



AI in Government Audit and Public Expenditure: From Pilots to Productivity at Scale

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00. Executive Summary

AI in Government Audit and Expenditure Control: A Shift from Innovation to Impact

Across jurisdictions, Supreme Audit Institutions (SAIs) and finance ministries are moving from AI pilots to scaled, risk-aware deployment. The U.S. GAO's (Government Accountability Office) AI Accountability Framework has become a practical touchstone for auditors and managers (Governance, Data, Performance, Monitoring)—while the UK NAO, the European Court of Auditors (ECA), the Netherlands Court of Audit, and others are exposing the gaps that block value: skills shortages, legacy IT, inconsistent inventories, opaque algorithms, and weak outcome tracking.^{1,2,3,4}

Convergence in Public-Sector AI Standards: From G7 Toolkits to Algorithm Registers

The policy community is converging on toolkits that translate principles into operations—e.g., the G7 Toolkit for AI in the Public Sector (OECD/UNESCO) and INTOSAI's multi-year standard-setting plan—while the Netherlands' Algorithm Register shows how transparency can be made routine, not rhetorical.^{5,6,7,8,9}

India's AI-Enabled Audit Transformation: Scaling Capability, Speed, and Coverage

India is now adding scale and speed: the CAG's AI Strategy Framework (2025), the upcoming CAG-Connect portal, and a bespoke CAG-LLM to mine decades of audit knowledge—concrete steps that can reduce audit cycle times, sharpen risk-based coverage, and strengthen expenditure control.^{10,11,12}

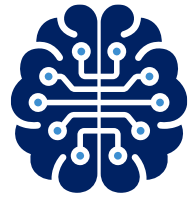
AI-Enabled Accountability in Public Finance

AI offers transformative possibilities to make Public Finance Management more efficient, transparent, and citizen-focused. It can monitor receipts and expenditures in real time, surface irregularities, and route alerts to responsible authorities—reducing waste and improving accountability. Traditional methods are no longer adequate as data footprints expand and real-time accountability becomes the norm.

The true measure of government programmes is the value they deliver to citizens and the impact they create in the wider economy. AI helps close the gap between expenditure and outcomes by improving planning, oversight, and public transparency.

1. National Audit Office. (2024). Use of artificial intelligence in government.
2. U.S. Government Accountability Office. (2021). Artificial intelligence: An accountability framework for federal agencies and other entities (GAO-21-519SP).
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01. Why AI?



Public sectors face a triple mandate—improve service outcomes, raise productivity, and protect rights. AI can help, but only if governance keeps pace.



U.S. GAO's AI Accountability Framework turns abstract ethics into audit-ready checks across four principles—Governance (clear goals, stakeholders), Data (quality, lineage), Performance (validity, bias), and Monitoring (ongoing oversight). It includes questions and audit procedures for entities and third-party assessors.^{2,3}



UK NAO (2024) finds AI adoption uneven: only ~37% of surveyed bodies had deployed AI, ~70% were piloting/planning; blockers include skills, legacy systems, and the absence (at the time) of a fully costed implementation plan—departments were tasked to have costed AI adoption plans by June 2024.^{1,13}



ECA Special Report 08/2024 concludes the EU needs stronger governance, clearer investment targets, and better monitoring to realize its AI ambitions; multiple actions since 2018 did not yet accelerate investment in line with global leaders.^{4,14}



With government transactions becoming more complex, the data footprint expanding rapidly, and demand for real-time accountability increasing, older approaches are no longer adequate. AI converts digital records into actionable intelligence, turning lagged review into always-on oversight.



India has already built strong digital rails—PFMS (Public Finance Management System) is one of the world's largest platforms for public fund flows. AI is the next step, bringing predictive insights, anomaly detection, and targeted risk-based supervision on top of these platforms.

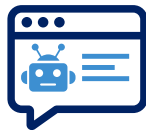
¹³. National Audit Office. (2024). Use of artificial intelligence in government.

¹⁴. European Court of Auditors. (2024). EU artificial intelligence ambition: Stronger governance and increased, more focused investment essential going forward.

02. Transparency by design



The Netherlands Algorithm Register publicly lists algorithmic systems used by government (with a growing number of entries), focusing on impactful/high-risk AI, and is being developed from voluntary practice toward a legal obligation aligned to the EU AI regime—showing how to make transparency part of the operating model.^{6,15}



The UK NAO highlights variable assurance and slow progress on transparency of algorithm-assisted decisions—an explicit barrier to trust.¹⁶



The G7 Toolkit (OECD/UNESCO, 2024) provides templates for risk assessment, governance models (centralized vs. decentralized), and disclosure practices, explicitly linking transparency to public trust.^{9,17}

AI can bring fiscal information directly to citizens. Intuitive dashboards, voice-based assistants and multilingual platforms can make spending understandable: a farmer could ask “How much was spent on irrigation in my district last year?” and receive a clear, immediate response. This is not only accountability; it is empowerment.

Opening the books to citizens requires simplifying complex fiscal data into human-friendly views and ensuring that explanations for AI-flagged risks are understandable and auditable.

Actionable Step

Establish an Algorithm/AI Register mapped to your AI inventory, with fields for purpose, datasets, human oversight, impact, and links to DPIAs and model cards. The Dutch register’s schema is a ready reference.⁶

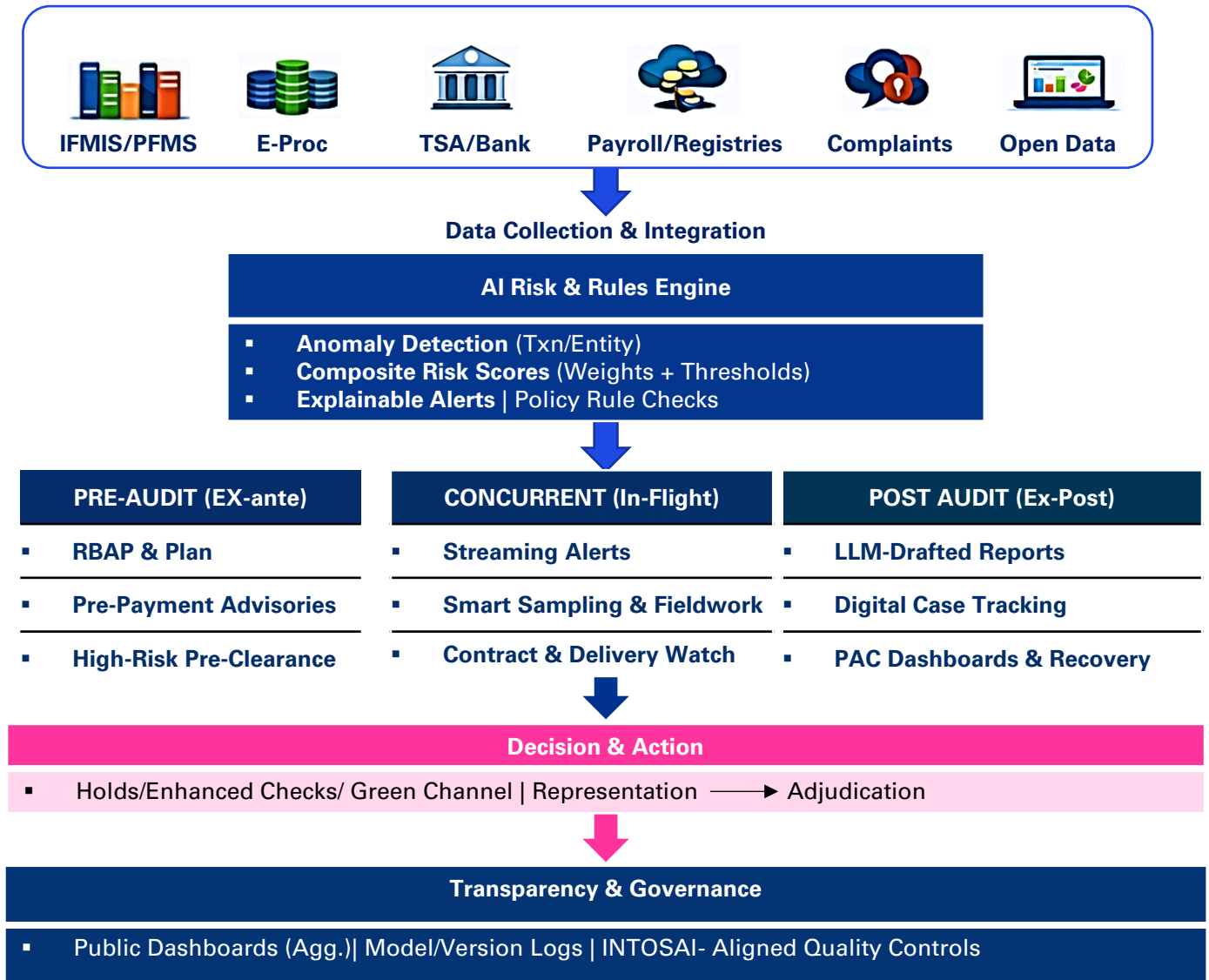
¹⁵. Government of the Netherlands. (2022). Algoritmeregister voor de overheid.

¹⁶. National Audit Office. (2024, March 15). Government encouraged to tackle barriers to realising the benefits of AI.

¹⁷. Aldane, J. (2024, October 24). OECD launches G7 toolkit for ‘safe, secure and trustworthy’ AI in the public sector.

03. What 'Good' looks like

The AI-Assisted Audit Lifecycle for a Supreme/National Audit Institution (NAI)



A. Pre-Audit (Ex-ante): Plan, Profile, Pre-Clear

Build the risk universe: Ingest data from IFMIS/PFMS, e-procurement, TSA/banking, payroll & beneficiary registries, and grievance portals; create entity- and transaction-level risk profiles of spending units, suppliers and schemes. (Standards: INTOSAI ISSAI 4000 on planning, materiality and risk in compliance auditing).¹⁸

Detect patterns early: Use ML/graph analytics to surface split purchases, duplicate invoices/UTRs, PO-GRN-invoice timing anomalies, diversion across budget heads, vendor networks/conflicts, and ghost beneficiaries. (Evidence base from OECD/GAO/public-procurement AI reviews; FMIS analytics guidance).^{19,20}

Risk-based audit planning (RBAP): Calculate a composite risk score (0–100) and auto-prioritise audits and pre-payment advisories for very high-risk items while documenting criteria, weights and thresholds. (INTOSAI emphasises risk, sampling, documentation).¹⁸

18. INTOSAI. (2019). ISSAI 4000: Compliance audit standard.

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03. What 'Good' looks like



B. Concurrent Audit (In-flight): Sense, Interdict, Guide

Streaming fund-flow surveillance: Monitor commitment → invoice → payment events for delays, idle balances, sanction-expenditure mismatches and diversion; trigger explainable alerts before money moves. (FMIS/IFMIS real-time monitoring practices).^{21,22}

Procurement & contract execution watch: Apply NLP to contracts/change orders, Computer Vision to work-site media/MBs, and market/comparative price analytics to detect collusion/bid-rigging, single-bid risk, outliers, and milestone-payment mismatches. (OECD's public-procurement AI state-of-play; research mapping fraud-detection in procurement).^{23,24}

Citizen signal fusion: Use text analytics over complaints/social audits and correlate with spend lines/vendors to open live cases in an audit portal; this aligns with transparency/open-data practices used by India's public dashboards.^{25,26}

C. Post-Audit (Ex-post): Conclude, Correct, Learn

Generative reporting: LLMs draft findings, management letters, and thematic chapters with citations to vouchers, logs and replies—an approach SAIs are already exploring to accelerate audit reporting.^{27,28}

Digital case-tracking & PAC follow-up: Each observation becomes a case with root cause, financial impact, responsible officer and deadlines; dashboards support PAC/legislature oversight. (INTOSAI guidance on reporting and follow-up in compliance audits).²⁹

Control feedback: Confirmed patterns are converted into preventive rules in IFMIS/e-procurement; model versions and effects are logged to strengthen accountability.^{30,31}

Pre-Audit prevention: With TSA + IFMIS in place, AI can prevent leakages by catching diversions or duplicate payments before settlement, complementing delegated financial authority without undermining line ownership.

Concurrent assurance: Streaming analytics shrink detection lag from months to hours; auditors focus on high-materiality clusters rather than blanket checks.

Post-audit productivity: NAls are piloting LLM-assisted drafting to reduce report cycle-time while preserving judgement and evidence trails.

Governance for Responsible AI in Audit (for the NAI)

Standards-aligned methodology. Anchor methods in INTOSAI IFPP (principles, ISSAIs, GUIDs); publish the methodological basis for risk and anomalies; ensure due process and independence, including for SAIs with jurisdictional powers.^{32,18,33}

Model governance and XAI: Record data sources, features, thresholds, human overrides and assurance results; provide explainable reasons with every alert.^{20,30}

Transparency by design: Publish aggregated risk dashboards and follow-up statistics (without PII) and provide open datasets/APIs where lawful—building on India's OGD/NDAP ecosystem.^{25,26}

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03. What 'Good' looks like



Evidence from peers

Finland NAO has mainstreamed data analytics to reform financial audits—standardized testing across central systems, with ML seen as the next step for early error/risk detection.³⁴

Estonia NAO shows the cost side of digital transformation: public-sector IT spending roughly doubled (2019–2024) to €257m, with drivers including cybersecurity allocations and shared IT centers—vital context for budgeting AI foundations.^{35,36}

Standards & capacity

1. INTOSAI (Strategic Plan 2023–2028 and FIPP SDP) prioritizes clearer, accessible guidance and terminology, with working groups (e.g., WGITA) advancing AI/IT audit capabilities—use these to anchor SAI training and methodologies.^{37,38}
2. G7 Toolkit offers practical governance patterns you can adapt without reinventing the wheel.³⁹

Real Time Analysis: Continuous monitoring of fund flows to detect delays, idle funds or diversions, with timely corrective action as the default.

Digital audit & fraud detection: Models trained on historical data to spot ghost beneficiaries, duplicate claims, and fictitious transactions, shifting audits from paper-based checks to proactive, risk-based oversight.

Smarter allocation of resources: Integrate data on poverty, health, education and climate to design need-based and performance-linked transfers, aligning spending with SDG-oriented outcomes.

Opening the books: Dashboards and voice/multilingual interfaces that let citizens access reliable, current spending data without specialist knowledge.

34. National Audit Office of Finland. (2021). NAO Finland uses data analytics to reform financial audits.

35. National Audit Office of Estonia. (2025). Estonia: Public-sector IT spending has doubled in six years.

36. ERR News. (2025, September 26). Estonia's public IT spending and investments doubled in 6 years, finds audit.

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38. INTOSAI FIPP. (2023). Process of the new strategic plan 2023–2025.

39. OECD. (2024). G7 toolkit for artificial intelligence in the public sector.



04. India's Opportunity

A. Quality of Expenditure: Towards Value-for-Money Spending

A modern Public Finance Management environment—powered by PFMS and integrated FMIS—enables improved expenditure control, efficiency, equity, transparency, and accountability, which directly enhances the quality of spending. FMIS capabilities allow governments to plan, execute and monitor budgets more effectively, ensuring that funds are spent as intended and leakages reduced.^{21,22}

The move toward a Treasury Single Account (TSA) strengthens cash discipline by giving the government a unified view of its financial position, reducing idle balances and ensuring that funds reach frontline service-delivery agencies faster—another dimension of better expenditure quality.⁴⁰

B. Reducing Cost of Service Delivery: Using Data to Compare and Standardise

Variations in service-delivery cost across states and districts often reflect procurement inefficiencies, delays, and information gaps. IFMIS platforms provide real-time, reliable financial information that allows benchmarking of unit costs across departments and jurisdictions, helping governments detect anomalies where costs deviate without justification.²¹

Public procurement accounts for a significant share of expenditure ($\approx 13\%$ of GDP in OECD countries), and the OECD shows that AI-driven spend classification, supplier analytics, and risk scoring allow governments to standardise processes and reduce operational cost across procurement categories.²³

C. Standardisation Through Mass Procurement & Central Platforms

FMIS-linked procurement ecosystems create a single source of truth for specifications, rates, vendor performance, and contract terms. Platforms integrating procurement with FMIS-improves consistency, reduces manual errors, and supports standardisation across departments.³¹

Global evidence from public-procurement studies shows that machine-learning tools detect collusion, classify spend, and support standardized tendering templates, thereby lowering cost variations across regions.^{23,24}

D. Leakage Control: Strengthening the Last-Mile Spend

The TSA guidance emphasises that fragmented banking arrangements increase leakages and weaken oversight. Establishing a TSA is a pre-requisite for modern cash management, preventing diversions and ensuring that all payments pass through controlled financial pipelines.⁴⁰

Similarly, PFMS's integration with banks and ministries provides real-time tracking of expenditures to the lowest level of implementation, enhancing transparency and reducing opportunities for leakage in centrally sponsored schemes.^{41,42}

Machine-learning models used in fraud detection across public procurement—documented in systematic mapping studies—can flag anomalies such as shell vendors, conflict markers, inflated pricing, and repeated high-risk award patterns.²⁴

E. Performance Audit: Strengthening Outcome Orientation

INTOSAI's standards for compliance and performance auditing (ISSAI 4000 and related guidance) emphasise:

- evaluation of economy, efficiency, and effectiveness;
- use of materiality and risk-based sampling; and
- documentation of audit criteria and audit evidence.¹⁸

Digitally enabled performance audits become far stronger when linked with national open data dashboards, such as the Aspirational Districts Programme, where performance across 49 KPIs is updated continuously. These dashboards demonstrate how data-driven comparisons improve targeting, accountability and resource allocation.⁴³

Machine-learning-assisted text analytics can synthesise evaluation reports, citizen feedback, and outcome dashboards to shape mid-year budget corrections, improving effectiveness per rupee spent—a core performance audit principle.

40. International Monetary Fund. (2011). Revenue administration: Administering taxes in a global economy (Technical Notes and Manuals No. 11/04).

41. Ministry of Finance, Government of India. (n.d.). Public Financial Management System (PFMS).

42. National Informatics Centre. (n.d.). Public Financial Management System (PFMS).

43. NITI Aayog. (n.d.). Aspirational Districts Programme.



04. India's Opportunity

F. CAG's Recent Directions (2024–2025): Technology, Data, and Consistency

a) AI protocol for faster, cleaner audit reports

CAG has begun developing an AI protocol to streamline data cleaning, classification, and analytics to accelerate audit cycles and reduce bias.^{27,28}

b) Standardized methodologies through the new Centre of Excellence for Financial Audit

Recent announcements highlight a push for uniform audit templates, full-dataset analysis instead of traditional sampling, and adoption of global best practices.⁴⁴

c) CAG-LLM for institutional knowledge

AI models built on decades of audit reports are designed to enhance the consistency of drafting and risk analysis.²⁸

d) Breaking silos between accounts and audit

CAG has instructed audit teams to systematically use granular financial data (vouchers, sanctions, challans) held in accounts offices—aligning operational data with audit evidence.⁴⁴

e) Data-informed and AI-enabled audits becoming the new norm

CAG emphasizes transitioning from sample-based to full-dataset analytics, reinforcing fiscal trust and strengthening performance auditing.⁴⁵

These five directions together reflect a broader shift in how India is positioning itself to link audit, data, performance, and expenditure management.

India's ambition of becoming a USD 5 trillion economy depends on the strength of its PFM (Public Finance Management) system. PFMS already links central ministries, state and district administrations, banking networks and beneficiaries, enabling real-time tracking and end-to-end digital payments.

As digital platforms scale, risks also scale. AI strengthens efficiency, accountability and transparency by detecting anomalies early and focusing audit attention where risk is highest.

States are moving first. Karnataka's AI Cell is building solutions across Computer Vision, NLP and LLMs—including an AI-based Government Order Summarization & Information-Extraction tool—to help officials and citizens easily access and understand policies and schemes.⁴⁶

Programmes like the Aspirational Districts use dynamic dashboards to track outcomes and support funding based on performance—a preview of how AI can link expenditure with measurable results.

⁴⁴ Livemint. (2024, June 25). CAG plans public audit AI, data centre of excellence to strengthen financial auditing.

⁴⁵ Financial Express. (2024, September 27). CAG unveils road map for audit upgrade.

⁴⁶ Budget Speech 2025-26, Govt. of Karnataka, 7th March 2025



04. India's Opportunity

What this unlocks for Public Expenditure Management

Enhancing Quality of Spending

- Proactive control of diversions and idle balances through TSA/FMIA integration.^{40,21}
- Improved predictability of fund flows ensures frontline agencies can deliver services reliably.

Reducing Cost of Delivery

- Benchmarking unit costs across states using FMIS data.²¹
- AI-driven procurement oversight reduces price variation and supports mass-procurement frameworks.²³

Standardizing Processes Nationwide

- Uniform audit templates; FMIS-linked procurement standard operating models; open-data-based comparative dashboards.^{43,44}

Minimizing Leakages

- PFMS real-time traceability of fund flows to beneficiaries.^{41,42}
- ML anomaly detection across procurement and financial datasets.

Sharpening Performance Orientation

- Audit teams equipped with AI-assisted analytics and CAG-LLM for insights.²⁸
- Integration with outcome dashboards (Aspirational Districts) encourages spending that prioritises results.⁴³

05. The 12-18 Month Roadmap



Adopt a lightweight AI policy & assurance layer based on GAO (Governance–Data–Performance–Monitoring) plus the G7 toolkit’s operational checklists (risk tiers, testing, human oversight).^{2,9}

Stand up an AI/Algorithm Register (Netherlands model). Start voluntary; move to mandated for impactful/high-risk systems.⁶

Inventory & triage use cases by value and feasibility—prioritise: e-procurement fraud analytics, grants leakage, social protection targeting, and contract variance analysis. Validate with pilot KPIs (e.g., % transactions covered, false positive rate, recovered amounts). (UK NAO’s findings on skills/legacy underscore the need to keep scope realistic in early waves.)¹

Fund the data plumbing—common identifiers, open interfaces from IFMIS/e-procurement to audit sandboxes; treat this as capital formation, not overhead (ECA highlights why investment targeting/monitoring matters).⁴

Professionalize model assurance—build a joint SAI–CIO test harness: data lineage logs, drift/bias tests, red-team scenarios, and human-in-the-loop sign-offs before any AI output affects benefits, taxes, or sanctions. (Aligned to GAO and G7 guidance.)^{2,9}

Scale with shared platforms—central text-analytics, model registries, and prompt libraries; piggyback on CAG-Connect-style portals for secure, auditable interactions with auditees.¹¹

Invest in people—pair audit domain experts with data scientists; leverage INTOSAI resources/WGITA communities for curricula and peer reviews.²¹

Essential Guardrails



Require plain-language model cards for all high-impact use, with datasets, limitations, and human recourse documented in the register —following the Dutch practice of maintaining a national Algorithm Register that documents how government algorithms work.

Institutionalize continuous monitoring—drift checks, fairness metrics, and appeal channels; this is ‘Monitoring’ in GAO’s terms and embedded in the G7 toolkit’s lifecycle approach.

Align registers and assurance with the EU AI Act trajectory if operating in or with the EU—governments would increasingly need rigorous tagging, documentation, and post-market monitoring of high-risk systems

AI in government audit is no longer about if; it’s about how fast and how safely. The leading jurisdictions pair clear assurance frameworks (GAO, G7/OECD-UNESCO, INTOSAI) with operational transparency (Netherlands), and platform plays (India’s CAG-Connect & aCAG-LLM). Do that—and you get trustworthy productivity: better value from every public rupee, pound, euro, or dollar.



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