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10th colloquium

The ACCA conducted a risk culture study over the past couple of years. Through our forums, online roundtables and other engagements with our members around the world, we continue to gather the stories about how risk professionals are prioritizing the risks and opportunities facing their organizations today. This includes an intriguing range of AI models, their use cases, as well as the hallucinations and necessary scenario planning around them.

We also gather insights through our new risk section in ACCA's quarterly GECS survey, which allows us to collect relevant input for our new series of industry specific reports on risk cultures and the approach and approaches to risk. We can look across the different roles of the respondents, not only across the three lines and the evolving relationships between them, but also those members of ours on boards. We engage those working for regulators and those at third party entities from electric payment systems and cyber consultancies to data providers. From this we see the nuances and varied views up and down different hierarchies too, which really helps us gain a clearer picture of what is actually happening in practice.

When it comes to the banking sector, we know that firms have been using AI and machine learning for decades now, from credit modelling and scoring to streamlining and other decision-making processes, such as in loan applications. And I've heard recently, even in recruitment processes.

A couple days ago, I was speaking to a member of ours, who is the chief risk officer at a regional bank in the US, who reminded me that there are legal frameworks already that address some of the potential biases. While he attested that governance is at the top of every conversation when it comes to new AI use cases, he did admit that the transformation has accelerated beyond his expectations over the past year, especially with the large language models. AI is used to make things more efficient at the bank. This includes detecting conduct risks, fraud and another emerging risk. They realize there are many, many big unknowns with especially with voice and facial recognitions and the potential deep dives. For example, we also discuss the implications next year, given all the national elections taking place around the world.

What we see from our ACCA members across sectors and across around the world, the company annual reports, press coverage and social media posts is a rapid range of explorations of what generative AI can do. Nonetheless, we see bank members, even in countries like Canada and the UK telling us that they don't they don't feel their customers trust the bots and prefer to stick with human interaction. So members from China to the Czech Republic talk about how they have been experimenting with AI to help produce their financial reports more efficiently, including by finding correct ESG data or by verifying data and processes before the external auditors do.

Although the generative AI technologies are mostly still in development, the use case list continues to expand as businesses recognize that AI can lead to faster, and of course, more profitable, decisions. Unfortunately, there is also growing evidence that the use of AI for such decision-making processes can also produce unlawful, awful lawful, unethical, and potentially discriminatory results. So, there are serious biases and data privacy issues that boards need to ensure senior management have a good grip on before any damage is done.

Regulatory and compliance was initially by far the highest risk for organizations, and this has remained in the top three or four spots in our risk culture survey since it was started this time last year. But there is much more to this. While we clearly see a growing interest in risk culture to cope with disconnected organizational cultures and hard to detect breadth of risks, box ticking is unfortunately the way many organizations approach risk and governance, including those related to AI and ESG.

One ACCA member who is chair of the audit committee for a large property firm in the UK referred to politicians as today's black swans, and we see how the tidal wave of regulatory changes that organizations face, makes boards and senior management most concerned about being compliant. So. it is a priority for us at the ACCA and to work with organizations, our partners like IFAC and Good Governance Academy. To collaborate and work more with the policymakers and the industry bodies to see how we can together do more to change the mindsets needed for these important green and digital transformations. This is one of the open-ended questions we ask in our quarterly surveys - What do you believe is the most underestimated risk facing your organization today?

The responses really provide more colour on what our members are concerned about when it comes to AI. They are increasingly underlying the vital role of leaders in setting the tone for what the objectives are. How do we define them and plan for them? How do we define and communicate our risk tolerances too? With AI especially, we cannot forget that the other side of risk is opportunity. There is an unavoidable tension between the two.

Throughout 2023, the responses have been increasingly focused on leadership risks. We've seen a steady decline in the trust of boards and senior management's ability to be clear with staff and other stakeholders about what their objectives or use cases are. And I've seen some of these comments come from board members themselves. One ACCA member from New Zealand in the second quarter this year said, "The underestimated risk at our organization is the potential market disruption caused in large part by our customer base and our sheer lack of readiness for the impacts." Another member in Pakistan said that there was no clear plan for adaptability of technological advances with advancements and another member in Saudi Arabia, where, by the way, we see tremendous investment in AI investment, um, says it's skills and capability shortage across the sector across all levels, including the board and another member in Scotland added to this. We simply do not have the tech and governance skill sets that can meet our stakeholders changing demands, including what our customers want.

So, we see a growing concern about internal human control over the algorithms as well as those used to determine who receives insurance, loans and jobs, like I mentioned. There is a clear trend there simply are not enough employees trained in governance, risk and compliance out there to help push the right questions as these green and digitalization transformations sweep in. As our calls to action in my risk culture study addresses, good governance starts with role clarity. Boards must ensure there is clear distinction between responsibility and accountability. Also, training on all levels and organizations is key.

As with climate and its economic and social implications, AI has no geographical boundaries. Everyone is affected or will be. In today's risk landscape, even a weak risk culture can be better than none. The real work must start from the top. The board has a fiduciary duty to create that north star, to define the plan of action for their organization.

As we unravelled the overconfidence of some of our survey responses, including those who are actually in charge of risk, our calls to action really did emphasize the importance of speaking a common language. When bosses engage and talk about mutual interests that are critical to the organization, organizations such as KPIs, people feel safe and more involved in matters that ultimately affect them too. A risk culture without that mutuality is a recipe for mediocrity at best. Many of our respondents, including those in senior management, also say in their answers that the tone from the top is a cliche that has lost a lot of meaning since COVID.

This is something that should embrace when we think about expectations of what a risk culture can do during times of rapid change, the power of questioning and looking in the mirror are so underestimated. And what about tone from the middle. You can't just have your senior management and the board talking about how we've got it all under control from the top. While we cannot dispute the fact that every risk is driven by a human behaviour and how culture breeds those behaviours, it is so difficult to work out how you do reward someone for contributing to a good culture.

This paradigm shift requires collaboration, not only with industry bodies, communities, academics, dedicated charities, think tanks, and suppliers, including the small to medium enterprises that make up the bulk of our global economy, but also again, the people in your organization. We need their input and their collaboration if we are to manage this amazing transformation wave wisely and reap the benefits.

Ethics is no doubt at the heart of creating safe and controlled AI, not only in terms of creating the guardrails, but also in understanding the value it can create. So how can we understand how business models are affected and how can we get everyone, not just the accounting professionals, to adhere to a code of ethics in the organization, to ensure they are rolling out their products and services in the way they desire and in a way that is in line with their values, their stated values? How do we, how do we ensure transparency and accountability of how AI Applications are being used and in in in the organization itself and the processes ensuring there is human control, not least on the data going in and what it puts out. But are we measuring and incentivizing the risk culture we want by making sure everyone owns it and benefits from it? These are questions we need to answer.