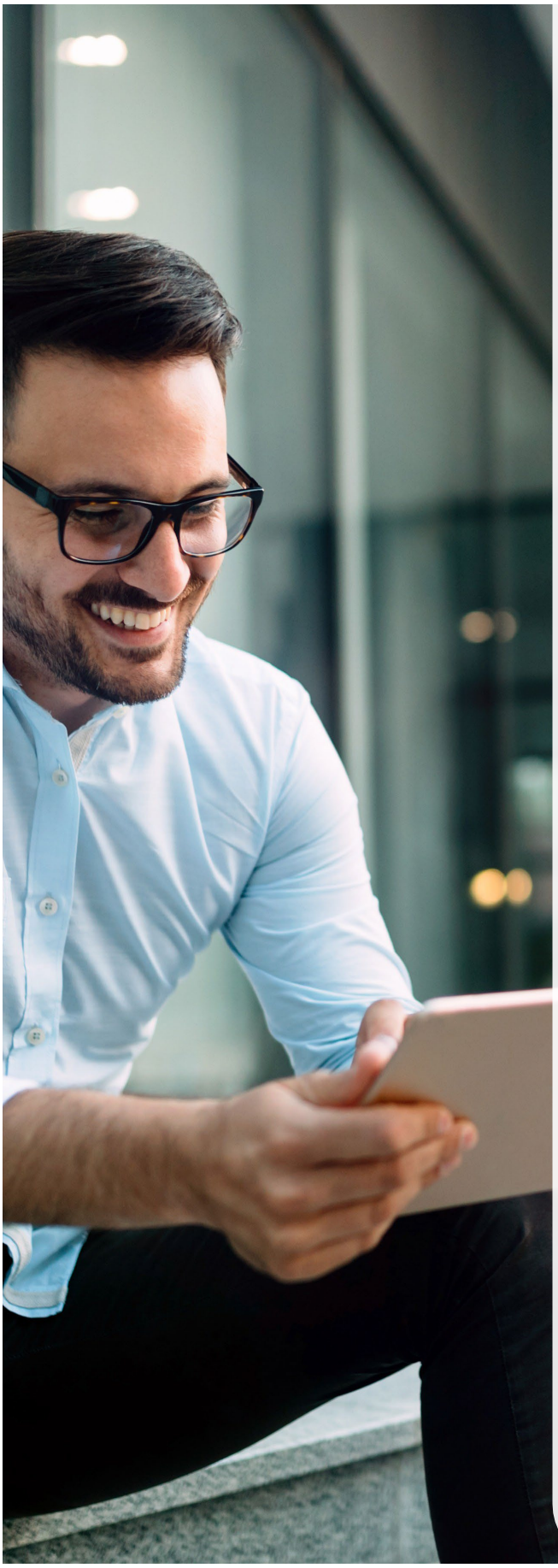
Maximize your Internal Audit effectiveness: Unlock the power of AI



It's unmistakable. Organizations are increasingly harnessing Artificial Intelligence (AI) to secure a competitive advantage and elevate efficiency. But in Internal Audit (IA) functions that same adoption of technology appears to be lagging.

At present, numerous organizations are capitalizing on AI mainly for productivity gains and immediate benefits. This includes the deployment of automated assistants, the generation of content, enhancements to presentations, and AI-empowered creative tools that enhance the brainstorming process.

Nonetheless, technological adoption in Internal Audit functions has proceeded with caution at times. Often, such audit teams require a deeper understanding of the potential advantages and compromises associated with AI before they commit the necessary time and monetary resources for an impactful use of advanced technologies.

These Internal Audit functions must also explore potential AI applications thoroughly. Understanding how such technologies can translate to real-world scenarios and audit practices, and what the genuine added value might be is crucial.

How new technology can benefit IA functions

The benefits of AI are clear, particularly for technological internal audit functions. Organizations can gain efficiency, improve processing speed and productivity, and enhance the quality of audits.

While costs may not be reduced initially, thereby making it harder to justify adoption in the immediate term, over time this is likely to change as AI solutions become more widely adopted.

Presently, AI can analyze vast amounts of data far more efficiently and effectively than traditional internal audit tools and processes.

It can identify complex risk trends and patterns, potentially making it easier to identify and isolate the root cause of issues and support proactive recommendations and actions before these issues become potential problems.

AI can also be used to perform document analysis and review, and to spot risks that may have gone unnoticed in the past. In addition, AI capabilities can be used to accelerate Internal Audit report writing, presentations, and other communications required by senior executives and regulatory agencies.

Use cases for AI & data analytics

Here are five ways that technology Internal Audit functions can use AI and data analytics today to address risks, improve performance, increase their visibility, and boost their value to the company.

1. Fraud detection and prevention

AI can help analyze large volumes of financial transactions and data for patterns and anomalies, allowing technology Internal Audit teams to identify potential fraud and irregularities more efficiently covering 100 percent of the population as opposed to sampling transactions.

Machine learning algorithms, coupled with data analytics, can be trained to detect suspicious behaviors and flag potential risks for further investigation by Internal Auditors, leading to timely identification and mitigation of fraud risks.

2. Risk assessment and analysis

AI tools advance the Internal Audit function by delivering nuanced insights across a company's risk profile.

By using techniques like natural language processing and machine learning, it is possible to process diverse data types—from financials to contracts and recorded meeting content—to reveal risks, uncovering new ones by linking data points, and to focus on areas with higher audit risk.

Auditors can then concentrate on pivotal concerns.

3. Continuous auditing and monitoring

AI can enhance the process of ongoing auditing and surveillance by conducting automated examinations of substantial volumes of transactions.

It is adept at pinpointing patterns that deviate from the norm, which could indicate areas of control weaknesses, operational inefficiencies, or non-compliance.

This automation enables Internal Audit functions to swiftly identify variations from standard operational patterns and uncover evolving risks that might lead to compliance issues.

In turn, this allows an organization to proactively tackle potential problems, preventing them from becoming major concerns.

4. Automation of routine audit tasks

AI applications, such as Robotic Process Automation (RPA), offer powerful tools for making the IA process less labor-intensive.

These technologies are capable of handling monotonous jobs such as sifting through and organizing data, processing varied formats of unstructured information (for instance, texts found within modification requests or new user authorization forms), reconciling details, and conducting routine control checks.

The implementation of AI in these areas minimizes the chance of human error and frees up auditors to dedicate more time to critical thinking and analytical tasks. Consequently, auditors are better positioned to assess the effectiveness of control mechanisms and to give informed, strategic advice to management.

5. Enhancing audit planning, scoping and reporting

Utilizing AI in Internal Audit functions can significantly refine the audit preparation and scope definition processes. By enabling the automated analysis of vast quantities of both structured and unstructured data, AI assists in assessing the risk profile and the efficacy of control measures.

Through the examination of historical audit records, including past reports, complete Governance, Risk and Compliance (GRC) datasets — encompassing risks, controls, and noted issues or observations, as well as prevailing industry dynamics and specific organizational data — AI-based tools can construct an audit strategy that is precisely aligned with the unique risk profile of an organization, and create more concise and adding-value audit reports.

Trade-offs, potential risks and mitigation for using AI in internal audits

Emerging technologies also come with a variety of trade-offs and potential risks. Along with the benefits, AI and data analytics may encompass various concerns that Internal Auditors can address as follows:

Risk 1: Advanced auditing tools necessitate broader data access, potentially escalating data privacy risks and cyber security risks.

Mitigation 1: With the integration of AI, companies should revise or establish fresh data governance and security strategies to mitigate AI-associated risks and sophisticated analytical tools. Internal Audit teams should collaborate with their company to ensure these strategies are in line with established risk management protocols.

Risk 2: Utilizing AI may lead to issues around liability and meeting regulatory standards, especially concerning the reliability and clarity of AI-generated conclusions.

Mitigation 2: Establish enterprise-wide clear governance roles and responsibilities for AI development and deployment, ensure transparency and explainability of AI models and outputs and adherence to ethical principles and guidelines for AI use.

Risk 3: The incorporation of AI and data analytics may disrupt current operations due to the need for new procedures, workflows, and systems integration.

Mitigation 3: Actively involve and update all stakeholders involved in the audit process within the organization, ensure they receive the necessary training and resources, and strive for seamless integration of AI and analytics into established operations and procedures.

Risk 4: The anticipated return on investment (ROI) of AI implementations might fall short of expectations due to unexpected costs, deployment complications, or modest improvements in efficiency.

Mitigation 4: Establish attainable, quantifiable objectives for AI-enhanced Internal Audit initiatives. Consistently track AI performance in audits, considering all stakeholders' perspectives, and promptly rectify any issues or inefficiencies encountered during the rollout.

Risk 5: Implementing AI might incur unforeseen time spent and financial costs, while specific expertise and training are necessary to fully leverage the technology.

Mitigation 5: Allocate appropriate resources, planning, and budget for the necessary skills and audit tools needed for AI and analytics. Consider collaborating with external experts and adopting flexible, stepwise methods for developing and incorporating AI into audit practices.

While implementing AI can enhance the audit process by reducing costs over time, increasing speed, and improving quality, Internal Auditors need to manage the trade-offs, as there are very few opportunities to realize all the benefits immediately. They should appreciate that there is often an increase in short-term costs before AI has a truly meaningful impact. For example, embedding AI in the audit process may require increased one-time setup and training costs, which will lead to faster and higher-quality audits, or a higher-quality audit by a 100 percent inspection of populations, but it may also lead to identifying multiple false positives, which can lead to a slowdown in the audit process while the new processes are being embedded.

The bottom line

AI and data analytics for Internal Audit will only grow in capabilities and importance. This technology can be used to help auditors think differently, generate new ideas, accelerate laborious documentation tasks, improve the quality of written deliverables and perhaps spot trends and anomalies that might be difficult for the human eye to see.

At the same time, its output should always be reviewed and challenged by an auditor's professional judgment and critical thinking.

In any case, a strategic, thoughtful approach is required for successful adoption, identifying both rewards and risks.

Technology Internal Audit functions should define what they want to do with AI and data analytics, and why and how this technology can support the long-term goals of their organization.

Technology Internal Audit teams should understand what the business's overall strategy is for AI, including how it approaches AI risk management and governance, so that they can align to the appropriate protocols for its use.

Many issues can be addressed with the help of a capable, third-party adviser to help organizations improve their strategic growth priorities and get the most out of AI, in a responsible way.

How KPMG can help

Trusted AI solutions

KPMG offers decades of experience in regulations, risk, security, and privacy along with industry-recognized leadership in AI, machine learning, data analytics, cybersecurity, and risk management. We combined these strengths to create KPMG Trusted AI—a structured approach for designing, building, deploying, and using AI in a responsible and ethical manner.

As your organization works to harness the transformative power of AI, turn to KPMG for help in accelerating your Trusted AI journey. We offer support at every stage:

Strategy: Assess where you are and create a strategy and roadmap.

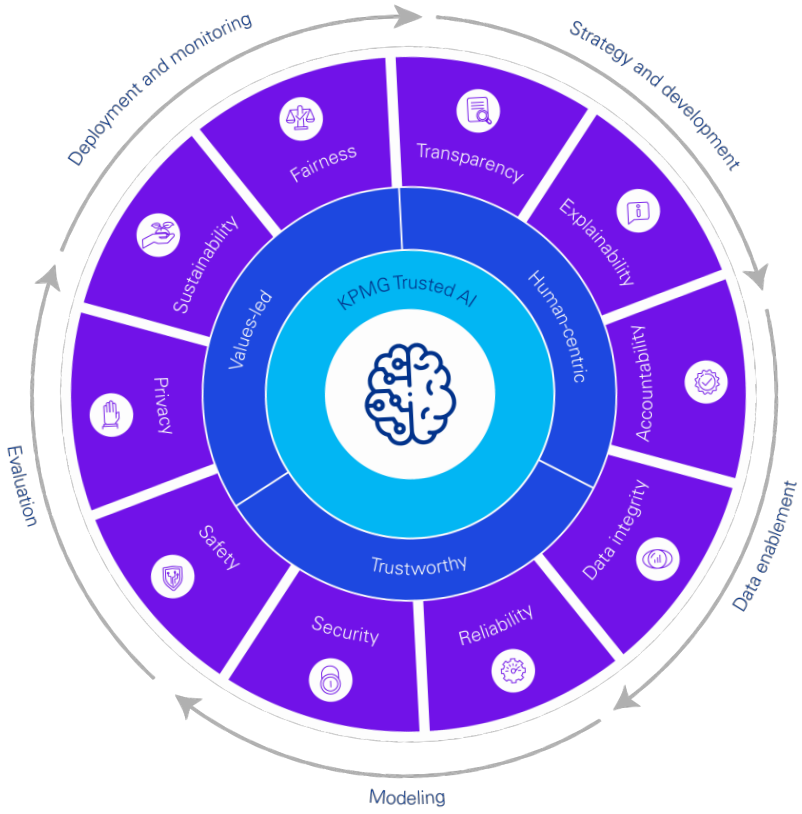
AI ethics and governance: Establish and implement AI governance frameworks, controls, operating models, and technology to achieve trusted AI.

Machine learning operations: Establish leading constructs, processes, and technologies for wide-ranging model management to help build trust in your models and accelerate value.

AI security: Assess and develop AI security and privacy strategies, processes, and tools to detect, respond to, and recover from cyber intrusions, privacy risks, software risks, and adversarial attacks.

AI assessment and assurance: Test, examine evidence, and report on management processes, controls, and claims regarding a responsible use of AI technologies.

AI development and deployment: Design and develop AI applications, train and fine-tune models for specific uses, establish process, controls and technologies for integrating Trusted AI into end-to-end model management, implement Trusted AI technology.



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