AI GOVERNANCE · DIRECTOR'S BRIEFING

As a board member are you being briefed about AI or governing AI?

Five questions every board should be able to answer about AI

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The demands on boards to govern AI and be actively making decisions such as: which AI initiatives should proceed and which ones should not; in what situations should AI be used, how, what and by whom; what is the acceptable risk profile for AI adoption; and what happens when AI goes wrong. These are the demands now sitting with every board.

We must acknowledge that the successful leverage of AI in any organisation relies on several critical elements to be in place.

1. Data

Strong data foundations. Data that is structured to provide the appropriate context to the AI application in a manner to drive the correct results in real-time. Data that is governed. Data that abides by the privacy regulations and is ethical.

2. Workforce

A ready workforce that is fully equipped to implement each stage of AI enablement of strategic execution. A workforce that is inquisitive but equipped with the guidelines and knowledge to embrace AI to deliver on the intended outcomes. A workforce that is fully supported by a change program.

3. Ways of working

Processes, workflows, delegations and decision-making frameworks that have been re-designed to synchronise with the implementation of AI. Bolting AI onto an existing process that has not been reconsidered will not deliver on intended outcomes. Ways of working and associated elements must be reconsidered for AI.

4. Culture

Clarity and alignment on the organisation's mission, purpose and values, ensuring that these are not eroded considering the implementation of AI. While leveraging assets from other like organisations can reduce cost to implement, this practice must ensure that existing culture is appropriately maintained.

5. Governance

Governance is broad and deep in the era of AI. It enables the right decisions and application of AI within the guidelines and risk posture the organisation aims to achieve.

This paper recommends five key questions for Directors to commence visibility of AI in their organisation.

1. Do we know what AI decisions are being made in our organisation, and who is accountable for them?

This goes beyond what tools are in use. Most boards have started asking the 'tool' question. The extension is to ask where AI is actively influencing decisions: in credit assessments, hiring, customer service, fraud detection and operational scheduling. Every decision that is influenced or made by AI may have an unintended consequence. Does AI have autonomy to act? Who has approved autonomy, and are they clear on accountability? A board should be able to name the person accountable for each one, and confirm that person has the delegation, the capability and the framework to execute.

2. Have we, the board, defined what responsible AI use looks like?

This is one of the most complex and consequential questions to debate and resolve. It goes straight to the heart of the organisation and the culture, and how that translates to relationships with stakeholders and those the organisation serves. Additionally, legal obligations, director obligations and global research bodies highlight specific requirements which must be adopted. Has the board debated and decided what is acceptable, what is not, and why, grounded in the organisation's purpose and values? A standard framework is a foundation to this exercise, not the end point.

3. Do we have visibility of AI risk in the same way we have visibility of financial or cyber risk?

In the same way boards receive regular reporting on financial performance and cyber posture, they now need to receive equivalent reporting on AI risk. This should include, at a minimum, what systems are in production, how they are performing, what incidents have occurred, and whether the controls in place are adequate. If AI risk does not appear on the risk register or in the board papers, it needs to be incorporated with a considered approach. Each board should determine the appropriate position in the board's governance process for AI depending on their organisation and governance approach.

4. Are we governing AI adoption or just approving it?

Active assessment of AI adoption with a structured decision making and assessment framework, based on the organisation's mission, purpose and values, is the foundation for approval of AI. Beyond approval, governance leans into the when and how AI may be implemented, the accountability structures and the risk appetite. Governing also provides ongoing visibility of performance against the original intent.

5. If something went wrong with an AI system tomorrow, would we know within 24 hours, or within the time our regulator demands? Would we know what to do?

Boards will at some time be stress tested by the performance of an AI implementation, an AI-led attack or other unintended consequences. There may be scenarios that are from outside of the organisation and therefore not within the control systems the organisation has adopted. Boards have likely been through a similar scenario for Cyber. For AI, are incident escalation pathways defined and documented? Does the board understand its disclosure obligations under the current regulatory system? Has management and the board simulated a response?

If your board cannot answer one or more of these questions with confidence, that is a starting point from which to elevate governance.

Lucentis Advisory offers a Board Briefing Session designed specifically for this conversation. A structured, facilitated session that takes your board through each of these questions, surfaces the gaps, and produces a clear picture of where your governance effort should begin.

To find out more or to book a session: bernadette@lucentisadvisory.com.au

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ABOUT THE AUTHOR

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