



# Future of risk and internal audit as an assurance providers in the AI environment: A shift from the old way of auditing and risk



**CIGFARO**  
Chartered Institute of  
Government Finance, Audit & Risk Officers

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# What is AI?

AI is defined as “a modern science that is harmoniously built and interconnected between mathematical rules, devices and programs that have been assembled in computers, which in turn perform many operations and tasks that a human can accomplish, but they differ from it in terms of speed and accuracy in finding solutions for complex problems, which are difficult to solve”.

# BACKGROUND

The rapid adoption of **Artificial Intelligence (AI)** in municipal governance is transforming risk management and internal auditing.

Traditionally, these functions relied on **manual reviews, sample-based testing, and periodic audits**, often identifying financial mismanagement and fraud only after significant damage had been done.

However, AI-driven solutions are **transforming assurance processes**, enabling **real-time monitoring, predictive analytics, and automated fraud detection**.

# BENEFITS OF AI IN RISK MANANEMENT

## Predictive Risk Analytics for Proactive Decision-Making

- ❖ AI can **forecast potential financial crises** by analyzing historical data and market trends. For instance, predictive analytics can:
- ❖ Identify declining revenue collection patterns.
- ❖ Forecast **budget overruns** before they happen.
- ❖ Highlight municipalities at risk of financial distress.

This allows **risk managers to implement preventive strategies** rather than reacting after financial damage has occurred.

- ❖ It will help RM with risk identification through analysing the Management Data , Management reports,
- ❖ It assist with the assessment of the mitigating measures given by management to address the risk identified.(SMART)



# BENEFITS OF AI IN RISK MANAGEMENT(Co

## Improved Compliance and Policy Enforcement

- ❖ AI-driven tools automatically check municipal transactions for **compliance with financial policies, procurement regulations, and governance frameworks**. This minimizes human errors and **reduces unauthorized, irregular, fruitless, and wasteful (UIFW) expenditure**
- ❖ It will assist RM to easily highlight areas that required urgent intervention
- ❖ Due to improved ability to run continuous reports – risk management can now be able to keep track of “High risk areas”; by running period reports
- ❖ It can improve the risk maturity in the municipalities resulting into achievement of strategic goals



# BENEFITS OF AI FOR INTERNAL AUDIT

- ❖ Bigger picture /coverage– currently IA only samples. However with AI; a larger population can be drawn and audited.
- ❖ Increases chances of identifying and preventing fraud ; and improved risk identification– when a larger population is drawn and audited – errors and fraud can be identified. Patterns can be studied and dots connected.

## **AI can identify:**

- ☐ Split transactions designed to avoid procurement thresholds.
  - ☐ Ghost employees receiving salaries from municipal payroll.
  - ☐ Over-inflated supplier invoices that do not match market prices
- 
- ❖ By detecting fraud instantly, AI allows municipalities to prevent financial losses rather than reacting after they occur.



# BENEFITS OF AI FOR INTERNAL AUDIT

## Continuous Auditing Instead of Periodic Audits

- ❖ Traditionally, audits occur **By-Monthly, quarterly or annually**, leaving room for errors and mismanagement. AI enables **continuous auditing**, where financial data is **monitored in real-time** and automatically cross-checked against compliance standards. This reduces audit backlogs and ensures **ongoing financial oversight**.

## Audit Executions:

- ❖ Efficiency – write instructions once (digitalised Audit Programme) – which can be repeated. Notes can be digitalised. Scanned documents can be analysed.
- ❖ Digitalisation of an audit process (such that after you have made inputs into various working papers; a reports is automatically generated; with automated recommendations

# BENEFITS OF AI FOR INTERNAL AUDIT

- ❖ With AI and programming; the data can be further analysed (instruction written once; for continuous receipt of meaningful reports). **To see what story is it telling us; which dots connects and what could potentially be going wrong in the system.** This could results in millions and millions of savings for municipalities.
- ❖ IA monitoring reports which run continuously monthly/quarterly to help management to get insight of their data. E.g. **Currently municipality write off vehicles, however we received statements(for maintenance; fuel; etc)** - but the data does not get interrogated to form patters and provide a bigger picture.
- ❖ Reporting – a pre set up report which will only need to be reviewed. This Will assist IA to render to management Monitoring Reports Timeously





# OVERALL BENEFITS

- ❖ It will allow the Risk Management and Internal Audit to focus on the Strategic Issues( IA & RM providing Advise on the Key Decisions)-New definition of IA
- ❖ It will improve the efficiency and effectiveness of IA Audits and RM Follows-up conducted
- ❖ AI can improve IA, Compliance and RM reporting to add more value on the operations of municipalities(Improved Governance)
- ❖ Internal Audit can perform dynamic audits to align to high risk areas( Adjusting their plans to align to current situation with the additional resource AI)
- ❖ It can assist with identification of emerging risks (Analyze data to uncover patterns, anomalies and trends)
- ❖ AI can improve audit coverage- Performing more audits in the municipality
- ❖ It can improve IA & RM engagement with their clients( More time for engagement meeting)
- ❖ It will assist IA review Internal Controls Maturity –Dashboard matric to report to Management and AC



# KEY CONSIDERATION

Despite the benefits, municipalities must navigate several challenges when integrating AI into risk management and auditing:

## 3.1. Data Quality and Integrity

AI is only as effective as the data it analyzes. **Incomplete, inaccurate, or outdated financial records** can lead to flawed risk assessments. Municipalities must invest in **data governance frameworks** to ensure **clean, reliable, and secure data** for AI-powered audits.

## 3.2. Skills and Capacity Building

Many internal auditors and risk managers **lack AI expertise**. Municipalities must **train finance teams** on AI-driven assurance tools, ensuring that auditors and risk professionals can effectively interpret AI-generated insights.

## 3.3 Ethical and Regulatory Concerns

AI-driven decision-making must adhere to IIA's new **Global Internal Audit Standards, municipal finance legislation and ethical guidelines**. Key concerns include:

**Independence and Objectivity**-AI should still adhere to the IIA's standards

**Transparency:** AI models must be auditable to prevent bias in decision-making.

**Accountability:** Municipal officials must remain responsible for financial decisions, even with AI-driven recommendations.

**Privacy:** Sensitive municipal financial data must be protected against cyber threats

# KEY CONSIDERATION

## 3.4 Cost and Infrastructure Challenges

AI implementation **requires investment in technology**, which may be difficult for financially strained municipalities. However, the **long-term savings from fraud prevention, improved compliance, and operational efficiency** outweigh the initial costs.

## 3.5. Collaboration Between Internal Audit, Risk, and IT Departments

AI-driven risk management requires **cross-functional collaboration**. Internal audit teams must work closely with **IT departments, data analysts, and finance professionals** to integrate AI solutions effectively.

**3.6 Management Buyin-** IA and RM will still need management support to successfully implement the AI Shift

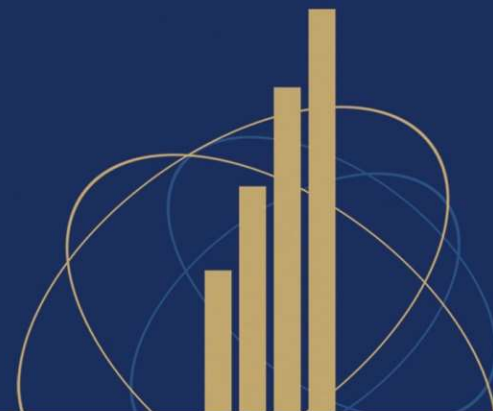
# CONCLUSION

- ❖ The future of risk management and internal auditing in municipalities **belongs to AI-driven solutions**. With real-time monitoring, predictive analytics, and continuous auditing, AI enhances **financial accountability, fraud detection, and risk prevention**—far beyond what traditional methods can achieve.
- ❖ It is worth mentioning that, **successful AI adoption** requires municipalities to address **data integrity, skills development, ethical concerns, and infrastructure investments**.
- ❖ AI should be seen as a **tool to empower auditors and risk managers**, not as a replacement. **AI enhance our efficiency!!!**
- ❖ Municipalities that **embrace AI-driven assurance** will not only **improve financial oversight** but also **restore public trust** by ensuring that funds are used efficiently for service delivery.
- ❖ The shift is happening—**the question is, will municipalities keep up?**





# Thank You!



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