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Managing AI Bias: Key risks and Mitigation Strategies

Rosalyn Page writes in *INTHEBLACK Out Loud* that "research shows the data used to train AI models can contain biases or patterns that affect results. Unfair or inequitable outcomes can show up in risk assessments, credit evaluations or financial policies. Furthermore, the decision-making of AI models is not always easily explainable, raising questions about a lack of transparency and trust in conclusions."

To address these risks, she adds, "there is a growing need for strategies to address algorithmic bias via careful data management, model oversight, governance and AI education. The aim of such strategies is fairness, accountability and compliance with ethical standards."

"In accounting and finance workflows, algorithmic bias can potentially lead to errors and unfair decisions. This could include inaccurate risk assessments, unfair credit evaluations, inaccurate financial reporting and fraud detection, or an over-reliance on automated outputs, according to industry research," Page quotes Dr. Dimitrios Salampasis, associate professor in emerging technologies and fintech at Swinburne University of Technology, as saying. "When financial decision-making is automated at scale, any distortions embedded in the underlying data can be amplified across thousands of decisions."

There is also the risk of inaccurate financial reporting, he says. "When you have biased algorithms, this might create issues when estimating key accounting elements. You may also have risk in relation to materiality in financial reporting."

In practice, Salampasis continues, "an AI model could misclassify transactions, skew risk scores or distort sampling, influencing which items are considered material and potentially altering outcomes. Furthermore, a lack of critical insight into AI outputs and opaque 'black box' systems can hinder transparency, undermine trust and make it difficult to assess potential discriminatory outcomes. An over-reliance on these automated outputs creates issues when it comes to human professional judgement."

Recognizing bias is just step one, writes Page. "The next challenge is developing safeguards to mitigate bias in workflows, says Dr. Simon O'Callaghan, head of technical AI governance at the Gradient

Institute. Practical strategies include diverse data sourcing, algorithm audits, stronger governance and AI education. He adds, however, that algorithmic bias mitigation is not a one-time technical fix, but an ongoing governance responsibility. Organizational leaders need to be involved in decisions around the definition of fairness, not leave it to engineers and technical leads alone."

Evaluating models is essential, O'Callaghan says. "You can measure different definitions of fairness and see how the system performs against them." However, there are always trade-offs and competing criteria on questions of fairness, balance and bias.

Tiffany Tan, FCPA, audit and assurance lead at CPA Australia, advises that AI risk assessment should also adopt a holistic approach, addressing cybersecurity, privacy, automation bias and legal compliance in a manner proportionate to the AI system's use and risk profile. Auditors, she says, can provide safeguards for systems. Employing risk assessment, controls evaluation and professional skepticism, auditors possess foundational expertise that can be applied to algorithms.

"Audits can provide an independent assessment of governance and control arrangements around how models are used, how risks are mitigated, and whether outputs are overseen for explainability, fairness and reliability," Tan continues. "In doing so, audits support transparency and accountability without substituting for management responsibility or technical model validation."

Strong governance is needed to manage the risks associated with AI, writes Page. "It needs to be the foundation of AI workflows — not an optional add-on." For organizations, this includes clear AI policies that define responsible and ethical use, with clear roles and responsibilities for oversight, Tan says. "Staff training is also needed to ensure there is an understanding of the limitations of the technology."

For much, much more useful advice, see Managing AI bias: Key risks and mitigation strategies | INTHEBLACK.