AI INTO IA: IS IT JUST A BUZZ?

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Abstract

This article covers the difficulties internal audits (IAs) face due to growing data and automation. It also provides a business case for using Artificial Intelligence (AI) in the internal auditing process. It examines how automation, data analysis, and ongoing monitoring can be leveraged using AI to overcome these obstacles and transform the IA function. The article also notes that AI has drawbacks, such as possible biases and requiring precise instructions and high-quality data. It highlights how crucial it is for humans and AI to collaborate, where AI enhances human capabilities rather than taking their place. The article's conclusion asserts that although cautious application and an emphasis on human-AI collaboration are essential for success, AI can improve the IA function. Overall, the article explores how AI can revolutionise IA and whether this is feasible in the near future.

Introduction

Currently, technological advancement is at its peak. New technologies keep popping up everywhere. Every field around the globe is transforming immensely due to the introduction of new technology and Internal Audit (IA) is one of them. IA is going through a massive transformation due to increased data, automation and the introduction of Artificial Intelligence (AI). Due to the enormous amount of data available nowadays, auditors cannot work in silos. Auditors must analyse the immaculate data and need tools to make it possible. AI is one such tool. It includes advanced data analytics, automation, and so much more. Is it a powerful enough tool to revolutionise the IA function? This question has been addressed in this article.

Challenges Currently being faced in IA:

1. Data Handling: This first challenge is pretty obvious for everyone to predict. Organisations are generating and handling vast amounts of data daily. This large amount of data makes it cumbersome for auditors to understand and analyse the components of various processes in the organisation. Handling such vast data may lead to errors and waste the most useful resource-time. According to a report published by IDC in 2023, the global data sphere will grow to approximately 175 zettabytes by 2025. Manual handling of such a massive amount of data is not possible. Finding any red flags promptly so that they can be addressed becomes a challenge.

2. Resource Constraints: IA is a resource-intensive function. It requires a lot of time and capital. A 2023 report by Protiviti titled "Internal Audit Capabilities and Challenges in a Digital Age", stated that the internal audit function is highly resource constrained. These constraints limit the scope of the IA function and adversely impact its effectiveness.

3. Risk is Evolving: With the introduction of many new business models and the constant changes in the business environment, risk is becoming more dynamic daily. According to the "Global Pulse of the Internal Audit Profession," report by the Internal Audit Foundation, cybersecurity, environmental, social and geopolitical risks in the current scenario are highly concerning.

These challenges raise questions about traditional methods of IA and the demand for constant improvement. **A 2024 report by Deloitte titled "Audit Renaissance: Reimagining the Internal Audit Function for the Digital Age" emphasises the need for internal audit to provide continuous assurance and insights throughout the year.** This is where AI comes into play. Its various capabilities include automation, trend analysis, data analysis, etc. AI can empower IA in many ways. Since we have now seen how IA is becoming increasingly challenging day by day, let's look at how AI helps overcome these challenges.

Here are some of the benefits of using AI in IA:

- **Boosts Effectiveness and Efficiency:** Data extraction, transaction testing, and control walkthroughs are just a few repetitive processes that AI-powered technologies can automate. This frees up auditor time that could be better used on higher-value tasks like risk analysis, judgment, and assessment.
- **Better Understanding of Data:** AI systems can examine enormous volumes of data to spot trends, abnormalities, and obscure patterns a human could miss. This makes it possible for auditors to concentrate on higher-risk areas and more efficiently allocate their time.

- **Enhances Risk Assessment and Mitigation:** AI can create more complex risk models considering a more extensive variety of variables. This allows auditors to foresee new hazards and implement efficient mitigation plans.
- **Offers Continuous Monitoring:** AI-powered solutions can continuously monitor critical processes and controls, giving immediate insights into possible problems. This makes it easier to undertake internal auditing in a proactive and future-focused manner.
- **Better Use of Resources:** AI helps reduce costs and decrease the hours spent auditing extensive processes through automation, i.e. it reduces audit time.

The above benefits look very pleasing, but it is crucial to understand how AI accomplishes them. Automation and AI help avoid duplication of work. By doing tasks like data extraction, control testing and report generation, AI helps save a truckload of valuable time. The most time saved by using AI is spent on data analysis. AI can train algorithms to detect abnormalities or red flags in auditing. Due to these features, AI can have applications such as internal control testing, continuous monitoring, audit documentation and reporting, data analytics and audit risk assessment.

Everything has its pros and cons, and so does AI. Although AI provides significant benefits and more significant challenges that it overcomes in internal audit, it does not come without challenges of its own.

The use of AI requires careful reconsideration due to the following reasons:

1. Bias: It is not unknown that AI has its own sets of biases. AI works on an underlying model. If there is a flaw in the model on which it is working, like the recent case of the Human Resource function facing backlash due to the use of AI to filter out resumes, but the data fed to AI was biased against women. It is essential to understand the underlying model and its logic.

2. Data Quality: AI uses whatever data is fed to it. It cannot question things like the human mind does. The quality of data fed into it is crucial. The integrity and accuracy of data play a significant role.

3. Command Clarity: AI merely works on commands. It does not have a mind of its own. The clarity of the instruction given is again crucial. Even if one word is missed in the instruction or is misinterpreted by AI, it can lead to disastrous audit results.

Even though AI imposes challenges, its usefulness surpasses its challenges considerably.

Now that we understand the basics of AI, let's look at a particular AI segment currently used extensively in IA. This segment is **Augmented AI.** What is augmented AI? "Augmented auditing is the expert-led tech-enabled solution. I believe it's the next logical evolution in internal auditing because the business landscape has changed significantly. With the amount of data we have, we need a better or smarter way of auditing". According to Emmanuel Manalo, Head of Internal Audit at Lemonade (All Things Internal Audit: AI podcast by IIA), this is what augmented AI is. He further discusses accuracy, efficiency, and scalability: "Full automation sounds radical, but it is about efficiency in doing many things through automation. Accuracy is because AI never gets tired, and the data crunching is always a disposition to it, and then scalability is a game changer because we could do many things without increasing resources".

Intelligence augmentation, or augmented AI, is a term that refers to a paradigm shift in how humans interact with artificial Intelligence. Augmented AI focuses on enabling people instead of standard AI systems that function independently. As a result, AI functions as a potent tool in a collaborative setting, augmenting human capabilities and promoting improved decision-making. This cooperative strategy is based on three fundamental ideas:

1. Human in the Loop: Augmented AI systems give people a higher priority. Humans draw on AI's insights while defining objectives, analysing data and reaching conclusions.

2. Task Augmentation: Artificial Intelligence automates laborious, repetitive jobs, freeing the auditor's attention for higher-order cognitive functions like analysis, creative problem solving and strategic planning.

3. Explainable AI: Augmented AI places a high priority on offering concise justifications for its results. This transparency promotes cooperation and trust, making it possible for people to comprehend the logic underlying AI's recommendations.

The above facts and data points make it clear that integrating AI into internal audit is inevitable. Artificial Intelligence is poised to revolutionise the profession of IA, not by replacing auditors, but by augmenting their capabilities. While AI won't replace auditors, it will become a mighty co-pilot, augmenting capabilities and ushering in a new era of efficiency, insight and proactive risk management. One of the most impactful areas will be in data analysis. Traditionally, internal audits involve sifting through mountains of financial records, contracts and operational data. This time-consuming process often relies on sampling, which leads to leaving potential risks undetected. AI, however, thrives on vast data sets. Advanced algorithms can analyse the entire data population and identify anomalies, patterns and trends that might escape our human eye. Imagine AI uncovering subtle inconsistencies in purchasing data, potentially revealing fraudulent activities. This not only leads to having better expertise on the audit process but also leads to better risk management function in the overall organisational landscape.

Furthermore, AI's ability to automate repetitive tasks will free internal auditors to focus on higher-level functions. Consider the mundane task of reviewing control procedures for effectiveness. AI can automate the process, analyse control documentation and identify potential weaknesses. This frees auditors to delve deeper, testing the effectiveness of controls in real-world scenarios and conducting insightful risk assessments. This time saved translates to increased efficiency, allowing internal audit teams to cover more ground and provide more strategic value to the organisation.

Conclusion

Much research has been conducted on this topic, and many reports have been published on why AI should be used in IA. One such Research paper provides the following analysis: