

How Far Can an FI Use AI in Internal Audit?



20 October 2026

Introduction

Can a financial institution (“FI”) use artificial intelligence (“AI”) to draft its internal audit report and to examine records without an auditor rechecking each one? **Yes, on two conditions.** The responsible individuals must perform their audit and oversight roles effectively, and the evidence must justify reliance on the automated work for the intended audit conclusion.

Suppose AI checks a quarter’s trades against a pre-trade approval requirement and flags ten breaches. An auditor confirms all ten. That supports reporting those breaches; confirming them alone does not establish whether another twenty were missed or whether the control operated effectively across the quarter. The same limitation applies where people perform the initial checks.

Human oversight and manual examination are different tasks. Testing may use independently established benchmarks, automated comparisons, manual examination or a combination. The responsible auditor needs to assess whether the resulting evidence establishes adequate coverage and reliability for the intended audit conclusion.

AI may draft the entire report; a competent auditor must adopt it. Adoption does not necessarily require repeating every underlying check.

The Monetary Authority of Singapore (the “**Authority**”) addresses the organisation, independence and responsibilities of internal audit in its [Guidelines on Risk Management Practices – Internal Controls](#) (the “**Internal Controls Guidelines**”), the starting point for assessing an FI’s audit arrangements.¹ Its [Guidelines on Artificial Intelligence Risk Management](#) (the “**AI Guidelines**”), issued on 7 October 2026, address risks arising

¹ Internal Controls Guidelines, paragraphs 1.2.1 and 2.6.1–2.6.9.

from AI use. Their relevance here concerns how the FI selects, tests, oversees and monitors AI used in audit work.²

What Human Involvement Is Required to Discharge an FI's Functions?

An incorporated FI is a legal person; natural persons staff and oversee its work. The board and the FI's functions are organisational arrangements, not additional legal persons.³ AI does not occupy either category or assume their responsibilities.

The [Guidelines on Risk Management Practices – Board and Senior Management](#) (the “**Board and Senior Management Guidelines**”) distinguish board oversight from executive management; delegation does not remove their respective accountability.⁴

Where applicable, the [Guidelines on Individual Accountability and Conduct](#) (the “**IAC Guidelines**”) identify senior managers by their actual oversight responsibilities and decision-making authority, and expect arrangements that support the effective discharge of their roles.⁵ Their [accompanying FAQs](#) address delegation and oversight of outsourced functions.⁶

The [Guidelines on Fit and Proper Criteria](#) (the “**Fit and Proper Guidelines**”) assess competence and capability against the business or duties undertaken, including whether concurrent responsibilities create conflicts or impair performance. Application depends on the institution and role. An AI system is not itself a relevant person assessed under the Fit and Proper Guidelines.⁷

These accountability and competence expectations apply whether an FI uses AI or other technology. For each affected role, an FI should identify the decisions the individual must make, the information needed and the circumstances requiring intervention.

Assessing Human Involvement in Internal Audit

For internal audit, the Internal Controls Guidelines envisage an adequately staffed, independent and permanent function, overseen by fit-and-proper senior personnel and reporting to the board or audit

² AI Guidelines, paragraphs 1.1–1.2, 5.9, 5.12–5.15 and 5.23–5.25. Applicability and the implementation timetable are discussed below. In preparing this article, we also reviewed The Institute of Internal Auditors' [Artificial Intelligence Auditing Framework](#) (2024) and IIA Singapore's [Impact of Artificial Intelligence on Corporate Governance, Risk Management and Internal Audit 2025](#).

³ Companies Act 1967, sections 19(5) and 145(2); [Ho Kang Peng v Scintronix Corp Ltd \[2014\] SGCA 22](#), paragraphs [47]–[49].

⁴ Board and Senior Management Guidelines (July 2021), paragraphs 1.2.3, 1.2.9, 1.3.1 and 2.9. Footnote 1 to paragraph 1.1.1 describes board and senior management as decision-making functions rather than legal constructs; paragraph 1.1.2 and footnote 5 address application, including foreign-domiciled institutions.

⁵ IAC Guidelines, Definitions, paragraphs 1.2(ii) and 3.1–3.3, and Annex B(n), which includes the head of internal audit. The applicability section contains exclusions. Introduction paragraphs 4–5 provide for proportionate implementation: FIs with fewer than 50 headcount should still achieve the five Outcomes, but ordinarily need not adopt the specific guidance.

⁶ IAC Guidelines, paragraphs 3.1–3.3, especially paragraph 3.3(vii); accompanying FAQs, Part II, Questions 3 and 8, and Part III, Questions 8 and 13. The core-function descriptions are not mandatory titles or responsibilities. The delegation guidance addresses personnel and committees.

⁷ Fit and Proper Guidelines (revised 30 May 2025), paragraphs 1, 3, 6, 8 and 14(a)–(c). Application depends on the institution and the person's role; paragraphs 10(c), 11 and 12(c) address arrangements concerning persons acting on specified entities' behalf.

committee. Its responsibilities include assessing controls, developing an audit plan based on the internal audit function's own risk assessment, reporting findings and following up remediation.⁸

An FI should apply two questions to the proposed audit arrangements, alongside any requirements specific to the FI, role or task:⁹

- **Can the responsible individuals assess and challenge the work?** Identify who will determine the audit scope, evaluate the evidence, adopt the findings and oversee remediation, and whether each has the competence, information and authority to do so. Preserve the internal audit function's independence.
- **Does the evidence support the intended audit conclusion?** Define what the procedure tests, how its coverage and reliability will be established, and which limitations require further work.

The Internal Controls Guidelines do not prescribe a particular professional qualification or certification for internal auditors. They expect relevant experience, expertise and training to understand and evaluate the business being audited.¹⁰ In the trade example, technical specialists may test whether the AI detects missing or invalid approvals. The auditor needs to understand what those tests establish and whether they support the intended audit conclusion.

Can ChatGPT Draft the Entire Internal Audit Report?

Yes. AI can draft the report using an approved service and data the FI is permitted to provide. Before issue, a competent, authorised auditor should assess and adopt the report's material findings and conclusions, taking responsibility for whether the audit work supports them.¹¹ In the trade example, "no further alerts were generated" describes the tool's output; "the remaining trades complied" is a conclusion that needs evidence of coverage and detection reliability.

Can an FI Run a Trial AI Audit?

An FI can ask AI to examine a defined set of records and produce a pro forma report simply to see what it identifies. Retain the existing audit arrangements and identify the output as exploratory. An FI should define the trial's scope, duration, permitted users, success criteria and monitoring.

If the trial is used to assess reliability, compare its findings with independently established results, which may include an independently completed audit. Resolve material differences against source evidence; the human audit is not automatically correct. Investigate credible indications of actual control weaknesses.¹²

⁸ Internal Controls Guidelines, paragraphs 1.2.1 and 2.6.1–2.6.8. The outsourcing framework is discussed below.

⁹ HM Strategy's two-part assessment applies the Internal Controls Guidelines, paragraphs 1.2.1 and 2.6.1–2.6.8, together with the competence and accountability provisions discussed above.

¹⁰ Internal Controls Guidelines, paragraphs 2.6.3–2.6.4.

¹¹ Internal Controls Guidelines, paragraphs 2.6.1–2.6.4 and 2.6.7–2.6.8. Review and adoption of an AI-drafted final report is HM Strategy's application of these assessment, competence and reporting expectations. Section 2.6 does not expressly prescribe human approval or a signature on each report.

¹² AI Guidelines, paragraph 5.14(b), and paragraph 5.2 and footnote 28. The trial audit is HM Strategy's practical application of the testing and controlled-pilot approaches.

Can AI Review Documents Without Manual Rechecking?

Yes. A defined check may run without human review of its inputs or outputs during that run where the evidence and oversight arrangements justify reliance. Sanctions and adverse-media screening are examples of document processing services on which FIs rely without duplicating every underlying review.

Paragraph 5.9 of the AI Guidelines makes AI oversight proportionate to purpose and risk; footnote 37 recognises “human in the loop” and “human over the loop” arrangements.¹³ The Authority’s [consultation response](#) leaves the FI to justify autonomy and oversight; monitoring or later review may suffice for lower-risk or assistive uses.¹⁴ Reliance must be justified for the particular audit procedure and population; a reliable approval check does not establish the effectiveness of unrelated trading controls.¹⁵

Outsourcing and AI Governance

Outsourcing Document Processing or Internal Audit

The [Guidelines on Outsourcing \(Financial Institutions other than Banks\)](#) (the “**Outsourcing Guidelines**”) list document processing, information-systems hosting and professional services including internal audit as outsourcing examples. Banks and merchant banks have a [separate framework](#).¹⁶ An FI’s ongoing dependence on an external AI service to read, extract or analyse audit records, including text and scanned images, constitutes outsourcing where that processing is integral to the FI’s provision of financial services. The Guidelines’ examples of document processing and internal audit support treating such ongoing reliance as outsourcing in the ordinary case.¹⁷

An FI may outsource processing while retaining its audit function. Outsourcing all or substantially all of internal audit is material outsourcing; a narrower processing service may also be material because of the potential impact of failure or a customer-information breach. Handling customer information alone does not settle materiality.¹⁸ For outsourced internal audit, the framework addresses provider expertise, independence and continuing performance.¹⁹

Applying the AI Guidelines

The AI Guidelines cover systems or models whose outputs use what they have learned from data, including generative AI. A check whose outputs depend solely on predefined programming logic or rules is outside

¹³ AI Guidelines, paragraph 5.9 and footnote 37. Applying proportionate oversight to a defined audit check that runs without human review is HM Strategy’s interpretation.

¹⁴ Authority, Response to Feedback Received on Guidelines on Artificial Intelligence Risk Management (consultation response), paragraphs 10.48–10.50.

¹⁵ Internal Controls Guidelines, paragraphs 2.6.1–2.6.8.

¹⁶ Outsourcing Guidelines, Annex 2, paragraphs 1(f), 1(g) and 1(m).

¹⁷ Outsourcing Guidelines, paragraph 3.1, definition of “outsourcing arrangement”, and Annex 2, paragraphs 1(f)–1(h) and 1(m). The definition concerns a service the FI may currently or potentially perform itself, with ongoing dependence and either integration into its provision of financial services or provision to the market in its name. The conclusion on ongoing AI processing of audit records is HM Strategy’s interpretation.

¹⁸ Outsourcing Guidelines, Annex 3, including paragraph 2, and paragraph 3.1, definition of “material outsourcing arrangement”.

¹⁹ Outsourcing Guidelines, paragraphs 5.2.1 and 5.12.1–5.12.3.

their definition, whatever it reads. The trade example assumes a model trained on data interprets approvals in emails, chat messages and scanned forms, so it falls within that definition.²⁰

The AI Guidelines take effect on 7 October 2027, with implementation of Sections 5–6 by 7 October 2028. The Authority expects appropriate lifecycle controls for uses assessed as having high risk materiality as soon as possible; existing obligations continue.²¹ Our article on [implementing the AI Guidelines](#) explains the broader framework. Three issues particularly affect reliance in audit:

- **Removing output review can change the governance assessment.** Basic governance under Section 2 allows eligible FIs to apply the policies and procedures in paragraph 2.5 instead of the framework in Sections 3–6. Eligibility for basic governance depends on the FI’s AI use as a whole: poor performance or unavailability of its AI services or tools must be unlikely to have a material adverse impact on the FI, its customers or other stakeholders. The assistive examples assume people check outputs before use. Removing that check calls for reassessment of eligibility and, where Sections 3–6 apply, risk materiality; the framework leaves flexibility over when output review is mandatory.²²
- **The audit team may itself need independent validation.** Where Section 5 applies, pre-deployment review is proportionate to inherent risk materiality, assessed before controls. High inherent risk materiality calls for formal independent validation; other uses may warrant documented review by qualified personnel uninvolved in development or deployment.²³ The reviewer should also be independent of operating the tool.²⁴ Being independent of the trading desk does not make an audit team independent of its own tool. Existing expectations for independent testing of models measuring components of risk may also apply.²⁵
- **Reliance must survive provider and system changes.** Applicable outsourcing and third-party expectations also apply to external AI services. Establish access to audit evidence, restrictions on data retention and reuse, and arrangements when the service ends. Limited transparency may require additional testing or restricted use.²⁶ Where Section 5 applies, monitor performance and changes; uses assessed as having high risk materiality also call for contingency arrangements and regular independent revalidation.²⁷

Testing and Monitoring the AI Tool

The testing described below applies to both internally developed tools and external services. For an external service, due diligence should cover both the provider’s suitability and the configured tool’s performance on the FI’s particular task. Neither the Internal Controls Guidelines nor the AI Guidelines prescribe manual

²⁰ AI Guidelines, paragraph 1.3 and footnote 6.

²¹ AI Guidelines, paragraphs 1.2 and 1.8; consultation response, paragraphs 13.5–13.6. Paragraph 1.2 provides that the Guidelines complement existing legislation and guidelines issued by the Authority, and that the principles on Fairness, Ethics, Accountability and Transparency (FEAT) continue to apply.

²² AI Guidelines, paragraphs 2.2–2.5 and footnote 13; consultation response, paragraphs 3.7–3.10 and 3.16(b).

²³ AI Guidelines, paragraphs 4.10–4.12 and 5.18–5.20; consultation response, paragraph 7.21.

²⁴ AI Guidelines, paragraphs 5.19–5.20 and footnote 48. Applying the understanding of deployment in footnote 48 to paragraph 5.19 is HM Strategy’s interpretation.

²⁵ Board and Senior Management Guidelines, paragraph 2.3.1(f). This expectation concerns models used to measure components of risk, rather than every AI tool.

²⁶ AI Guidelines, paragraphs 5.10–5.11 and footnote 39.

²⁷ AI Guidelines, paragraphs 5.3 and 5.23–5.25.

examination as a universal validation method or set a review percentage; the internal audit function's risk assessment informs its audit plan and resources.²⁸

For the trade-approval check, valid approval must relate to the correct trade, precede execution and come from an authorised person. An FI should identify the trades requiring approval and reconcile the records supplied to the relevant source systems: missing trades, unmatched identifiers or unreliable timestamps can defeat the check even if every supplied document is interpreted correctly.²⁹

The practical question is what evidence would justify relying on an automated check without rechecking every record, and what would require further testing or suspension. The assessment covers initial reliability, performance in use and changes affecting the basis for reliance.

- **Perfection is not the test.** Human review can also miss exceptions. An FI should assess whether the procedure is sufficiently reliable for the audit conclusion, considering the likelihood and consequences of error. Comparison with the actual manual process can inform that assessment, but matching an inadequate process is insufficient. Performance thresholds concern the reliability of the audit method; they do not relax the underlying compliance requirements or excuse breaches.³⁰
- **Before first reliance, establish expected results independently of the AI being tested.** Depending on the task, this may use verified reference data, cases with known outcomes, another independently validated method or manual examination. An FI should cover relevant record types, business rules and failures such as late or unauthorised approval. Test whether missed exceptions (false negatives) and false alarms (false positives) fall within thresholds appropriate to the consequences of error.³¹ Deliberately included errors test those cases; they do not establish the rate of missed exceptions in the live population.
- **Continuing testing should assess missed exceptions as well as the validity of alerts.** Targeted selections can investigate difficult cases. One option is to test a random sample of unflagged trades for approval failures using statistical attribute sampling, drawing on ISA 530 and its Singapore equivalent, [SSA 530](#). This estimates missed breaches within that group. An FI should set the confidence level and tolerable deviation rate to reflect the audit objective and consequences of error; sample size also depends on the expected deviation rate. In addition, we recommend to document the sample size, selection method and testing frequency.³²
- **Reassess reliance when the basis for it changes.** In the trade example, a new approval channel or unreliable timestamps may invalidate earlier testing. Start with affected categories and expand if the cause or extent remains uncertain. If reliability cannot be established, suspend reliance and use another reliable method, potentially manual examination of the whole affected population. For a small set of bespoke records, reading them all may be more efficient than validating automation.

²⁸ Internal Controls Guidelines, paragraphs 2.6.5–2.6.8; AI Guidelines, paragraphs 5.9, 5.14–5.15 and 5.23–5.25, and footnote 37. The approach to testing and human involvement in this section is HM Strategy's application of these expectations. The AI Guidelines' applicability and implementation timetable are discussed above.

²⁹ AI Guidelines, paragraph 5.4.

³⁰ AI Guidelines, paragraphs 5.14–5.15, including paragraph 5.14(b) on comparison with benchmarks or alternative approaches.

³¹ AI Guidelines, paragraphs 5.12–5.15.

³² Singapore Standard on Auditing 530, Audit Sampling (December 2021), based on ISA 530: paragraphs 4, 5(g), 5(j), 6–8, A7 and A10–A12, and Appendix 2. This financial-statement audit standard is a framework for adaptation here, not an internal-audit requirement set by the Authority. Sampling unflagged records estimates missed exceptions within that group, not the proportion of all actual exceptions the tool misses.

Practical Actions

Before relying on an automated audit procedure, record the following decisions and supporting evidence.

Actions Before Relying on an AI Audit Check

1. Decide what the audit is trying to establish, which records it will cover and which requirements it will check.
2. Decide who will plan the work, assess the evidence, approve the findings and follow up problems. Check that each person has the skills, independence and authority needed.
3. Check that all relevant records are included. Test whether the tool detects known problems and whether unflagged records contain problems it missed.
4. Decide how to test and monitor the tool, how often and whether any records need manual review. Base these decisions on the risks, test results and agreed limits for missed problems and false alarms. Check the provider arrangements and the rules and guidelines that apply to the AI use.
5. Decide when a person must step in, when to stop relying on the tool and when to test it again. Keep records showing how the work supports the findings and conclusions.
6. If the evidence does not support the intended conclusion, explain the gap and arrange further work. Report only conclusions that the evidence supports.

Conclusion

An FI should decide how far to automate procedure by procedure. A routine approval check may justify automated execution, while unusual records or disputed findings may require additional work. Choose that work to address the evidence gap, and define when further testing, human intervention or suspension is required.

Practical Implementation Support

HM Strategy can assist FIs in deciding which internal audit tasks to automate, defining the evidence needed for reliance and documenting testing, approval and monitoring arrangements. We also provide outsourced internal audit services, including reviews of the design and operation of AI governance.

For further information, contact:

Frederic Thieltgen, Partner | Frederic.thieltgen@hmstrategy.com

Chris Holland, Partner | chris.holland@hmstrategy.com

Disclaimer: The material in this article represents general information only and should not be relied upon as legal advice. Holland & Marie Pte. Ltd. is not a law firm and may not act as an advocate or solicitor for purposes of the Singapore Legal Profession Act.