



Editor's Letter

Dear IIA Malaysia Members,

In this final publication, the Technical Writer reiterated that the evolution of Internal Audit (IA) into a strategic, forward-looking function has been ongoing, with a recent emphasis on the proactive Governance, Risk, and Compliance (GRC) mindset highlighted in the new Global Internal Audit Standards (GIAS). This shift requires IA to provide foresight alongside traditional oversight, hindsight, and insight, moving towards a proactive, value-adding role within organisations. For example, IA could enhance business value by conducting risk assessments on future revenue streams, transitioning from a reactive, compliance-focused role to a strategic partner. Effective foresight delivery necessitates leveraging data analytics and artificial intelligence for scenario planning to predict future challenges and opportunities, aligning with GIAS Standard 10.3 on Technological Resources. Additionally, continuous professional development in predictive analytics, risk management, and sector-specific knowledge is crucial for IA to provide relevant and actionable foresight to clients.

The article "Beyond Assurance: Internal Audit's Role in Corporate Transformation Excellence" highlights the role of internal audits (IAs) in adding value by partnering with clients to drive enterprise transformation. IA's Review Report can also serve as an independent Close-out Report for completed corporate transformation initiatives. Effective change management is crucial throughout transformation, starting at the program's onset, to ensure employee participation and ownership. Adequately staffing the Results Delivery or Transformation Office with dedicated resources and ensuring management's involvement in setting the Tone at the Top is essential. Documenting lessons learned and leveraging past experiences from transformation efforts are vital for continuous improvement. Integrity and proper utilisation of value tracking systems are necessary for transparent management reporting and to prevent value leakage, particularly concerning incentive plans tied to system results.

The "Artificial Intelligence 101 Series: ChatGPT for IAs" article highlights that in the audit plan for a small for-profit pet products business with established website governance processes, the focus lies on identifying risks impacting the website's search functionality. Key risks encompass technological limitations, content management, user experience, data analytics challenges, security, governance, resource constraints, and scalability issues. Corresponding internal controls include regular technology audits, strict content guidelines, continuous testing of the search interface, advanced data analytics utilisation, robust data security measures, cross-functional oversight teams, strategic IT resource planning, and scalability testing. Implementing these controls mitigates risks, ensuring effective search functionality aligned with organisational goals and user needs, with regular updates vital for adapting to business growth and evolving online presence.

The IIA's AI Auditing Framework, established in 2017 and regularly updated, offers guidance to IAs on providing advisory and assurance services concerning AI, aligning with The IIA's Three Lines Model. It comprises three domains: Governance, Strategy, and Internal Audit, focusing on overseeing AI activities, developing tailored AI strategies, and providing advisory and assurance services. IAs must adapt to AI's complexity and evolving capabilities, facing challenges in auditing due to limited tools. However, maintaining a disciplined approach, leveraging external expertise, and engaging in open discussions with management can help. While IAs are not expected to be AI experts, they should increase their understanding of AI-related risks and controls, focusing on critical thinking and identification. The Practitioner's Guide offers a checklist for assessing the organisation's AI approach and evaluating AI usage, management, and reporting. IAs can tailor the checklist based on the organisation's needs and use it to create audit plans or offer advice, ensuring alignment with organisational objectives and unique requirements appetite and tolerance.

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The Institute of
Internal Auditors
Malaysia

Public Comment Period Now Open

Topical Requirements

On behalf of The Institute of Internal Auditors (IIA), The Institute of Internal Auditors Malaysia is pleased to invite internal audit leaders and stakeholders to participate in the global Topical Requirements public comment survey on the draft pilot Cybersecurity Topical Requirement. Through the survey, the internal audit community will have the opportunity to provide valuable feedback that will help shape the structure of the Topical Requirement and the specific criteria provided on the topic of cybersecurity.

[Topical Requirements](#) are one of the three key elements of the International Professional Practices Framework® (IPPF), alongside the Global Internal Audit Standards™ and Global Guidance. The requirements are designed to help internal auditors address pervasive and evolving risks and promote consistency and reliability of internal audits of identified topics. The Cybersecurity Topical Requirement provides a comprehensive approach to assessing the design and implementation of cybersecurity governance, risk management and control processes, and is applicable to those who are specifically auditing this area.

Participants are invited to [review the draft Cybersecurity Topical Requirement](#) review the draft Cybersecurity Topical Requirement and submit their feedback between April 3 – July 3, 2024 via the survey.

For questions or more information, please contact your local affiliate or Standards-Guidance@theiia.org.



FORESIGHT OVER HINDSIGHT:

**HOW GIAS IS REDEFINING THE VALUE OF
INTERNAL AUDITING**

Foresight over Hindsight: How GIAS is Redefining the Value of Internal Auditing

The newly launched Global Internal Audit Standards (GIAS) Domain I: Purpose of Internal Auditing emphasises for IA “to strengthen the organisation’s ability to create, protect and sustain value by providing the board and management with independent, risk-based, and objective assurance, advise, insight, and foresight”.

Indeed, IA’s works mostly stem from historical data and events of the organisation... but the hindsight and insight drawn therefrom, coupled with risk sensing (on future potential risk events that could impede achievement of business objectives) performed by IA can form valuable foresight to Client.

- insight is about gathering a deep understanding of something,... and responding to the present.
- foresight is the ability to predict what is likely to happen,... and preparing for the future.

Notwithstanding the above, providing foresight is not new to IA. IA’s recommendations are often forward-looking in supporting achievement of Client’s business objectives. Today, foresight capability is increasingly enabled by data analytics tools and artificial intelligence, and is becoming our stakeholders’ expectations of IA.

In January 2024, I have led an advisory engagement for a Client who had just embarked on a transformation journey. Given the recent implementation of a new operating model and organisational structure, Client has requested IA to provide advisory on the following key areas:-

- operational effectiveness in terms of seamless integration and collaboration across the new outfit.
- capability management, clarity of roles & responsibilities, and accountability in delivering Client’s new aspiration.
- digital embedment for GRC oversight and process simplification.

ADVISORY

Kindly note that some details have been generalised, aggregated or modified due to data sensitivity.

From the onset, IA acknowledged that this is a strategic engagement, in advising Client on how best to normalise its operations following its new operating model and organisation structure. The observations will be valuable in highlighting opportunities for improvement during the “teething period”, i.e. six (6) months post-transformation.

(a) Governance Design and Structure

In assisting the Client on operational readiness at the end of the transformation exercise, IA assessed Client’s alignment of its governance design and structure such as Limits of Authority, Policies, Procedures & Guidelines (PPG), oversight platforms, and balanced scorecard with its new aspiration. Otherwise, business operations including decision-making processes may not be supporting the intended agenda, thus potentially be counter-productive. Some of the key focus areas:-

- As the structural changes involve streamlining of functions across departments and units, it is important for roles and responsibilities to be clearly distinguished and streamlined to avoid redundancy, and accountability for results to be emphasised through effective KPI cascading and performance reporting.



Foresight over Hindsight: How GIAS is Redefining the Value of Internal Auditing



- As the Client is a corporate function (i.e. Centre of Excellence), it requires due oversight on the adoption and implementation status of guidelines, frameworks and standards it rolled-out to businesses and operating units. Without which, there will be little assurance that it is playing an effective role in institutionalising good governance across the enterprise.

In supporting the above, Client is urged to develop its universe so that it knows which operating units are under its purview and subject to adoption requirements (for governance documents).

- The abovementioned structural changes may also require the composition of Crisis Management Team and Business Continuity Management Team to be updated, along with the call tree and important contacts.

(b) Risk Management Activities

In evaluating Client's risk management activities, IA reviewed its end-to-end process for risk sensing, identification, evaluation, monitoring and reporting:-

- Since a risk management system is leveraged to provide seamless coordination for risk management activities conducted by various parties (e.g. risk profiling, monitoring of mitigation action closure), application controls (e.g. access control matrix, input/output controls, file back-up, audit log) were assessed to protect system or data integrity.

The foresight in risk management lies in its ongoing risk sensing to effectively identify emerging risks that could affect its operations. For example, in cognizant of the growing importance of sustainability, Client has developed an ESG framework that will allow it to meet future ESG standards, pre-empts new sustainability regulations, identify strategic initiatives aimed at enhancing its sustainability practices and market reputation as an ESG leader.

- On legal front, continuous analysis and monitoring should be intact in ensuring any new or amendment to the relevant regulations and laws will be well anticipated ahead, assessed for impacts, and complied proactively by Client.
 - in this regard, Client relies on (a) business lawyer at the operating units – due to familiarity with regulations relevant to business, (b) corporate legal team – for legal guidance at enterprise perspective, and (c) online legal service subscription – for live scanning of regulatory changes.
 - regulatory compliance is sufficiently assured through only the establishment of Legal Register. Assurance activities are required to be implemented to provide the necessary assurance that the relevant regulations and laws are complied with in mitigating reputational damage, financial risk, and in sustaining Client's License to Operate at all levels.

(c) Control Processes

In determining the adequacy of controls, an inventory list of existing procedures should be maintained by Client for proper monitoring of timely review and assessment for effectiveness. Being a COE, capability management is imperative in steering and guiding the operating units, especially in institutionalising good corporate governance practices across the enterprise.

- therefore in ensuring proper competency management, all the positions were assessed for appropriate tagging to the correct skill group, and training need analysis (TNA) conducted to identify training requirement in addressing both core and adjacency skills required for talents to perform their works.
- a Training Plan would be useless if it not acted on by employees, and monitored by their superior. The training record should be reported to management periodically as a commitment to continuous upskilling.



Foresight over Hindsight: How GIAS is Redefining the Value of Internal Auditing



Similar to risk management as abovementioned, an integrated assurance management system is utilised by Client in managing first, second and third lines' assurance activities.

- optimal system utilisation was assessed, especially its in-built analytics function for management reporting. The system's analytical capability could simplify and value-add by visualising compliance level trending, root cause analysis (RCA) for recurring audit findings, aging of delayed action closure, systemic or pervasive control breakdowns, correlation of various assurance results, etc.

These analytics could form the basis for IA's foresight in developing sustainable and effective action plan that value-adds to Client.

KEY TAKE-AWAYS

1. The evolution of IA into a strategic, forward looking function has started years back. The proactive GRC mindset in propelling organisations towards their strategic objectives is recently re-emphasised in the new GIAS, requiring IA to provide foresight in addition to traditional oversight, hindsight and insight.

An example where IA could enhance business value through foresight would be to conduct risk assessment on the organisation's future revenue streams. Doing such would firmly move IA from a reactive, compliance-focused role to a more proactive, value-adding strategic partner within the organisation.

2. In order for IA to be effective in providing valuable foresight to its Client, data analytics and artificial intelligence may be leveraged to apply scenario planning in predicting future challenges and opportunities thus, a future-ready mindset today.

The above aligns well with Standard 10.3: Technological Resources (**new!**) under Principle 10: Manage Resources of Domain IV: Managing the Internal Audit Function in GIAS, where *"the Chief Audit Executive (CAE) must strive to ensure that the IA function has technology to support the IA process. The CAE must regularly evaluate the technology used by the IA function and pursue opportunities to improve effectiveness and efficiency"*.

3. Meanwhile, continuous professional development in areas such as predictive analytics, risk management, and sector-specific knowledge is crucial for IA, in providing relevant and actionable foresight to its Client.

(word count: 1,300)

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BEYOND ASSURANCE:
Internal Auditors' Role In
Corporate Transformation
Excellence

BEYOND ASSURANCE: Internal Auditors' Role In Corporate Transformation Excellence

In the evolving landscape of corporate governance, the role of internal auditors (IA) has transcended beyond providing reasonable assurance on achievement of business objectives, and into business advisory. Today, management recognises the multifaceted value that IA brings to the table, and this shift is a testament to IA's strategic position as a business partner due to its deep corporate knowledge, holistic understanding of risks and strategic thinking in providing foresights to business.

While IA should not be directly involved in management decision-making, there is a growing recognition that they can contribute to the decision-making process in a consultative role without compromising their independence. IA can add value by offering objective and unbiased perspectives that contribute to better decision-making processes. The key lies in striking the right balance between collaboration and maintaining the necessary independence to fulfill their assurance and advisory roles effectively.

THE ADVISORY

Kindly note that some details have been generalised, aggregated or modified due to data sensitivity.

Following the end of pandemic in mid-2022, my client has embarked on an enterprise transformation journey (wave #1) that spanned over a 2-year period, across different geographical regions, with pledged results motivated by an incentive reward plan.

The transformation programme aims to align the Group from where it is, to where it aspires to be, and charting the journey in a blueprint, outlining the pre-requisites in order to stay relevant and thrive in the face of disruptive market forces. Here, IA was expected to provide advisory on the effectiveness of the transformation, from design, implementation through to monitoring, reporting and rewarding.

(a) Overall Governance Design and Transformation Blueprint

The key measurement of success for a transformation programme is in addressing the very business pain points that triggered for the transformation. In achieving this, specific milestones and deliverables in charting the transformative journey should be established with SMART measurements for clear accountabilities.

Amongst the items assessed by IA are whether:-

- ❖ programme governance structure such as Steering Committee (steerco), Transformation Office, etc. are both effective and efficient in sanctioning, steering, intervening and supporting the results delivery in a structured and disciplined manner.



- ❖ The effectiveness assessment of these platforms should be made against its Terms of Reference (TOR) and vouched against the minutes of meetings, to evaluate whether issue escalation, solutioning and way forward have been deliberated and prescribed as required.
- ❖ risk assessment has been performed from the onset and continuously monitored, to identify and mitigate delivery risk of the transformation.
- ❖ change management has been incorporated as part of the programme engine in communicating the need for change, and rallying employees to be onboard through their involvement.

One common indicator of effectiveness is periodic surveys to gauge the level of employees' understanding and adoption across the organisation. As cultural climate is best assessed through observation with data metrics, IA sampled a few personnel for onward interview to draw insights on improving employee experience, create excitement and boost morale.

(b) Execution Engine to Keep Momentum

In acknowledging that a transformative wave is fluid in nature with moving pieces, flexibility of programme design and schedule are warranted. Hence where there had been deviation from the blueprint, such changes are assessed for reasonableness, impacts, management approval, and catch-up plan, where applicable.

BEYOND ASSURANCE: Internal Auditors' Role In Corporate Transformation Excellence



As the transformation results are tracked and reported through a system, the reliability and utilisation of the system are subject to review by IA. This is more so when the value generated by the system serves as a basis for an incentive plan.

Accordingly, the following areas have been evaluated, amongst others:-

- ❖ logical access controls of the value tracking system to ensure proper segregation of duties, and prevent opportunity to commit fraud.
- ❖ consistency of results captured in system and reported to management.
- ❖ discipline inculcated to keep the system updated, accurate and whole at all times hence, serving as the single source of truth for management reporting.

On the incentive plan, IA also assessed the mechanism (i.e. basis of calculation), budget allocation and payout process in ensuring that reward is being made to eligible recipients and motivating the right behaviour and achievements.

Sometimes, an external consultant's services are engaged by client to complement its transformation programme. In such cases, IA would also assess pre- & post-award activities, including contractor performance evaluation.

As the enterprise-wide transformation programme encompassed various regions with different focus areas and value contribution, the initiatives should be sequenced well to ensure strategic prioritisation and orchestration towards the programme's objectives. In this regard, IA assessed the client's execution engine such as weekly check-in with Results Delivery Office, weekly updates with management, monthly reporting to steering committee, etc., for effectiveness in monitoring, steering for alignment, and roadblocks removal.

In order to add value to client's transformation programme, IA also performed desktop research or benchmarking to provide insights on best practices. This is not to counter the client's transformation approach but rather, to enable a mindset of continuous improvement by being aware of how others are approaching their transformation programmes. After all in a competitive business landscape, performance measurement is relative, not absolute.

The recommendations arising from the abovementioned assessment have provided opportunities for the client to better plan, execute and monitor its subsequent transformation wave #2.

INSIGHTS

The above is a testimony of how IA could add value by partnering client in driving enterprise transformation. Additionally, IA's Review Report could serve as an independent Close-out Report for the completed corporate transformation wave #1.

- ❖ More often than not, any transformation exercise has the potential to create anxiety amongst employees. Hence, effective change management is one critical success factor as a paradigm shift across the Group requires everyone to be onboard and buy into a compelling story for change. Change management should commence at the start of the transformation programme, not mid-way or at tail-end as employees should be participative throughout the programme for better ownership.
- ❖ The Results Delivery Office or Transformation Office should be adequately staffed with dedicated, full-time resources for better commitment in driving the transformation. Equally important is the involvement of management in walking the transformation talk, and in setting the Tone at the Top.
- ❖ With continuous improvement in mind, programme lessons learnt should be documented as part of knowledge management. In fact from the onset of the transformation effort, the Transformation Office should leverage on lessons learnt from past transformation efforts for insights to be incorporated into current transformative efforts.
- ❖ Where a value tracking system is utilised to monitor progress for onward management reporting, integrity of the system should be intact to boost transparency, and adequate utilisation of the system is necessary for it to effectively function as intended, i.e. as the single source of truth. Otherwise, there is potential for value leakage, especially when the incentive plan is based upon results captured on the system.

ARTIFICIAL INTELLIGENCE 101 SERIES:

ChatGPT for Internal Auditors



Introduction

By November 2023, over 100 million people worldwide were regularly using ChatGPT. Both businesses and individuals appreciate its ability to save time on tasks such as writing emails, summarising documents, and developing code. Organisations across various industries are adopting ChatGPT and other natural language processing (NLP) tools, including internal auditors.

This AI guide offers use cases and recommendations for using ChatGPT-style tools in auditing. However, the potential risks of using public AI tools must not be overlooked. Internal auditors need to stay vigilant about risks and ensure controls are in place to manage them effectively.

What Is Natural Language Processing?

Natural Language Processing (NLP) is a form of artificial intelligence that enables machines to understand and interpret written and spoken language like humans. Different types of NLP focus on various skills, but in general, this AI can:

- Recognise speech and understand spoken words.
- Identify grammatical parts of speech, such as nouns, verbs, or adjectives.
- Perform sentiment analysis to determine whether data, such as customer feedback, is positive, negative, or neutral.
- Summarise text by reducing word count while retaining meaning, or providing overviews of other data such as videos.
- Generate natural language text or speech, as seen with AI tools like ChatGPT or Apple Siri.

Do alternatives to OpenAI's ChatGPT exist?

This resource focused on ChatGPT 4.0 use cases, but there are several other AI tools with unique features and capabilities. Here is a selection of commonly used alternatives:

1. **Google BARD:** A conversational AI chatbot linked to the popular search engine.
2. **Microsoft Bing AI:** Bing's AI search engine integrates with other Microsoft applications and uses search and chat histories in its responses.
3. **Amazon Lex:** Amazon Web Services' chatbot lets users build conversational interfaces in applications using voice and text. It is skilled in automatic speech recognition (ASR) and natural language understanding (NLU).
4. **IBM Watson Assistant:** Designed to understand and respond to customer inquiries, it can be trained to provide information tailored to specific industries or companies.
5. **Jasper:** Often used for creating marketing and communications content, including blogs, social media, and websites.
6. **CopyAI:** Another AI tool used for creating marketing and communications content for organisations.

How are NLP tools like ChatGPT used today?

Natural Language Processing (NLP)-based tools are already a part of many aspects of daily life. Examples of NLP use include:

- Google Translate for language translation.
- Email filters like Gmail's categorisation into primary, social, or promotions.
- Chatbots and virtual assistants such as Apple Siri and Amazon Alexa.
- Search results and predictive text suggestions.
- Speech recognition software for converting voice to text.



In addition to being a type of NLP, **ChatGPT** is more specifically a Generative Pre-trained Transformer (GPT). It is designed to handle sequential data, such as language, and will generate text based on the input it receives. GPT models don't only copy and paste – they can create brand new content. This content is based on all the data it was initially trained on, as well as new data it received. This means that the model will learn from – and “keep” – any information you give it. Internal auditors and the businesses they represent must be cautious not to provide proprietary data in “conversations” with NLP models like ChatGPT.

Some organizations are beginning to develop private, or closed, GPT models. In those cases, the information entered into the system does not become publicly available.

ARTIFICIAL INTELLIGENCE 101 SERIES:

ChatGPT for Internal Auditors



Common Risks Associated with the Use of Publicly Available AI Tools

RISK	EXPLANATION	SAMPLE MITIGATION STEPS
Data is inaccurate due to a biased algorithm	The algorithm has been trained on data that was collected, classified, or otherwise subjected to biases	Don't accept AI-generated responses as completely accurate; apply professional skepticism and verify all information
Data has been "poisoned"	An AI tool has been deliberately given inaccurate, biased, or otherwise bad information, which it then uses in developing responses	
Users place too much reliance on AI-generated content	Internal auditors or other staff blindly "copy and paste" information from the tool	
Confidential information is provided in the prompts	Users enter information into the chat that is not meant for public consumption	Remove any potential identifying information from prompts

USE CASES:

Examples of How to Safely Incorporate ChatGPT-Style Tools in Your Practice

To ensure the fair and ethical use of AI systems, it's vital to thoroughly analyse data for biases. Here's a concise guide:

Questions to Consider:

1. Is the data representative of all groups?
2. Are there proxy variables that could introduce bias?
3. How was the data collected, and could this method introduce bias?
4. What is the historical context of the data?
5. Who labelled the data and based on what criteria?

Steps to Take:

1. Conduct statistical tests to identify disparities across different groups.
2. Segment the data based on demographics to uncover disparities.
3. Use bias detection algorithms and consult with experts for insights.
4. Review data collection processes to identify potential sources of bias.
5. Compare data with external benchmarks to assess skewness.
6. Analyse feedback loops within AI systems to detect bias reinforcement
7. Critically evaluate historical data for biases and their impact.
8. Conduct impact assessments to understand the consequences of biased decisions.

9. Thoroughly document the analysis process, findings, and recommendations for transparency and accountability.

Following these steps ensures a comprehensive analysis of data for inherent biases, supporting the development of fair and ethical AI systems.



PRO TIP! Ask a clarifying question or request a more detailed response based upon the information given (or not given).

USE CASES:

Examples of Use it to Help You Think Through the General Audit Plan

Given the context of the small for-profit pet products business with established website governance processes, the audit should focus on identifying risks that could affect the effectiveness of the website's search functionality. Here's a summary of potential risks and corresponding internal controls:

Risks:

1. Technological Limitations
2. Content Management Risks
3. User Experience Issues
4. Data and Analytics Challenges
5. Security and Privacy Concerns
6. Operational and Governance Risks
7. Resource Constraints
8. Scalability and Growth Challenges

ARTIFICIAL INTELLIGENCE 101 SERIES:

ChatGPT for Internal Auditors



Internal Controls:

- Regular audits of website technology and budget allocation for upgrades
- Strict guidelines for content tagging and periodic content audits
- Continuous testing and improvement of the search interface based on user feedback
- Use of advanced data analytics tools and channels for user feedback collection
- Implementation of robust data security measures and regular audits for compliance
- Formation of cross-functional teams for oversight and structured approaches for system changes
- Strategic planning for efficient IT resource allocation and dedicated funds for search functionality
- Regular testing for scalability and inclusion of scalability considerations in long-term planning

Implementing these controls will help manage the identified risks and ensure the effectiveness of the website's search functionality, aligning with the organisation's objectives and user needs. Regular review and updates of these controls are crucial for adapting to the business's growth and evolving online presence.



PRO TIP! Biased questions or data will give biased answers. Try to remove all bias in your prompts.

EXAMPLE: Use It to Help You Structure Unstructured Data

Prompt: Access the attached, publicly available minutes of the New York City Municipal Water Finance Authority Board of Directors for 2023. Based on the information listed in the files, identify all of the times that the Board of Directors discussed contracts. List the Date, Contract Name, and Status of each contract.

The New York City Municipal Water Finance Authority Board of Directors discussed various contracts throughout 2023. Here's a breakdown of the contract discussions:

- February 2, 2023: Approved an amendment of consulting engineer contracts with AECOM and Macan Deve.
- February 24, 2023: Approved a supplemental resolution authorising the issuance of Fiscal 2023 Series DD Water and Sewer System Second General Resolution Revenue Bonds.
- March 28, 2023: Approved the extension of bond counsel contracts with Nixon Peabody LLP, Hardwick LLC, and Orrick Herrington & Sutcliffe LLP.
- May 18, 2023: Approved the procurement of Directors and Officers Liability Insurance from AIG, Zurich American Insurance Company, Liberty Mutual Insurance Company, and Aspen Insurance.
- August 3, 2023: Approved rate consultant contracts with Amawalk Consulting Group LLC and Carollo Engineers.
- September 22, 2023: Ratified rate consultant contracts with Amawalk Consulting Group LLC and Carollo Engineers.

These discussions were documented in the minutes of the respective Board meetings throughout the year.

What Internal Auditors Should Do?

An internal auditors should maintain vigilance regarding the adoption of AI tools like ChatGPT, understanding their potential risks and benefits. They should conduct thorough risk assessments, implement effective controls, and ensure compliance with relevant regulations and ethical standards. Additionally, auditors should continuously monitor the usage of AI tools, stay updated on emerging trends and best practices, and adapt auditing methodologies accordingly to address the evolving landscape of AI technology in auditing practices.

Reference

[ChatGPT for Internal Auditors](#)

THE IIA'S Artificial Intelligence Auditing Framework

Introduction

AI encompasses a variety of existing and emerging technologies that mimic human intellectual processes, such as reasoning, learning, and problem-solving. The rise in AI applications presents numerous opportunities for organisations to enhance work methods, but it also introduces significant risks.

For internal auditors, the increasing adoption of AI poses challenges. Organisations seek internal audit's advice on AI risks and controls, making it crucial for auditors to continuously develop their AI knowledge. Auditors must understand complex AI processes and provide informed guidance.

Internal auditors bring essential skills like critical thinking, process mapping, and risk assessment. The IIA AI Auditing Framework helps internal auditors understand AI risks and best practices and includes four parts:

1. Overview of AI history and uses.
2. Insights on how an organisation uses AI.
3. The AI Auditing Framework covering governance, management, and internal audit.
4. Practitioner's guide and glossary.

The framework aligns with The IIA's Three Lines Model and includes references to the International Professional Practice of Internal Auditing (IPPF). It also incorporates other frameworks such as the NIST AI Risk Management Framework.

PART 1: Overview

History and Evolution

The history of AI dates back to the 1950s, with notable advancements such as Alan Turing's inquiry into machine thinking and Arthur Lee Samuel's checkers-playing program. Progress continued through the decades, with milestones like Joseph Weizenbaum's chatbot ELIZA in the 1960s and IBM's Deep Blue defeating chess grandmaster Garry Kasparov in the 1990s. By the 2000s, AI became integrated into daily life with voice assistants like Alexa and Siri.

In 2023, AI adoption surged, particularly with large language models like ChatGPT, expanding AI's capabilities from prediction to content creation. IBM's Global AI Adoption Index 2022 revealed that 35% of surveyed companies are already using AI, while 42% are exploring its potential, highlighting the importance for internal auditors to consider AI-related risks.

Adoption Levels

IBM classifies AI into four types based on functionality:

- **Reactive Machine AI:** These systems operate based on human input and lack memory, relying on programmed algorithms.
- **Limited Memory AI:** Capable of learning from large datasets, incorporating past and present data, and includes deep learning systems like ChatGPT.
- **Theory of Mind AI:** Theoretical research aims to develop AI systems that understand human emotions and motivations.
- **Self-Aware AI:** Also theoretical, this level of AI would involve self-awareness and consciousness exceeding human capabilities.

Additionally, machine learning is categorised into supervised, unsupervised, semi-supervised, and reinforced learning. AI applications span various sectors, including decision-making, virtual assistants, natural language processing, computer vision, and robotics.

Theoretical debates persist regarding the feasibility of Theory of Mind and Self-Aware AI, while the practical applications of AI continue to evolve and expand across industries.

PART 2: Getting Started

As organisations increasingly adopt AI, internal auditors must collaborate closely with management to understand the AI strategy, current usage, and future plans. During planning, auditors should gather information from internal and external sources.

Internal sources include policies, strategic plans, recent board reports, and insights from risk assessment meetings. External sources provide context, such as IIA publications, NIST guidelines, and governmental orders.

Auditors should inquire about AI usage by consulting various departments and individuals, including the AI/data science team and IT management. They should review or develop an AI inventory with management, focusing on goals, users, and risk considerations.

Consulting C-suite executives about the AI strategy and governance is crucial to understanding accountability for managing AI risks.

THE IIA'S Artificial Intelligence Auditing Framework

Auditors should delve deeper into AI by understanding the data used, algorithms involved, and data management strategies. They should ensure data integrity, privacy, and accessibility, particularly with big data and third-party data hosting.

Cybersecurity is essential to safeguard AI-related data, with auditors assessing controls like encryption and intrusion detection systems. They should review SOC reports for externally stored data and ensure alignment with The IIA's AI Auditing Framework.

Overall, internal auditors play a vital role in advising and assuring organisations on AI-related risks, adapting their approach based on organisational maturity in AI management.

PART 3: AI Auditing Framework

The IIA's AI Auditing Framework, introduced in 2017 and updated regularly, guides internal auditors in providing advisory and assurance services related to AI. It aligns with The IIA's Three Lines Model, with internal audit serving as the third domain, offering independent assurance and advisory functions.

The framework comprises three domains: Governance, Strategy, and Internal Audit. Governance focuses on overseeing AI activities to ensure alignment with organisational values and ethical standards. Strategy involves developing and implementing tailored AI strategies aligned with organisational goals. Internal Audit encompasses both advisory and assurance services, offering guidance on AI usage and providing independent assessments.

Internal auditors must adapt to the rapidly evolving and complex nature of AI, continuously updating their knowledge and approaches. They face challenges due to AI's complexity, evolving capabilities, and limited auditing tools. However, maintaining a disciplined approach, leveraging external expertise, and engaging in open discussions with management can help address these challenges.

Auditors are not expected to be AI experts but should seek to increase their understanding and awareness of AI-related risks, controls, and impacts. They should focus on critical thinking, risk identification, and alignment with organisational objectives when auditing AI initiatives, ensuring that controls effectively mitigate risks and support strategic goals.

PART 4: Practitioner's Guide and Glossary

The practitioner's guide is a straightforward checklist that internal auditors can use to assess the organisation's approach to AI. This guide aids in evaluating how the organisation uses, manages, and reports on AI. Internal auditors can refer to key points from the Governance, Management, and Internal Audit sections in Part 3 to create their audit plan or offer advice. The checklist should be tailored based on the organisation's specific AI usage and whether formal AI strategic planning, policies, procedures, processes, and reporting have been implemented. This guide serves as a quick start but should be adapted to suit each organisation's unique needs.

What Internal Auditors Should Do?

Internal auditors play a crucial role in navigating the complexities of AI adoption within organisations. To fulfil their responsibilities effectively, auditors should continuously develop their understanding of AI technologies, risks, and best practices. They must collaborate closely with management to assess the organisation's AI strategy, usage, and future plans. Auditors should gather relevant information from both internal and external sources, ensuring a comprehensive understanding of AI-related processes and controls.

Moreover, auditors should focus on providing informed advice and assurance, leveraging frameworks such as The IIA's AI Auditing Framework to guide their assessments. They should adapt their approach based on the organisation's maturity in AI management, addressing both governance and operational aspects of AI adoption.

Additionally, internal auditors should remain vigilant about emerging AI-related risks and challenges, staying updated on industry developments and seeking external expertise when necessary. By maintaining a disciplined approach, fostering open communication with stakeholders, and prioritising alignment with organisational goals, internal auditors can effectively support their organisations in harnessing the benefits of AI while mitigating associated risks.

Reference

[Artificial Intelligence Auditing Framework](#)

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