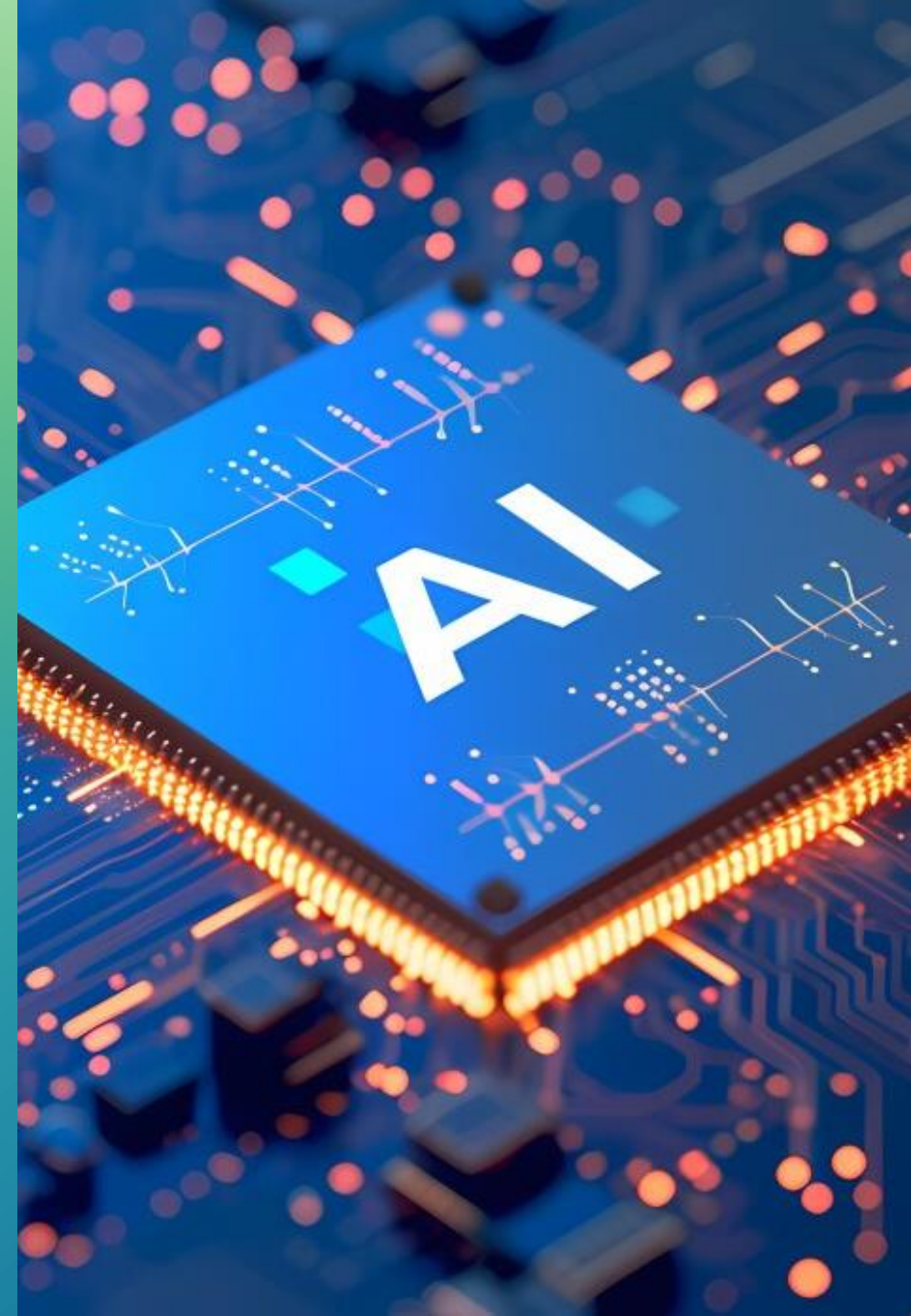


Revolutionizing Internal Audit: The AI- Driven Transformation

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How AI Will Revolutionise Internal Auditing Forever




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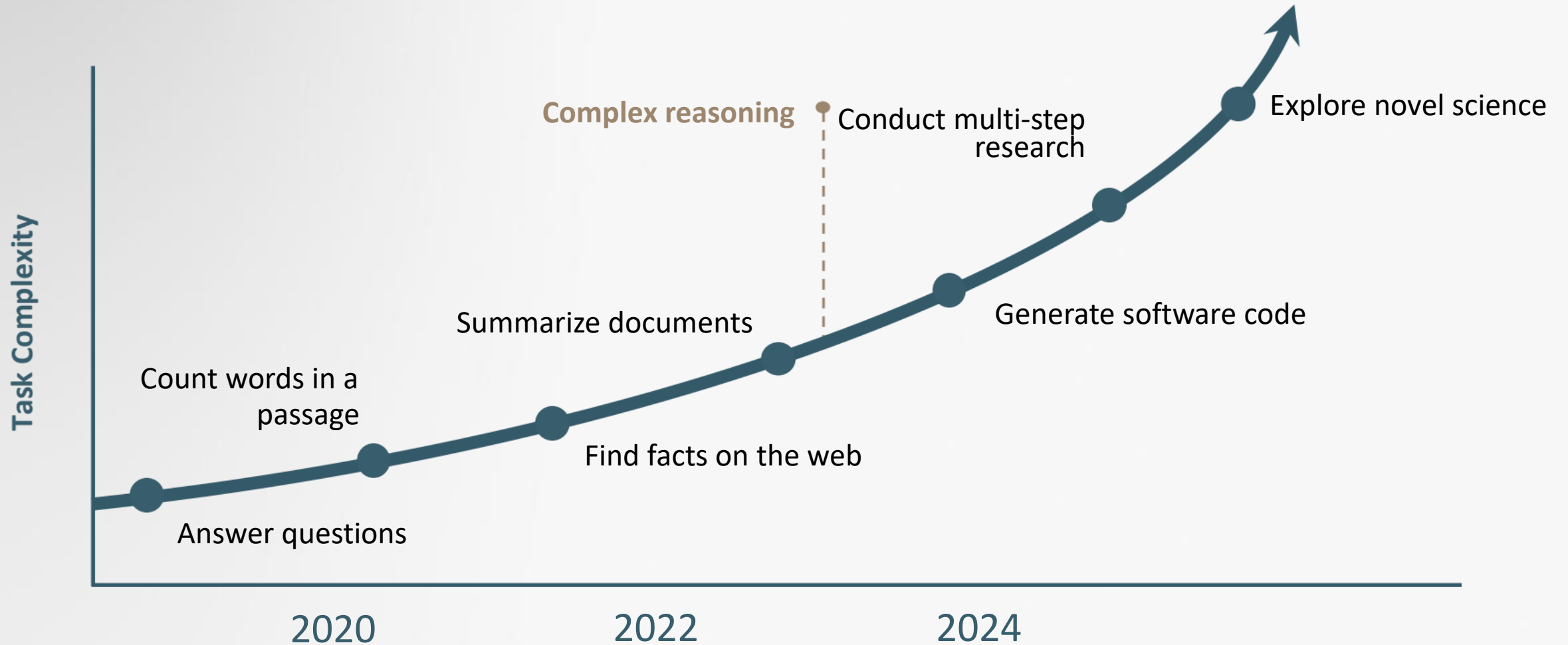
WILL AI REPLACE AUDITORS?

THE FUTURE OF INTERNAL AUDIT



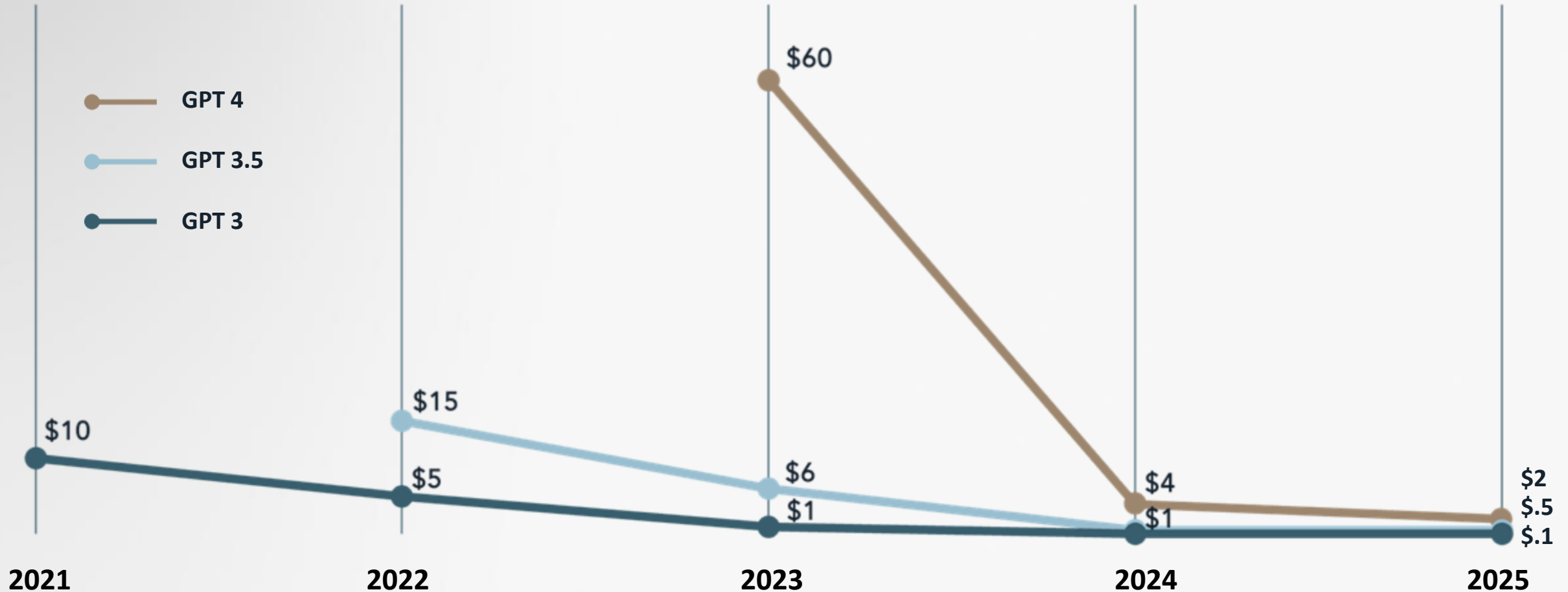
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Machine intelligence is gaining intellectual equivalence faster than ever.



Machine intelligence is getting *much* cheaper.

Price per million tokens



How AI can transform the internal audit processes

- **Risk Assessment:** AI can assess risks more effectively by analyzing historical data and identifying trends. This helps in prioritizing audit activities based on the level of risk, ensuring that high-risk areas receive more attention.
- **Resource Optimization:** AI can optimize the allocation of audit resources by identifying areas that require more attention and those that can be monitored with less effort. This ensures efficient use of audit resources.
- **Automation of Routine Tasks:** AI can automate repetitive and time-consuming tasks such as data entry, transaction testing, and compliance checks. This allows auditors to focus on more strategic activities that require human judgment and expertise.
- **Enhanced Data Analysis:** AI can analyze vast amounts of data quickly and accurately, identifying patterns and anomalies that might be missed by human auditors. This can lead to more thorough and insightful audits.
- **Improved Accuracy:** By reducing human error and bias, AI can improve the accuracy of audit findings. This leads to more reliable and trustworthy audit reports.
- **Enhanced Reporting:** AI can generate detailed and customized audit reports, providing valuable insights and recommendations. These reports can be tailored to meet the specific needs of different stakeholders.
- **Continuous Monitoring:** AI enables continuous monitoring of transactions and processes in real-time. This helps in early detection of irregularities and potential fraud, allowing for timely intervention and corrective actions.
- **Predictive Analytics:** AI can use predictive analytics to forecast future risks and trends. This proactive approach helps organizations to prepare for potential issues before they arise, enhancing overall risk management.

INTERNAL AUDIT

Internal Audit Lifecycle



Risk assessment planning and scoping

- **1. Understand the Organization and Its Environment**
 - Review the organization's mission, strategic objectives, and business environment. (Human)
 - Identify major business units, processes, and key stakeholders. (AI and Human)
 - Understand regulatory, legal, and market factors affecting the organization. (AI and Human)
- **2. Gather Background Information**
 - Collect prior audit reports, management letters, and risk assessments. (AI)
 - Review recent financial reports, operational data, and industry trends. (AI and human)
 - Obtain input from management and other key personnel on emerging risks and concerns. (Human)
- **3. Identify the Audit Universe**
 - List all auditable entities, processes, and locations (the "audit universe"). (AI)
 - Ensure the universe covers all significant organizational activities and risks. (AI and Human)

Risk assessment planning and scoping (2)

- **4. Assess Risks**
 - Evaluate inherent and residual risks for each area in the audit universe. (AI and Human)
 - Consider factors such as financial impact, likelihood, regulatory exposure, complexity, and changes in operations. (AI and Human)
 - Use risk assessment tools (e.g., risk matrices, scoring models) to prioritize areas. (AI)
- **5. Engage with Stakeholders**
 - Discuss risk assessment results with senior management and the audit committee. (Human and AI)
 - Gather feedback on risk priorities, strategic initiatives, and areas of concern. (Human and AI)
 - Align audit focus with organizational objectives and risk appetite. (Human and AI)
- **6. Develop the Annual Audit Plan**
 - Select high-priority risk areas for audit coverage in the upcoming year. (AI and Human)
 - Balance available audit resources with the need for coverage of critical risks. (AI and Human)
 - Define the scope, timing, and objectives for each planned audit engagement. (AI and Human)

Risk assessment planning and scoping (3)

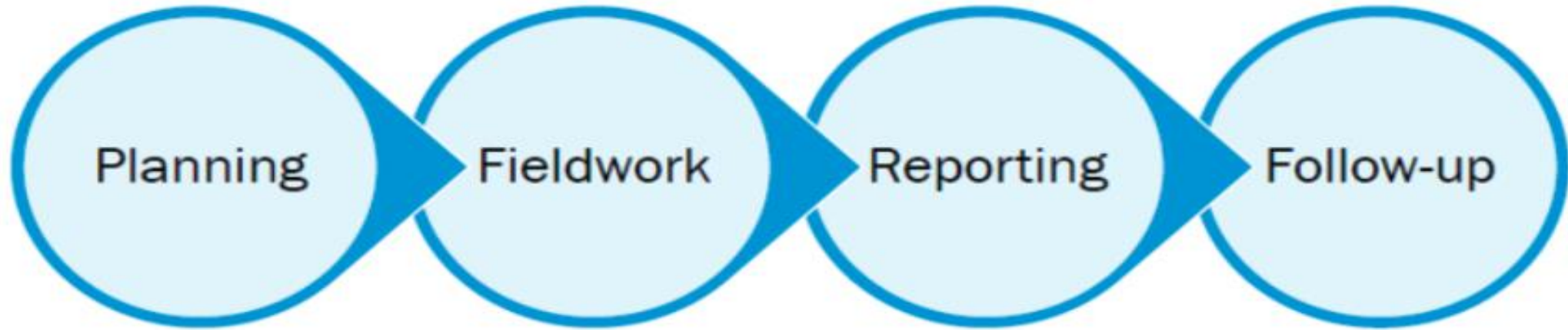
- **7. Obtain Approval and Communicate the Plan**
 - Present the proposed annual audit plan to executive management and the audit committee for approval. (Human and AI)
 - Clearly communicate the rationale for audit selections and how the plan addresses key risks.(Human and AI)
 - Document and distribute the approved plan to relevant stakeholders. (AI and Human)
- **8. Monitor and Update the Plan**
 - Periodically review and update the risk assessment and audit plan as circumstances change. (Human and AI)
 - Incorporate new risks, organizational changes, or emerging issues throughout the year. (Human and AI)
 - Report progress and significant changes to management and the audit committee. (AI and Human)

- **The Traditional Audit:**
- Manual, resource-intensive
- Relies on data sampling
- Retrospective and reactive
- Limited by human capacity



- **The AI-Powered Audit:**
- Automated, efficient
- Analyzes entire datasets
- Continuous and proactive
- Scales to massive data volumes

Internal Audit Engagement Phase



- Management Interviews (H&A)
- Risk Assessment (A&H)
- Scope and Timing determination (A&H)

- Testing data acquisition (A&H)
- Perform testing (A&H)
- Analysis of testing results (H)

- Draft reports (A)
- Review and edit reports (H)
- Communicate the results and action plans with management (H&A)

- Track action plans completed by Management (H&A)
- Perform follow up testing as needed (A&H)
- Draft and issue follow up reports (A&H)

Challenges & Considerations using AI

- **Data Quality:** AI models are only as good as the data they are trained on. "Garbage in, garbage out."
- **Algorithmic Bias:** Biases in training data can lead to skewed or unfair audit conclusions.
- **"Black Box" Problem:** The lack of transparency in some AI models can make it difficult for auditors to explain how a conclusion was reached.
- **Skills Gap:** A significant challenge is upskilling existing auditors to work with AI technology.

The Auditor's Evolving Role

- **The Future Auditor Will Be a Hybrid:**
 - **AI Interpreter:** Understands how AI tools work and how to interpret their output.
 - **Strategic Advisor:** Uses AI insights to provide strategic guidance to the business.
 - **Data Scientist:** Possesses the skills to manage data quality and analyze complex datasets.
- **AI is not a replacement; it is an augmentation.**

