

**R. MAHESH & ASSOCIATES**

Chartered Accountants, Chennai

# 28 AI Agents for Internal Audit

## *The Definitive Guide*

How AI can transform every dimension of internal audit — financial controls, procurement, production, fund utilisation, cash flow, asset performance, energy, revenue assurance, IT controls, regulatory compliance, safety, and project execution.

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**28**

AI Agents

**7**

Audit Domains

**100%**

Transaction Coverage

**0**

Sampling Required

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This guide is for general educational purposes and does not constitute legal or tax advice.

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**Also includes:** Before vs After comparison, Legal context under Companies Act 2013, and the CA perspective on AI in internal audit.

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## Why Internal Audit Needs AI

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Internal audit in India — whether mandated under Section 138 of the Companies Act, 2013 or conducted as a management-driven exercise — remains one of the most manually intensive functions in corporate governance. Auditors spend weeks reviewing samples, tracing vouchers, cross-checking registers, and drafting observations by hand.

The fundamental limitation is not competence — it is **coverage**. A company processing 50,000 purchase transactions in a quarter cannot have each one physically verified. The auditor selects a sample — typically 5 to 10 percent. The remaining 90 to 95 percent passes unexamined. Fraudulent transactions, control failures, and policy violations that fall outside the sample go undetected.

AI does not replace the internal auditor's professional judgment. It **expands the auditor's reach from sample-based to population-based**, from periodic to continuous, and from reactive observation to proactive risk detection. The result is not just a faster audit — it is a fundamentally deeper one.

*"AI gives the internal auditor superpowers — but the auditor still decides where to fly. The machine scans everything; the professional decides what matters."*

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### PART A

## Financial & Compliance Agents

*These agents cover the traditional territory of internal audit — transaction integrity, access controls, vendor legitimacy, expense compliance, and GST reconciliation.*

### AGENT 01

#### Anomaly Detection Engine

Scans every transaction in the general ledger, purchase register, sales register, and bank book for statistical outliers. Identifies duplicate invoices, round-figure transactions, transactions just below approval thresholds (structuring), unusual timing patterns (month-end spikes, weekend entries), and entries with no supporting narration. Produces an anomaly heatmap ranked by risk severity.

### AGENT 02

#### Segregation of Duties Validator

Maps user access rights in the ERP against the company's approved authorization matrix. Flags every instance where the same person created a vendor, approved a purchase order, and processed payment. Identifies dormant user IDs with elevated access, shared login patterns, and after-hours transactions by users who should not have system access outside business hours.

### AGENT 03

#### Vendor Intelligence & Procurement Control Agent

Performs entity due diligence for every active vendor — MCA filing status, director network overlap, registered address verification, bank account pattern analysis. Flags shell entities, newly incorporated vendors receiving disproportionately large orders, and vendors with no visible operational history.

**Procurement control:** Audits the vendor selection process — competitive quotations, L1 compliance, rate contract validity, and price benchmarking against historical rates. Cross-references every PO price against market rates, flags unexplained price escalations and single-source dependencies.

**Price validation:** Compares unit rates across vendors, time periods, and locations. Tracks whether negotiated discounts, volume rebates, and credit terms are actually applied in purchase orders.

#### AGENT 04

### Expense & Reimbursement Auditor

Processes every employee reimbursement, corporate credit card statement, and petty cash voucher. Identifies duplicate claims, policy limit breaches, travel claims without leave records, entertainment expenses without attendee details, and vendors on reimbursement bills matching the employee's own PAN or phone number.

#### AGENT 05

### GST & Tax Compliance Checker

Reconciles purchase register with GSTR-2A/2B, sales register with GSTR-1, and identifies ITC claimed on ineligible items (blocked credits u/s 17(5)), late filing penalties exposure, e-way bill mismatches, and reverse charge obligations not accounted for.

#### AGENT 06

### Audit Report Generator

Produces a structured internal audit report from all flagged findings — observation, risk rating (High/Medium/Low), evidence reference, root cause analysis, and recommended corrective action. Compares current findings with prior period reports to identify recurring themes. Generates management dashboards and board-ready presentations.

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#### PART B

## Operational & Production Audit Agents

*The largest value leakages in manufacturing and trading companies happen in procurement, inventory, production, and demand planning — areas where traditional audit barely scratches the surface.*

#### AGENT 07

### Demand Sensing & Purchase Validation Agent

Links every purchase order to a demand trigger — a sales order, production plan, minimum stock reorder point, or approved capex requisition. Where demand is unpredictable, analyses historical consumption patterns, lead times, and supplier reliability to build probabilistic demand models.

Flags purchases where ordered quantity exceeds the model's recommended range, where reorder points haven't been reviewed in 6+ months, or where safety stock is set without data support.

#### AGENT 08

### Inventory Optimisation & Ageing Monitor

Classifies every SKU by ageing bracket, turnover ratio, and ABC category. Identifies slow-moving items (90+ days), non-moving items (180+ days), and items where carrying cost exceeds material value. Flags overstocking and understocking patterns, and recommends optimal reorder quantities based on actual consumption data.

#### AGENT 09

### Production Wastage & Yield Tracker

Tracks material consumption vs output at every production stage. Compares actual wastage against BOM standards. Flags batches exceeding threshold, identifies lines/shifts with higher rejection rates, and tracks scrap accounting and disposal. Calculates financial impact of excess wastage per product, per line, per period.

#### AGENT 10

### BOM Integrity & Version Control Agent

Audits BOM accuracy by comparing defined BOMs against actual consumption over 3-6 production cycles. Identifies BOM drift, undocumented substitutions, obsolete components, and version control gaps. Verifies ECN linkage and ensures variant BOMs are maintained separately.

#### AGENT 11

### Planned vs Actual Variance Analyser

**Cost variance:** Budgeted vs actual cost per unit — decomposed into price variance and usage variance.

**Cycle time variance:** Planned vs actual production time — identifying bottlenecks, idle time, and rework hours.

**Schedule variance:** Planned vs actual delivery — flagging consistently delayed orders and quantifying financial impact.

#### AGENT 12

### Maintenance & Downtime Audit Agent

Tracks every maintenance event against schedule. Flags overdue preventive maintenance, increasing breakdown frequency, and recurring failure modes. Calculates OEE per machine and line. Tracks maintenance costs per asset and AMC compliance.

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#### PART C

## Fund Utilisation & Diversion Detection

*When a company raises funds — from banks, investors, or retained earnings — those funds carry an obligation: deploy them for the stated business purpose. Fund diversion is a statutory offence, a covenant breach, and frequently the first sign of deeper financial misconduct.*

#### AGENT 13

### Bank Loan End-Use Monitoring Agent

Traces every term loan disbursement to corresponding capital expenditure. Flags funds parked in current accounts, transferred to related parties, or used for evergreening. For working capital facilities, monitors whether drawings are supported by actual stock and debtors per drawing power calculation.

Cross-checks compliance with RBI end-use norms, DSRA maintenance, promoter contribution milestones, and quarterly utilisation certificates.

#### AGENT 14

### Investor Fund Deployment Tracker

Tracks actual deployment of equity/PE/VC funds against stated objects clause. Monitors SEBI LODR Regulation 32 compliance. Flags deviations from Board-approved utilisation, undeployed balances, and inter-corporate deposits consuming investor funds.

#### AGENT 15

### Fund Diversion & Related Party Transaction Detector

**Related party monitoring:** Maps the complete Sec 2(76) universe. Verifies Audit Committee approval (Sec 188/177), arm's length pricing, and omnibus limits.

**Sec 185/186 compliance:** Monitors loans to directors and inter-corporate loans/investments against aggregate ceilings.

**Circular transaction detection:** Identifies round-tripping patterns across banking channels.

**Internal accrual deployment:** Tracks whether retained earnings are deployed for business purposes or diverted through excessive remuneration, personal expenses, or concessional related party loans.

#### AGENT 16

### Statutory Covenant Compliance Monitor

Calculates financial covenants in real time — debt-equity, DSCR, current ratio, TOL/TNW, interest coverage. Alerts before breach, not after. Tracks operational and reporting covenants. Generates a covenant health dashboard for the Audit Committee.

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#### PART D

## Cash Flow Intelligence

*Profit is an opinion. Cash is a fact. A company can report healthy profits and still run out of cash. Most internal audits review the cash flow statement once a year, after the statutory auditor prepares it. AI makes cash flow monitoring continuous, predictive, and actionable.*

#### AGENT 17

### Cash Flow Monitoring & Forecasting Agent

**Receivables intelligence:** Granular DSO per customer, segment, and region. Tracks invoice-to-realisation cycle, flags deteriorating payment patterns, and identifies credit notes without proper approval.

**Payables management:** DPO per vendor. Flags vendors paid too fast (kickback risk) or stretched too far (supply chain risk). Tracks missed early payment discounts.

**Cash conversion cycle:** Inventory days + receivable days - payable days, tracked as a trend. Decomposes changes to identify the source of liquidity drag.

**Statutory payment tracking:** GST, TDS, advance tax, PF/ESI monitored against due dates with exposure calculation.

**Debt servicing:** Every EMI tracked against amortisation schedule. Flags evergreening. Monitors treasury deployment and investment policy compliance.

**13-week rolling forecast:** Updated daily from banking data, receivables, payables, loan schedules, confirmed orders, and seasonal trends.

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## PART E

# Asset Performance, Energy & Productivity

*A company's fixed assets, energy consumption, and workforce productivity are three of the largest cost pools — yet they receive the least attention during internal audit.*

## AGENT 18

### Asset Utilisation & Lifecycle Audit Agent

**Utilisation tracking:** Runtime data from PLCs/IoT/ERP — actual vs available hours per asset. Flags machines below 60% utilisation. Vehicle GPS/fuel cross-referencing. IT asset login and licence usage tracking.

**Asset register integrity:** Reconciles FAR with physical verification. Flags ghost assets, unrecorded assets, fully depreciated active assets, and idle/scrapped assets not written off.

**Capital allocation review:** Compares original capex proposal (projected utilisation, ROI, payback) against actual performance.

## AGENT 19

### Repair & Maintenance Cost Intelligence Agent

Cumulative R&M; cost per asset as % of original cost and WDV — flags repair-vs-replace threshold. Tracks preventive vs breakdown ratio (benchmark: 70:30). Cross-references spare parts against work orders. Reviews capitalisation vs expensing accuracy under Ind AS 16.

## AGENT 20

### Energy Tracking & Optimisation Agent

**kWh per unit of output** per line, shift, and product. Load profile analysis — peak demand, power factor, time-of-day patterns. Equipment-level benchmarking against manufacturer specs. DG fuel reconciliation. Renewable generation tracking and carbon/ESG reporting.

## AGENT 21

### Workforce Productivity & Labour Cost Agent

**Output per man-hour** benchmarked against production routing standards. Overtime analysis — flags structural overtime and compares hire-vs-overtime economics. Contract labour audit — CLRA Act compliance, minimum wages, perennial contractor flagging. Absenteeism and attrition cost quantification. Payroll integrity — ghost employees, PF/ESI accuracy, attendance-vs-disbursement reconciliation.

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## PART F

# Revenue Assurance & Quality

*The top line deserves the same audit intensity as the cost side. Revenue leakage — through unauthorised discounts, unrecovered credit notes, pricing deviations, and commission errors — erodes margin just as surely as procurement fraud.*

## AGENT 22

### Revenue & Sales Audit Agent

**Pricing compliance:** Every invoice checked against approved price lists and rate contracts. Flags deviations by salesperson, region, and segment.

**Discount & rebate audit:** Validates approval levels, cumulative discount tracking, and volume rebate mathematical accuracy.

**Credit note validation:** Traces every credit note to returns/rejection documentation. Flags credit notes without supporting evidence.

**Sales commission accuracy:** Reconciles commissions against actual sales, correct rates, and collected revenue.

**Customer profitability:** Gross margin per customer, product, and channel after all costs to serve.

## AGENT 23

### Quality & Customer Returns Tracker

Tracks returns by product, batch, customer, and reason code — linking to manufacturing root cause. Warranty cost per unit vs provision. Total cost of quality framework (prevention + appraisal + internal failure + external failure). Customer complaint resolution TAT and CAPA tracking.

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## PART G

# IT, Regulatory, Insurance, Safety & Projects

*Domains that internal audit is expected to cover but rarely has the specialist bandwidth to examine. AI brings continuous, systematic scrutiny to each.*

## AGENT 24

### IT Controls & Cybersecurity Audit Agent

User access review across all critical systems — privilege creep, orphan accounts, shared credentials. Change management monitoring for production systems. Backup schedule and DR drill verification (RPO/RTO compliance). Vulnerability remediation tracking. DPDPA (Digital Personal Data Protection Act) compliance review.

**AGENT 25****Regulatory & Secretarial Compliance Monitor**

Live compliance register for all MCA/ROC filings, Board/Committee governance (meeting frequency, quorum, minutes), SEBI LODR obligations for listed companies, FEMA compliance for cross-border transactions, and labour law compliance (EPF, ESI, CLRA, Shops & Establishment, Factory licence). Auto-alerts before due dates.

**AGENT 26****Insurance Adequacy & Claims Monitor**

Sum insured vs current replacement value per asset category — flags underinsurance. Coverage gap review — business interruption, product liability, cyber, key person, natural catastrophe. Claims TAT tracking. Premium benchmarking against industry rates.

**AGENT 27****Safety & Environmental Compliance Agent**

LTIFR computation per department. All safety licence/certificate expiry tracking. PCB consent condition monitoring. Hazardous waste manifest tracking. CEMS/CEQMS compliance. E-waste management rules compliance. Safety incident root cause investigation and CAPA verification.

**AGENT 28****Project & Capex Execution Monitor**

**Milestone tracking:** Schedule vs actual progress with cascading delay analysis.

**Cost tracking:** Sanctioned vs actual per category — flags overruns before completion.

**Variation order audit:** Every VO verified for justification, approval, and rate reasonableness.

**Contractor billing:** RA bills reconciled against measured quantities and approved rates.

**Capitalisation:** CWIP to FAR transition — verifies capitalisation date, eligible costs (Ind AS 16), borrowing costs (Ind AS 23), and flags completed projects still in CWIP.

**How To Get Started — And Who Does What**

This guide describes **what** each AI agent should do, what data it needs, what controls it should test, and what exceptions it should flag. That is the **domain layer** — the audit logic, the statutory knowledge, and the control framework. This is what a Chartered Accountant with internal audit experience defines.

The actual **development and deployment** of these agents is the work of technology teams — AI/ML engineers, data engineers, and ERP integration specialists. They build the data pipelines, train the models, and deploy the agents.

Layer	Who	Does What
Domain Expertise	CA / Internal Auditor	Defines what to check, the legal requirements, what constitutes material exceptions, and how findings are classified

<b>Technology Build</b>	AI / Software Team	Builds data pipelines, ERP integration, anomaly detection, dashboards, and monitoring infrastructure
<b>Continuous Review</b>	Audit Committee / Management	Reviews AI-generated findings, applies judgment, ensures the audit programme evolves with the business

**Our role at R. Mahesh & Associates is in Layer 1.** We bring two decades of internal audit, statutory audit, and advisory experience. We define the audit framework, the control logic, and the agent specifications. Your technology partner builds it. Together, it works.

If you are a **company** looking to modernise your internal audit, we can design the framework, define specifications, evaluate technology options, and provide ongoing audit oversight. If you are a **technology team** building audit AI, we can provide the domain validation, control logic, and statutory compliance layer that turns a data tool into a genuine audit instrument.

*"AI is the engine. The Chartered Accountant is the navigator. Without audit domain expertise, an AI agent is just software scanning data. With it, the same agent becomes an audit powerhouse."*

### The CA Perspective

## Internal Audit Is Not Just Compliance — It Is Early Warning

At R. Mahesh & Associates, we have seen across two decades of audit and advisory practice that the companies which face the most painful surprises — fraud discovered late, statutory audit qualifications, regulatory penalties — are almost always the ones where internal audit was treated as a formality.

AI does not make internal audit a formality. It makes it formidable. When every transaction is scanned, every vendor verified, every purchase linked to demand, every loan traced to deployment, every cash flow trend monitored, every machine tracked for utilisation, every kilowatt-hour measured, every sales invoice audited, every regulatory filing tracked, and every project milestone monitored — the internal audit function becomes what it was always meant to be: **the organisation's comprehensive early warning system.**

The cost of deploying AI in internal audit is a fraction of the cost of a single fraud that goes undetected. The question is no longer whether AI belongs in internal audit — **it is how quickly you can get it there.**

### Need a Smarter Internal Audit?

We define the audit framework, the control logic, and the agent specifications. Your technology team builds it. Together, it works. Two decades of audit and advisory experience — ready to power your AI audit programme.

#### Schedule a Free Consultation

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