



Government Internal
Auditors Council of Canada

Conseil canadien des auditeurs
internes du secteur public

Accelerating AI with Confidence:

How Internal Audit can ensure safe and responsible use of AI

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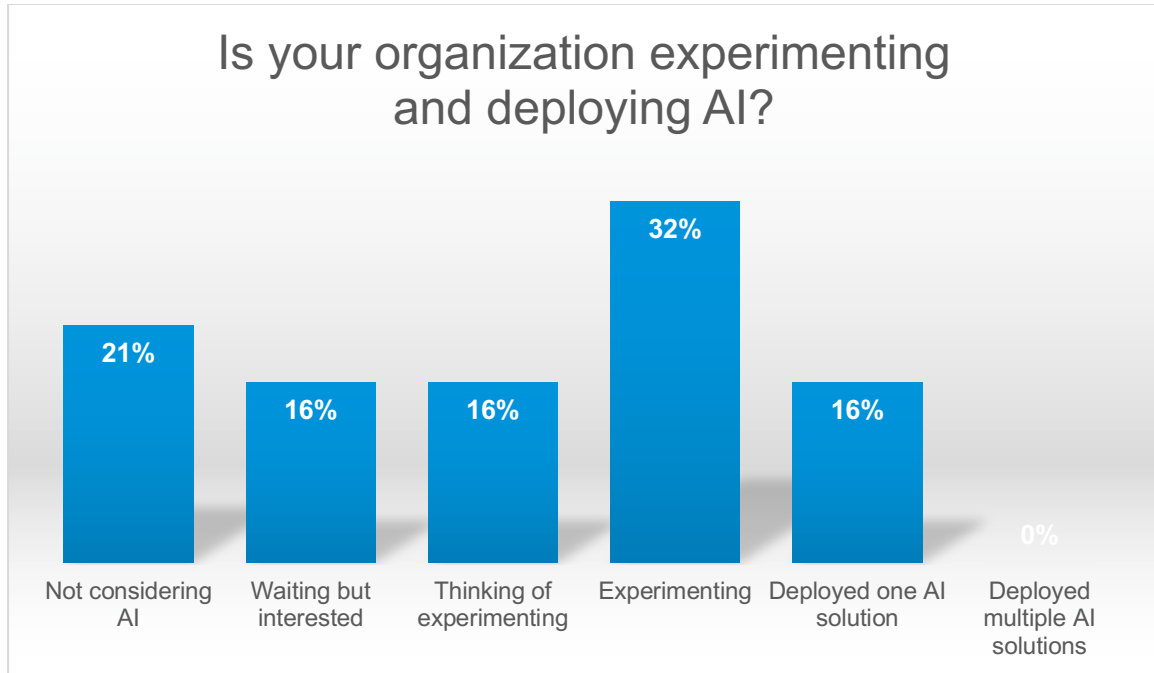
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1 Accelerating AI with Confidence

1.1 Introduction

Artificial Intelligence (AI) is rapidly transforming various sectors, including public administration. Its potential to enhance efficiency, improve data analysis, and streamline processes is significant.

The adoption of AI within Canadian provincial and federal governments is reshaping the landscape of internal auditing, presenting both remarkable opportunities and significant challenges and necessitating a comprehensive approach to governance and risk management. As AI technologies continue to evolve, internal auditors find themselves at the forefront of this transformation, tasked with ensuring that AI is used responsibly and effectively, both within the Internal Audit function and throughout the broader organization. Understanding AI is crucial in this pivotal role.



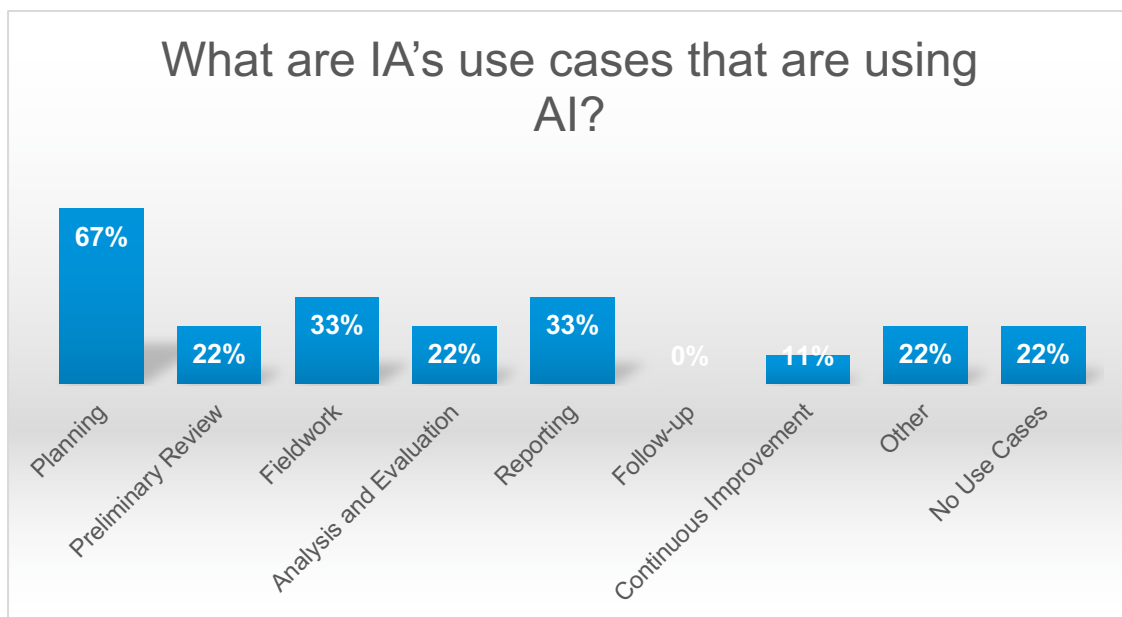
Source: 2024 GIACC Survey

1.2 Opportunities Presented by AI

AI refers to the simulation of human intelligence in machines programmed to think and learn. It offers a plethora of benefits, particularly in enhancing operational efficiency and improving data analysis capabilities. The potential for AI to streamline processes and reduce operational costs is substantial.

AI can significantly enhance productivity and speed up decision-making processes. Its capabilities allow auditors to analyze vast amounts of data quickly, leading to better decision-making and more informed risk assessments. The use of AI to improve data analysis is particularly relevant for internal auditors, who rely on accurate data for their assessments. Leading benefits experienced by internal auditors who currently use AI include:

- Enhanced Efficiency:** AI can execute rapidly routine tasks, such as summarizing content, extracting key points, or drafting reports based on provided documentation. In this way, AI tools allow auditors to focus on more complex analyses. This streamlining can lead to reduced operational costs and improved service delivery and:
- Improved Data Analysis:** AI tools can analyze vast datasets quickly, providing insights that would be difficult to obtain manually. For instance, some tools are utilizing a combination of generative AI, automation, and visualization technologies to ingest structured and unstructured data inputs from online sources, including financial, liquidity, capital, and regulatory action data, interpret this data by extracting key trends and conclusions, and visualize these outputs for the compliance officer or auditor of the organization.



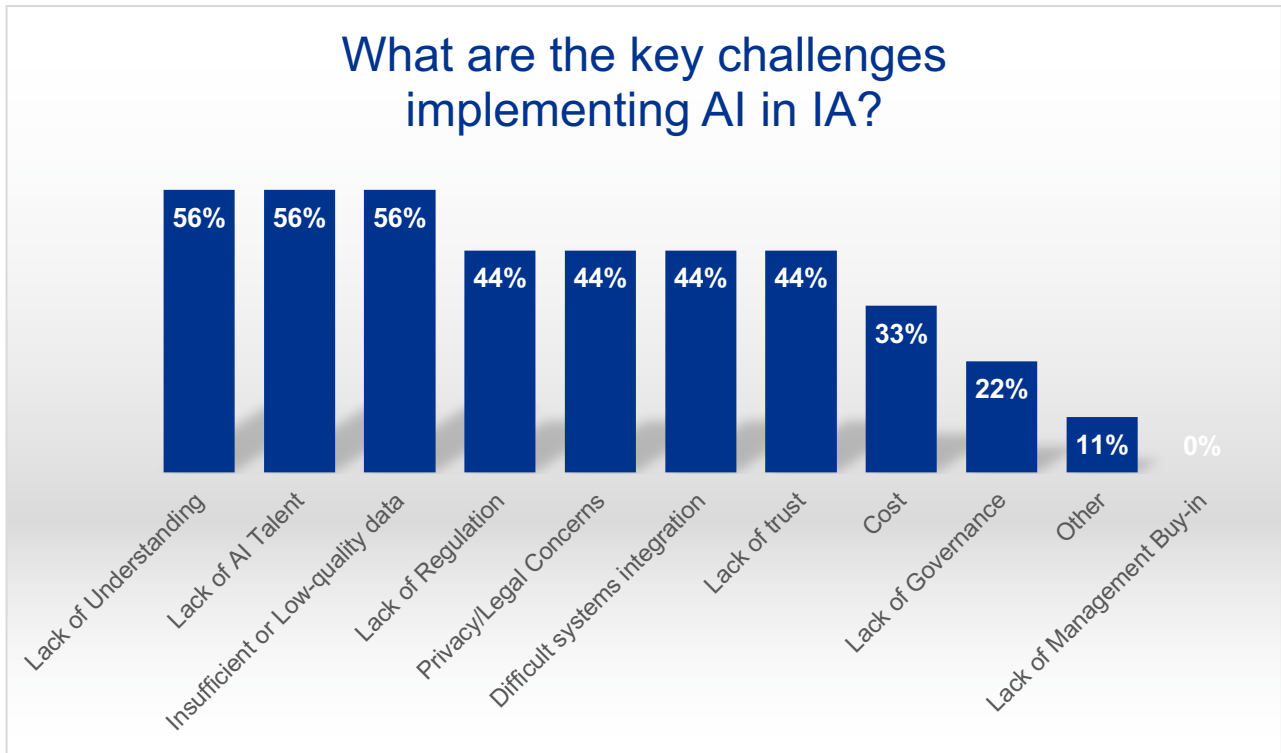
Source: 2024 GIACC Survey

1.3 Challenges of AI Adoption

While AI offers numerous benefits, the journey toward AI adoption is not without its hurdles.

- A significant challenge identified in the GIACC survey is the **lack of understanding** among auditors regarding AI technologies, which is a significant barrier to AI adoption. According to the 2024 GIACC Survey, approximately **56%** of respondents reported that the key challenges to implementing AI within internal audit stem from this knowledge gap. An equal percentage also cited **lack of AI talent**, which appears to be a related challenge. This lack of familiarity can hinder the effective integration of AI tools into auditing processes, making it imperative for organizations to invest in training and development for their internal audit teams.
- **Data quality** is another critical concern. Insufficient or low-quality data can severely impact the outcomes of AI applications, leading to inaccurate analyses and potentially flawed decision-making. The survey highlights that "insufficient or low-quality data" was identified as a significant challenge, emphasizing the need for robust data governance frameworks to ensure that the data fed into AI systems is reliable and relevant.
- **44%** cited **lack of regulations** and an equal number identified **privacy/legal concerns**. While AI regulations have been slow to materialize within Canada, as Bill C-27 is taking time to progress through the legislative approval process, Privacy laws have been established for some time, and include the Privacy Act, the Personal Information Protection and Electronic Documents Act (PIPEDA), and assorted provincial laws related to health and employment.
- **Additional risks** include challenges with **systems integration**, a typical business issue facing any significant technology transformation where outdated legacy systems are involved, **lack of trust**, an issue which surfaces up in other market surveys and seems directly linked to **lack of AI governance** and relevant knowledge, and **cost of new technologies**, especially in an uncertain economic environment. The federal Government has taken steps towards mitigating some of the cost concerns by launching its new [Canadian Sovereign AI Compute Strategy](https://ised-isde.canada.ca/site/ised/en/canadian-sovereign-ai-compute-strategy)¹. However, the majority of the \$2B pledged in AI financing is tailored towards sovereign AI computing infrastructure and private businesses, leaving open questions for commitments to AI implementations and upskilling for internal auditors in the public sector.

¹ [Canadian Sovereign AI Compute Strategy](https://ised-isde.canada.ca/site/ised/en/canadian-sovereign-ai-compute-strategy) - <https://ised-isde.canada.ca/site/ised/en/canadian-sovereign-ai-compute-strategy>



Source: 2024 GIACC Survey

1.4 The Role of Internal Auditors

In this evolving landscape, the roles of the three lines of defense in any organization are crucial in AI governance. The 1st line consists of business units that implement and oversee AI in their day-to-day operations. The 2nd line includes Risk Management that develops responsible AI frameworks and policies for the organization, that guide the first line. And the 3rd line - Internal Audit - provides independent assurance over the operationalized AI controls.

Therefore, internal auditors play a pivotal role in mitigating AI-related risks. They are tasked with identifying and addressing issues such as bias and discrimination that may arise from AI algorithms, highlighting their responsibility to ensure that AI systems are designed and implemented ethically and responsibly. Establishing governance frameworks is essential for ethical AI use, and auditors must work collaboratively with other stakeholders from the 1st and 2nd line to develop and enhance these frameworks. There are several key steps to success in that process:

1. Start with a **Trusted AI Framework** to define the guiding principles of AI governance.
2. Define a **Risk and Control Matrix** that leverages leading regulations/standards to define AI risk controls.

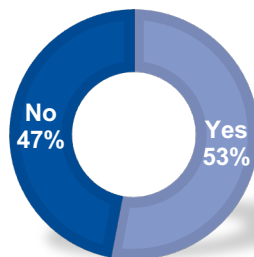
3. Develop **enabling tools, such as an AI Model Risk Ranking Tool**, to ensure appropriate controls are selected.

In addition, Internal Audit should ensure that best practices are established to govern AI, including considerations such as:

- **Accountability:** Allocate governance responsibility for AI-related decisions, perhaps by establishing an AI Governance Committee.
- **Visibility:** Inventory current AI use cases and models in development and deployment.
- **Compliance:** Identify current and anticipated AI legal and regulatory requirements.
- **Risk Management:** Update framework, systems and controls for AI-related risks.
- **Data:** Ensure provenance, quality, relevance and legality of AI training data.
- **Models:** Ensure AI models are used properly, understood, and outcomes explainable.
- **Employees:** Update/establish policies, processes and training to support AI usage.
- **Customers and Suppliers:** Update customer and supplier engagement processes for AI usage.

Moreover, internal auditors can leverage AI tools to enhance their auditing processes. The survey reveals that a significant percentage of auditors are already utilizing Generative AI for various tasks, with **53%** of respondents reporting that they have used Generative AI to assist with work-related tasks. This indicates a growing acceptance of AI technologies within the auditing profession, as auditors recognize the potential for these tools to improve efficiency and effectiveness.

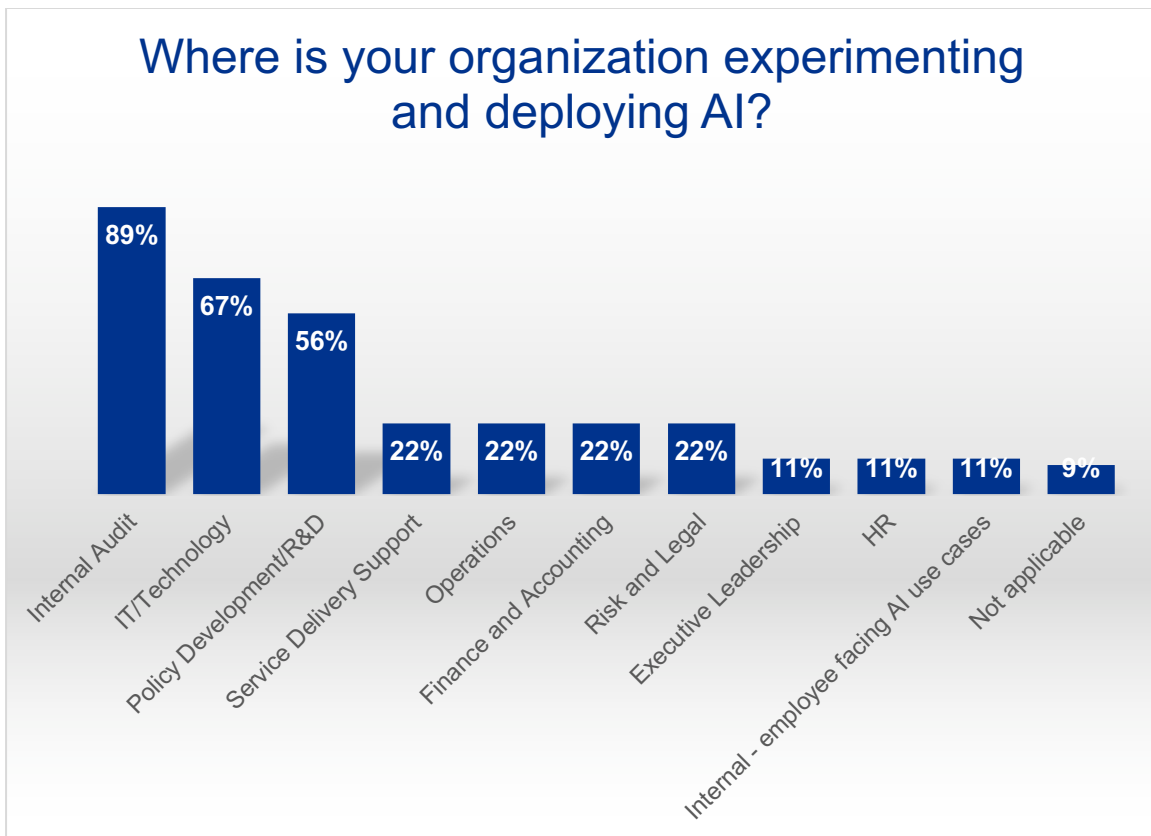
Have you used GenAI to help with Internal Audit work-related tasks?



Source: 2024 GIACC Survey

1.5 Current State of AI in Internal Audit Functions

The insights from the GIACC survey further illustrate the current state of AI in internal audit functions. An impressive **89%** of respondents indicated that their organizations are experimenting or implementing AI solutions in the area of internal audit. This widespread interest reflects a recognition of the transformative potential of AI, as well as a commitment to staying ahead of the curve in an increasingly digital world.

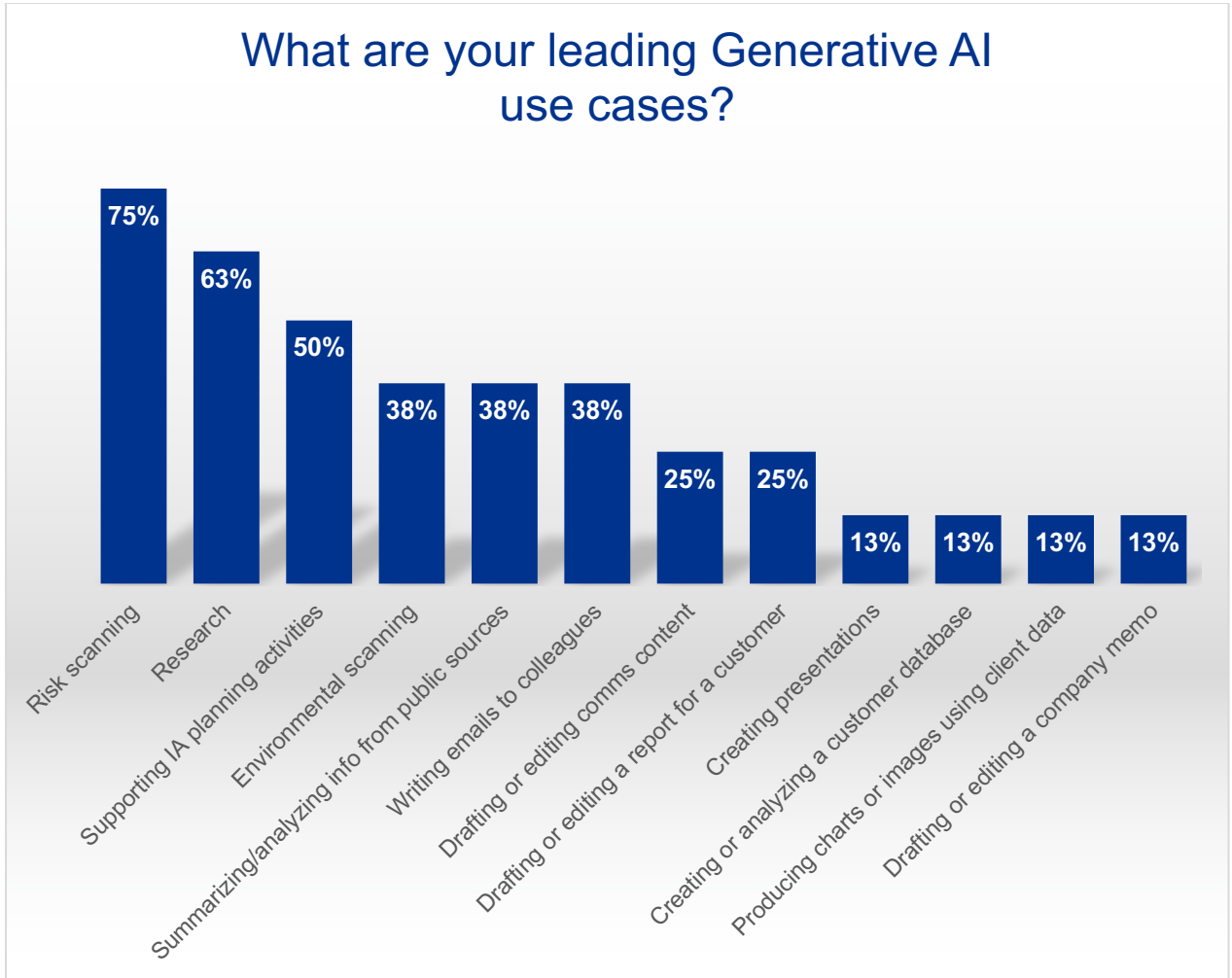


Source: 2024 GIACC Survey

The integration of Generative AI into the internal audit function has emerged as a transformative force, reshaping how auditors approach their responsibilities. As organizations increasingly recognize the potential of advanced technologies, the application of Generative AI in internal auditing has gained traction.

- **Risk scanning**, which stands at the forefront with a **75%** utilization rate, highlights the capability of Generative AI to analyze vast amounts of data quickly and accurately. Internal auditors are tasked with identifying potential risks that could impact an organization's operations and financial health. Generative AI tools can automate the scanning of internal and external data sources, flagging anomalies and trends that may indicate emerging risks. This proactive approach allows auditors to focus their efforts on high-risk areas, thereby improving the overall risk management framework of the organization.
- **Research**, with a **63%** adoption rate, represents another critical application of Generative AI in internal auditing. The research phase of an audit often involves extensive data gathering and analysis, which can be time-consuming and labor-intensive. Generative AI can streamline this process by quickly synthesizing information from various sources, including regulatory updates, industry benchmarks, and historical audit findings. This capability not only accelerates the research phase but also enriches the quality of insights that auditors can derive.
- **Supporting internal audit planning activities**, used by **50%** of auditors surveyed, illustrates how Generative AI can facilitate more strategic and data-driven planning processes. Effective audit planning is crucial for ensuring that resources are allocated efficiently and that audits are aligned with organizational priorities. Generative AI can assist in analyzing past audit results, identifying patterns, and predicting future audit needs based on risk assessments and organizational changes.

The application of Generative AI in internal auditing is not merely a trend but a significant evolution in the field. The top use cases—Risk Scanning, Research, and Supporting Internal Audit Planning Activities—demonstrate the potential of AI to enhance the efficiency, effectiveness, and strategic alignment of internal audit functions. As organizations continue to embrace digital transformation, the role of Generative AI in internal auditing is likely to expand, offering new opportunities for auditors to add value and drive organizational success.



Source: 2024 GIACC Survey

1.6 Future Directions

As AI continues to evolve, internal auditors must adapt to new technologies and methodologies.

- Embracing AI Responsibly:** The survey results emphasize that "internal auditors must embrace AI responsibly, ensuring compliance and driving accountability".
- Training and Development:** As internal auditors navigate this complex landscape, the need for training and development becomes increasingly apparent. The survey found that **79%** of respondents expressed a desire for their employers to offer upskilling courses on how to use Generative AI effectively. This demand for training underscores the importance

of equipping auditors with the knowledge and skills necessary to harness the full potential of AI technologies.

- **Familiarity with Different Technologies:** Auditors need to become familiar with various technologies, as effective solutions will combine multiple technologies and AI models.



Source: 2024 GIACC Survey

1.7 In Conclusion

Internal auditors have a critical role in navigating the complexities of AI adoption. Their dual role in the context of AI adoption within Canadian provincial and federal governments is both challenging and rewarding. As they work to ensure the responsible use of AI both within the Internal Audit function and throughout the broader organization, auditors must embrace new technologies while remaining vigilant about the associated risks. By helping to establish robust governance frameworks, investing in training, and leveraging AI tools, internal auditors can enhance their effectiveness and contribute to the overall success of AI initiatives within their organizations. A proactive approach to AI adoption, focusing on governance, risk management, and continuous learning, is essential for ensuring the responsible use of AI in the public sector.

The future of internal auditing is undoubtedly intertwined with the evolution of AI, and those who adapt to this change will be well-positioned to drive accountability and compliance in the public sector.



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