

Deutsche Bank Group Audit



An Innovative and Effective Approach on Third Parties Auditing (featuring AI)

Audit Masters Conference - Rome - GLC Europe

20 May 2025, Rome, Luca Boaretto & Daniele Pasini



1 Why We Need a New Innovative Audit Approach

- 2 How We set-up the New Methodological Approach on Third-Parties
- 3 How can Al increase audit testing efficiency
- 4 What We learned and what are the Future Challenges

Complex third-party and sourcing risk landscape The need for audit assurance

1. Regulations and International Standards

Highly regulated frameworks impact on:

- Assessment of sourcing risk
- Reporting duties and quality of information
- Audit involvement

2. Internal Third-Party Framework (Policies and Controls)

- Enhanced requirements on third-party services
- Extended DB internal framework scope coverage

3. Third-Party footprint

- In 2024 DB Italy utilized more than 500 third party services, t/o about 400 ext. provided
- Increasing outsourcing initiative (> 130, t/o more than 70 'critical or important functions')

Note: third party providers involved in 50% of cyber and operational incidents (Bank of Italy, 'Digital Resilience In The Italian Financial Sector', Oct. 2024)

4. Demand for Group Audit

• Given the audit skills, Business divisions managing vendors require Audit involvement (e.g. request to perform audit on specific vendors)

/

Audit Objectives

- Definition of a comprehensive and standardized third parties audit framework
- Increase audit coverage footprint year by year to meet regulatory and senior management expectation
- Holistic assessment of audit result (i.e. findings) to enable read-across activities and sourcing risk awareness by audited department

Agenda



- 1 Why We need a New Innovative Audit Approach
- 2 How We set up the New Methodological Approach on Third-Parties
- 3 How can Al increase audit testing efficiency
- 4 What We learned and what are the Future Challenges

From sourcing risk factors to a multi-year audit plan Audit steps to reach sustainable plan





Audit test work program It's not only about sourcing risk

Ζ



Audit test work program What we test





An **Information security and technology RCM** to verify third party **IT organizational and technical measures**. The following steps were followed to implement the IT RCM:

- Analysis of the DB policy on Information Security applicable to vendors (minimum requirements)
- Identification of controls and tests based on e.g. regulatory provisions (EBA and DORA RTS), best practice/int. standards (e.g. ISO 27001) and last but not least - auditor experience and internal benchmarks
- Definition of the complete IT RCM
- · Identification of minimum bucket of tests for low, medium and high-risk vendors and definition of the risk-based IT RCMs



An **Outsourcing management checklist** to verify how management is **overseeing the outsourcing arrangements** and related risks. The checklist is tested against the following pillars mainly derived from EBA guideline (EBA/GL/2019/02):

- Assessment of outsourcing arrangements
- Sound governance arrangements and third-party risk
- Outsourcing process

A **contract checklist**, in order to verify **minimum contractual requirements** in line with applicable DB policy and Regulatory requirements (EBA guideline and DORA RTS) which include e.g.:

- Agreed service levels, which should include precise quantitative and qualitative performance targets
- Reporting obligations and audit rights
- Mandatory insurance against certain risks
- The sub-Outsourcing permit
- Business contingency plan and termination rights



Audit test work program How we test





Audit test work program Test effort



Work program and test effort is subject to annual review based on lesson learned and new / change of regulatory provisions. Further, test efficiency is monitored (staff budget) and assessed against automation/AI opportunity.



Agenda



- 1 Why We need a New Innovative Audit Approach
- 2 How We set-up the New Methodological Approach on Third-Parties
- **3** How can AI increase audit testing efficiency
- 4 What We learned and what are the Future Challenges

From Traditional to AI-powered auditing

Striving for tangible speed and efficiency, despite known limitations



Today

AUTOMATION

Extract key information from vendor **contracts**, saving time and manual effort

Streamline data extraction and improve accuracy



Tool: VENDOR CONTRACT ANALYZER

- Tool release to audit staff
 Work for well-standardized contract
- Improvement required on nonstandardized document and non-English contract

Proof of Concept

MACHINE LEARNING

Populate audit test checklist and detect audit observation

Auditor involvement in the result review and quality check

Enable **read-across** on most common finding themes

- ML need to be well-trained (e.g. dataset and prompt)
- Documents language, the legal jargon of contracts might influence the quality of result
- ML can increase annual audit coverage objective

Blueprint

GENERATIVE AI

Expand AI capability to analyse vendor's further documentation (e.g. policies and procedures, data extraction) to compare with DB requirements, detect outliers/gap and **formulate audit observations** for stakeholders



- Vendor restriction on documents sharing with audit is a showstopper
- Might works well with testing of design, to be explore for operating effectiveness test

Agenda



- 1 Why We need a New Innovative Audit Approach
- 2 How We set-up the New Methodological Approach on Third-Parties
- 3 How can Al increase audit testing efficiency

4 What We learned and what are the Future Challenges

What We learned and what are the Future Challenges

Backward looking evaluation and Development Priorities



So far

Recurrent patterns

- Vendor <u>IT security controls below DB minimum requirements</u>, especially on privileged access management, security vulnerability management, DLP configuration
- Many vendors managed by business lines with <u>limited competence</u> on IT security
- Service owner <u>overreliance on vendor self-attestation (e.g.</u> questionnaires) on DB policies adherence

What auditor should consider

- A balanced scepticism always helps. Listen to vendor, read policy and <u>live test!</u>
- Cannot cover and test everything. Use experience to focus on controls that really matter for you
- Do not underestimate <u>onsite</u> audit it's not only a nice-to-have
- Be transparent with stakeholders and vendor on what you do
- Do not audit vendors like you do when auditing your company/firm
- Remove bias on how you would expect a control to be designed and operated. Do not over compare it with your company internal controls set-up

To be

Audit test work program

• Increase audit scrutiny on subcontracting, in light of new technical standards set forth by DORA

Vendors coverage

- Increase coverage target per year with the support of AI
- Explore continuous auditing activities

Audit skills

- Staff training
- Auditor rotation

Q&A







Thank you for your attention

Deutsche Bank Group Audit