

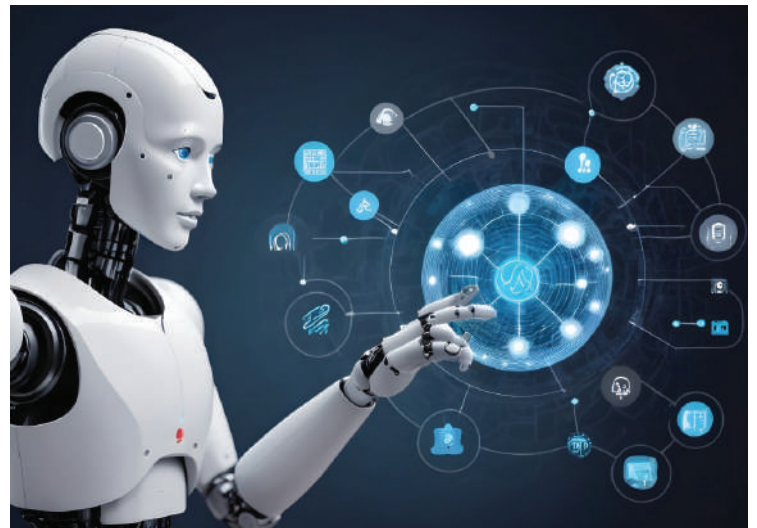


## Harnessing AI to Improve Internal Controls

AI is substituting physical inventory count with robots. Within minutes, a huge warehouse inventory can be verified with complete accuracy, removing need for time consuming & sometimes imprecise human processes.

As more such innovations surface, the question doing the rounds is 'Will AI bring on the end of the human auditor?'

The automobile was invented over a 100 years ago. It changed the way we commute. We drive & navigate the automobile. We walk the last mile. Similarly, AI will help us in faster and more efficient audits. When I first learned about the computer in 1980s, I learned the term GIGO. GIGO holds true for AI too. AI will need human skill and experience to implement controls and execute audits.



### So how does AI contribute:

- 1. Continuous Monitoring:** AI can be used to continuously audit/monitor financial transactions and detect anomalies in real-time based on defined parameters.
  - a Automated Exception Reporting:** If a transaction exceeds a certain amount or if there are multiple transactions from the same source within a short period, an alert can be triggered to investigate further.
  - b Continuous Data Monitoring:** If sales are declining or expenses are increasing over time, this may indicate a problem that requires further investigation.
  - c Automated Controls Testing:** An automated system could review every invoice payment for compliance with payment terms & policies.
  - d Transaction Monitoring:** A system could flag transactions that are significantly larger than average or involve a new/unusual vendor.

## 2 . Risk Assessment & Identification:

Predictive analytics and machine learning can analyse large volumes of data & identify potential risks and scenarios in areas such as credit appraisal, equipment performance, quality control, demand forecasting, supply chain challenges, etc.



## 3 . Fraud Detection:

AI analysed data to identify patterns or trends that may indicate fraudulent activity. With cognitive analytics, fraud detection models can become more robust and accurate. If a cognitive system flashes a potential fraud and a human determines it's not fraud because the computer learns from those human insights, and next time it won't flash a similar detection.

## 4 . Fraud Prevention:

In online fraud detection and prevention, machine learning is a collection of artificial intelligence (AI) algorithms trained with historical data to suggest risk rules. We can implement the rules to block or allow certain user actions, such as suspicious logins, identity theft, or fraudulent transactions.



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