should be considered. The considerations below are not exhaustive and should be assessed in light of specific business contexts and applicable professional and regulatory requirements to support responsible AI deployment.*

Stakeholder Engagement

Effective AI adoption requires ongoing engagement with relevant stakeholders including leadership and employees to ensure that proposed AI solutions align with business strategy and expectations. Key focus areas include:

🔍 Conduct self-assessments to **identify operational pain points**

🔍 Facilitate **early identification** of risks, ethical considerations, and practical challenges

🔍 **Use stakeholder input** to inform prioritisation, resourcing, and implementation decisions

Data Management

Regardless of how AI is adopted, data arrangements warrant particular scrutiny. Accounting professionals should:

🔍 Assess whether **user data may be retained or reused** for model training, improvement, analytics, or service enhancement purposes

🔍 Understand **data and model hosting arrangements** (on-premises using open-source model, cloud-based, or on-device), including whether cross-border transfers occur

🔍 **Ensure compliance** with data protection and confidentiality requirements across relevant jurisdictions

Selection of AI Solutions

Implementing AI often requires significant time, effort, and resources, which may deter some professionals from initial adoption. Adopting an off-the-shelf solution may offer a more accessible alternative than in-house development. Once AI opportunities have been identified, accounting professionals should:

- Assess whether the AI solution is **appropriate** for the identified use case and business context

- Determine whether **off-the-shelf** AI solutions provide **sufficient functionality** without extensive customisation and proprietary data handling

- Understand the **solution developer's reliability, governance, and compliance with regulations**

Engagement of Third-Party Service Providers

Where tailored functionality or system integration is required, partnering with third-party service providers may be appropriate. In addition to standard third-party risk management considerations, accounting professionals should consider the following AI-specific factors:

Due Diligence

- Assess the vendor's **track record, competence, and experience** in delivering AI solutions

- Evaluate the **vendor's commitment** to responsible AI practices

Change and Incident Management

- Maintain ongoing communication to **understand material system updates**, including model retraining and algorithm changes

- Confirm robust **incident-response arrangements** for data breaches, system failures, or AI-related incidents

Contractual Arrangements

- Review contractual terms relating to data privacy, confidentiality, and security, including any **non-disclosure obligations owed to clients**

- Confirm whether client data is **appropriately segregated** from that of other users within the AI solution

Section 4
Ensuring Ethical Use and Accountability Through AI Governance

Like other technologies, AI presents significant opportunities alongside risks. When governed by robust frameworks, it enhances efficiency and supports professional judgment. Conversely, inappropriate use may result in errors, bias, privacy breaches, and reputational damage. Hence, robust governance is indispensable. The following section outlines practical steps to establish a comprehensive AI governance framework.

Management Endorsement

Management endorsement is a fundamental component of an effective AI governance framework, **establishing the tone at the top** for how AI is evaluated and used within the organisation, signalling strategic intent, providing direction, and reinforcing responsible application in accordance with professional and ethical standards.

Responsible AI Principles

A responsible AI govermamce framework should be grounded in ethical innovation, with clear guidance on when and how AI tools may be used, including **defined acceptable use cases and usage limits.**

Principles on ethical conduct, data governance, privacy, transparency, and evaluation of AI-generated outputs should also be established, particularly in areas requiring significant professional judgment.

Accountability and Human Oversight

A strong accountability structure should be established to ensure AI is governed responsibly, with **senior management involvement** and clearly defined roles and oversight responsibilities. Human intervention should be calibrated by risk severity, ensuring intensive review where ethical or operational impact is significant.

Data Governance

Data governance should ensure information used in AI systems is **managed securely and responsibly** in accordance with laws and professional standards. Data should be **classified by sensitivity**, with approved datasets, strong access controls, data minimisation, and quality standards to prevent unauthorised use, data leakage, and integrity risks.

User Feedback and Escalation

A feedback and escalation mechanism should **capture and address unusual, inaccurate, or suspicious AI behaviours**, with defined escalation paths based on severity.

Corrective actions and lessons learned should enhance internal controls, user guidance, and ongoing awareness of AI-related risks.

Building AI-Ready Capabilities

Comprehensive training programmes should equip accounting professionals with an understanding of AI capabilities, risks, and limitations. Training should cover professional scepticism, prompt engineering, output validation, and common AI failure modes.

Curated prompt libraries, practical examples, and regular communications should reinforce responsible use. Non-approved AI tools should be prohibited to prevent data leakage and non-compliance.

Disclosure and Consent

Transparent communication with stakeholders should be prioritised. The AI governance approach, including objectives, oversight mechanisms, and risk controls, should be clearly disclosed.

Where appropriate, explicit consent should be obtained before AI use, with clear information on **functions, data usage, limitations, and potential impacts.**

Documentation

Comprehensive documentation should be maintained **throughout the AI lifecycle**, covering procurement decisions, risk assessments, mitigation measures, implementation details, and usage logs.

Accounting professionals should document AI applications, validation processes, and the rationale for accepting or rejecting outputs **to support transparency, oversight, and audit trails.**

NOTE: *In general, the ongoing expansion of AI capabilities requires accounting professionals to remain vigilant and regularly assess new risks and ethical implications that may arise.*

Independent evaluation should be conducted to ensure continued compliance with professional standards, regulatory requirements, and ethical considerations.

Conclusion

AI is A Growing Presence

AI has grown exponentially across industries, reshaping how accounting professionals work and deliver value. In the accounting profession, it is increasingly applied to data processing and preliminary analytical work, improving efficiency and enhancing analytical capability.

These developments are reshaping traditional accounting processes and contributing to increased efficiency and enhanced analytical capability.

From Threats to Opportunities

Despite its growing prevalence, AI often provokes anxiety among accounting professionals. According to the 2024 Work Trend Index Annual Report[1] by Microsoft and LinkedIn, 53% of people who use AI at work worry that using it on important work tasks makes them look replaceable.

In the digital era, resisting AI is counterproductive. Instead, professionals should embrace it as an enabler that handles routine processes, freeing human expertise for judgment-based, outcome-focused work.

Enduring Role, Enhanced Value

Although technological change is rapid, the core responsibility of the accounting profession remains unchanged. Professionals remain accountable for data integrity, professional judgment, and maintaining trust in financial markets.

Human judgment is irreplaceable, particularly in complex, ambiguous, or ethical situations. While AI produces outputs, responsibility rests with professionals, whose judgment, ethics, and accountability remain the profession's enduring strength.

---

[1] Microsoft and LinkedIn (2024), 2024 Work Trend Index Annual Report

Conclusion

Building Capabilities for Success in the AI Era

As value delivery evolves, professionals may use AI for initial analytics or drafts but must review, validate, and own final outputs. To remain competitive, professionals should upskill to complement AI—interpreting results, applying professional scepticism, translating data into insights, and communicating effectively.

By reducing administrative burdens, AI allows professionals to focus on higher-value contributions that enhance quality, insight, and trust.

Embracing AI with Confidence

AI is not a threat to the accounting profession but an enabler of its evolution. Firms and professionals that adopt AI carefully, begin with manageable use cases, invest in skills, and focus on value-adding work will be well equipped to meet rising expectations.

The future of accounting is about empowering people through technology —aligning AI use with professional values and ethics to ensure progress serves the public interest.

Annex:
Additional Guidance and Resources

The AFRC is dedicated to fostering a culture of continuous improvement within the accounting profession. To support this, we published a range of communications, including reports, guidelines, and videos. Auditors are encouraged to draw upon these resources to advance their professional excellence and uphold audit quality.

2024-25 Annual Inspection Report

The annual inspection report presents key findings and insights from our 2024 inspections.

Audit Focus for 2025 year-end audits

This publication offers practical reminders and highlights key areas that require particular attention from auditors.

Audit Focus for 2025 year-end audits - Financial Services Sector

The publication provides practical guidance for effectively addressing unique and evolving risks of the financial services sector, while also outlining firm-specific readiness considerations.

Checkpoint

The Checkpoint series provides guidance to auditors on obtaining an understanding over:

Obtaining an Understanding of the Audit Clients' IT Environments

Reminders for Auditors' Reporting on Licensed Corporations

Information Produced by the Entity for Use as Audit Evidence

AFRC Connect Video Series

The video series provides practical insights and essential technical reminders in an engaging and digestible format.

How important is Audit Risk Assessment?

Understand and Evaluate IT Risks and Controls

Revealing the Hidden Truths of Management Fraud: The Vital Role of Journal Entry Testing

AFRC Audit Uncovered EP 1 - Seeing Audit Through a New Lens

The video illustrates how auditors assess the credibility of financial statements, identify significant risks, evaluate internal controls, and identify areas for improving operational effectiveness.

Setting and Reinforcing Tone at the Top to Achieve Quality Audits

This article emphasises the importance of an audit firm's leadership in setting and reinforcing the right tone at the top. It also outlines our expectations of the leadership of audit firms, audit committees, and company management in promoting and maintaining a culture of ethical behaviour, integrity, and audit quality.

Contacts

If you have any enquiries or comments, please feel free to contact us.
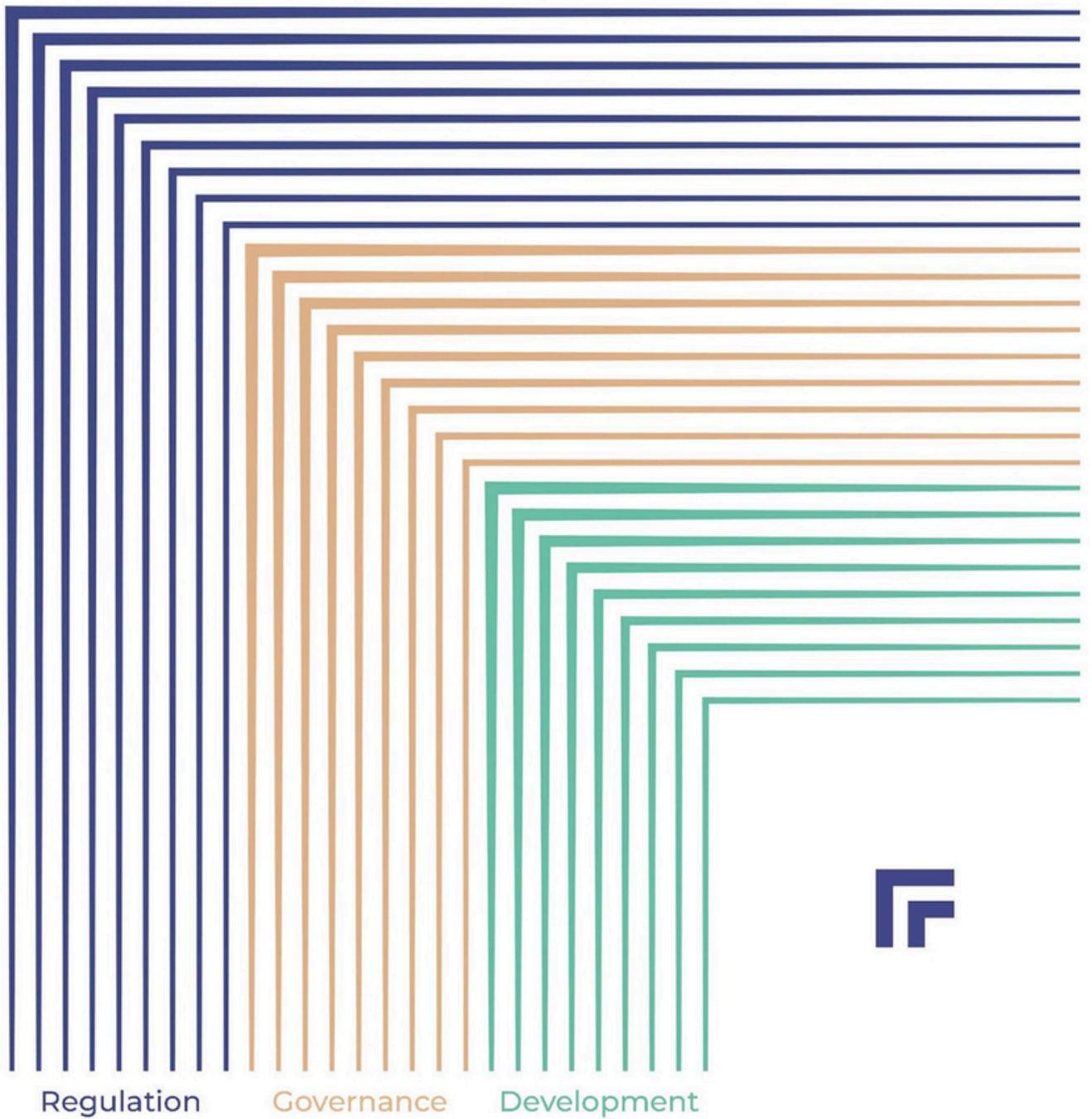
Accounting and Financial Reporting Council
10/F, Two Taikoo Place, 979 King's Road,
Quarry Bay, Hong Kong

T	(852) 2810 6321
F	(852) 2810 6320
E	general@afrc.org.hk
	www.afrc.org.hk

Disclaimer

This publication contains information compiled by the AFRC which is not intended to be exhaustive. The information has been prepared in general terms for reference only, without considering specific circumstances pertaining to any individual or individual case. It does not constitute advice from the AFRC and cannot be relied upon to cover specific situations. You should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. The AFRC does not accept any liability (whether in tort or contract or otherwise) for any loss or damage arising from any inaccuracy or omission or from any decision, action or non-action based on or in reliance upon information contained in this publication.

Regulation   Governance   Development