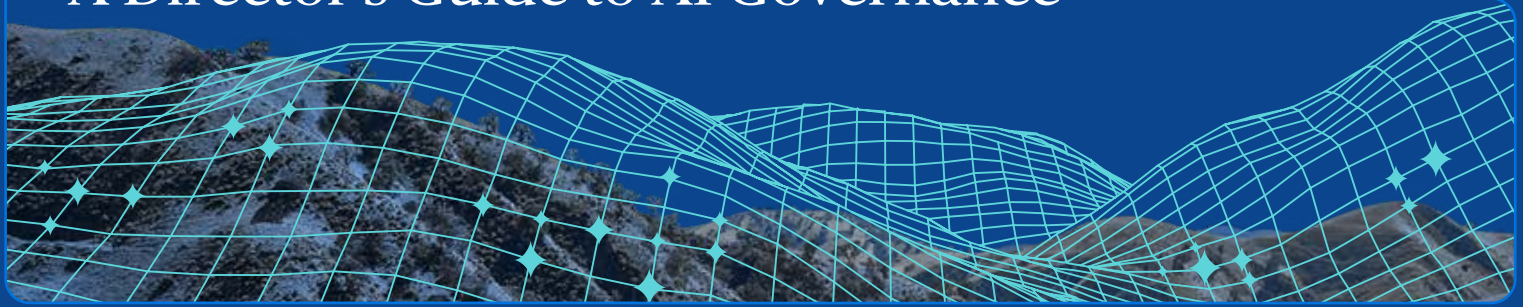


A Director's Guide to AI Governance



SME NFP Board Summary and Checklist

Artificial intelligence (AI) is a transformative technology that can be harnessed by small and medium enterprises (SMEs) and not-for-profits (NFPs) in cost effective and targeted ways. Given the advances in AI technology the size and resourcing constraints of SMEs and NFPs should not be a defining barrier to the effective trialling of AI and its adoption.

The boards of SMEs and NFPs can play a key role in providing practical, and sometimes hands-on, support for AI investments. Boards should also provide active oversight of AI once it is deployed across the organisation, ensuring its use aligns with the organisation's strategy, purpose and risk appetite.

The model has been developed to have application to all Australian organisations, regardless of size or resourcing.

Opportunity and risk

AI opportunities for SMEs and NFPs can include:

- Improve efficiency by automating routine administrative tasks and freeing up staff and volunteers for higher-value work;
- Enhance decision-making and insights through data analysis and pattern recognition;
- Leverage low-cost, embedded AI within existing tools (e.g. accounting, marketing, customer service platforms);
- Strengthen customer, client or beneficiary engagement through more personalised and responsive services;
- Unlock new capabilities (e.g. fundraising insights, targeted marketing) without large upfront investment.

SMEs and NFPs can also face new or heightened risks from AI adoption:

- Increased exposure to cyber security and data breaches due to a reliance on AI and digital systems;
- Privacy risks, particularly where sensitive or vulnerable client and customer data is involved;
- Inaccurate or biased AI outputs leading to poor decisions and reputational damage;
- Limited oversight and weak staff skills and knowledge due to resource constraints, including an over-reliance on external vendors; and
- 'Shadow AI' use by staff, reducing control and visibility over how AI is used.

AI Governance Operating Model

Developed by HTI, the AI Governance Operating Model provides a structured framework for board oversight across strategy, governance structures, governance practices, including risk management, and organisational enablers.

The model has been developed to have application to all Australian organisations, regardless of size or resourcing.

Governance element Board considerations

AI Strategy

- Discuss the organisation's risk appetite for AI use with management.
- Understand where AI is already being used in the organisation, including AI features in third-party products and services.
- Understand whether new resources and significant investment is required to support AI deployment.
- Assess where AI could add value and support strategic objectives, including opportunities to enhance existing processes and resources (such as current SaaS subscriptions) in a cost-effective way.

AI Governance Structure

- Assign accountability for AI oversight to an appropriate senior leader.
- Establish a proportionate process for approving the use of AI systems in line with their potential impact on the organisation and stakeholders.
- Establish when and how the board will be updated or consulted on AI systems, including working with management to develop targeted metrics on AI use, effectiveness, and risks.
- Consider how external assistance may help AI deployment in a cost-effective way.

AI Governance Practices

- Oversee the development of a practical, accessible AI policy that sets clear boundaries for AI use, including restricting the use of unapproved tools with sensitive organisational data.
- Discuss potential risks for your organisation in relation to AI, including the process for patching cyber and data vulnerabilities.
- Ensure existing risk controls are reviewed to assess whether they effectively manage AI-related risks, such as privacy, data governance and cyber security.

AI Governance Enablers

- Consider whether existing technology and data systems effectively support AI deployment, including whether improvements to data collection and quality are needed.
- Form a view of internal capability to effectively use AI and invest in foundational AI training for leadership, staff, contractors and volunteers, where appropriate.
- Engage with employees, volunteers, clients and stakeholders to understand how AI use may affect them, and identify internal champions who can advocate for effective, responsible AI use across the organisation.

Further information

The following resources are valuable sources of information on digital governance for directors of SMEs and NFPs.

- National AI Centre, [Essential AI practices](#)
- National AI Centre, [AI and Australian law](#)
- Australian Signals Directorate, [Artificial intelligence for small business - Managing cyber security risk](#)
- Office of the Australian Information Commissioner, [Guidance on privacy and the use of commercially available AI products](#)
- AICD CSCRC, [Cyber Security Governance Principles - Checklist for SME and NFP Directors](#)
- AICD Allens Melbourne Business School, [Data Governance Foundations for Boards: Checklist for SME and NFP Boards](#)
- AICD, [AI Fluency for Directors Sprint](#) (short course)
- AICD, [AI Governance for Directors Webinar Series](#)