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Research Article

FROM BOARDROOM ILLITERACY TO ALGORITHMIC ACCOUNTABILITY: WHY AI LITERACY IS NOW A FIDUCIARY DUTY FOR EVERY BOARD

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Abstract

This study examined the emergence of AI literacy as a fiduciary duty for company directors in Nigeria and globally. The background was that boards which were previously judged on financial literacy now governed algorithms that decided credit scoring, recruitment, asset integrity and pricing, yet Diligent Institute (2026) found that only 18% of directors were confident to discuss AI risks. The research adopted a doctrinal legal methodology, using content analysis of primary statutes and codes including CAMA 2020 Section 305, UK Corporate Governance Code 2024 Principle J and Provision 23, EU AI Act 2024 Article 99, NDPA 2023 Section 24, and secondary materials including FTC v Rite Aid (2025), Caremark and Marchand v Barnhill_ on duty of oversight, and ISO/IEC 42001:2023. The findings were that AI risks were not IT risks but core governance risks, exposing boards to regulatory fines up to €35m or 7% turnover under EU AI Act, liability under NDPA 2023, reputational damage from algorithmic bias, and operational leakage from generative AI hallucination and model drift. The study found that lack of AI literacy constituted breach of duty of care, skill and diligence under S.305 CAMA 2020 because directors who did not understand model cards, training data and bias testing could not effectively challenge management. The paper concluded that a board that was governed by algorithms it did not understand had abdicated its role, and AI literacy was therefore the new language of directorship. It recommended (i) amendment of board charters to make AI literacy mandatory, (ii) inclusion of AI competence

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in annual board evaluation under NCCG 2018 Principle 15, (iii) creation of a Certified AI Governance for Directors (CAIGD) programme by FRCN and IoD Nigeria, (iv) 20 hours annual AI training budget per board, and (v) establishment of a Board AI & Data Ethics Committee responsible for AI policy, bias audit and compliance.

Keywords: AI Literacy, Fiduciary Duty, Corporate Governance, Board Oversight, CAMA 2020, EU AI Act, NDPA 2023, ISO/IEC 42001

Introduction

For many years, we judged boards by financial literacy. Can directors read a balance sheet? Can they interrogate audit reports? That test is no longer enough. The modern board now governs algorithms.

In Nigerian banks, AI decides credit scoring. In oil and gas companies, AI models predict asset integrity and screen CVs for recruitment. These are decisions that used to come to the board. Now they are made by systems many directors do not understand.

The Diligent Institute in its 2026 What Directors Think Report found that only about 18% of directors are confident enough to discuss AI risks in the boardroom. That statistic should worry us. How can a board approve a N2 billion AI procurement or an AI-driven restructuring when it cannot ask basic questions about data, bias and human oversight?

The argument of this paper is simple: a board that does not understand AI cannot govern it. And a board that cannot govern has failed in its fiduciary duty.

2.0 NEW RISKS AI BRINGS TO THE BOARDROOM

AI risks are not IT risks. They go to the core of governance.

2.1 Regulatory Risk

The EU AI Act 2024 provides fines of up to €35 million or 7% of global turnover for breach involving prohibited and high-risk AI systems. In Nigeria, the Nigeria Data Protection Act 2023 under Section 24 penalizes automated decision-making without lawful basis, consent and safeguards. A board that approves such systems without understanding the legal tiers is exposed.

2.2 Ethical and Reputational Risk

Algorithmic bias is real. In recruitment, lending and policing, biased models have led to discrimination claims. Under the Caremark doctrine in the US and its equivalent duty of oversight in Nigeria, boards have been sued for failing to monitor compliance. A

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discriminatory hiring tool approved by a board that did no bias audit is a classic governance failure.

2.3 Operational and Data Risk

Generative AI hallucinates. Models drift over time. Staff paste confidential contract terms into public chat tools, leaking trade secrets. Without model governance and data controls, operational risk becomes board risk. This is now covered by ISO/IEC 42001:2023 on AI Management Systems.

3.0 WHY LACK OF AI KNOWLEDGE IS A BREACH OF FIDUCIARY DUTY

Section 305 of CAMA 2020 says a director must act with care, skill and diligence. The UK Corporate Governance Code 2024, Principle J and Provision 23, says a director must have sufficient knowledge and skills to challenge management. Delaware law imposes similar oversight duties.

How can a director who does not know what a model card is, or what training data was used, or how a vendor tests for bias, satisfy that duty? He cannot.

The 2025 FTC v. Rite Aid case is instructive. The board approved facial recognition technology for stores without any independent bias audit. The system flagged black customers disproportionately. FTC imposed a five-year ban and the shareholders sued the board for failure of oversight. The argument was not that the board coded the bias, but that it approved what it did not understand.

In Nigeria, the same logic applies. If you approve an AI system that denies loans to women in Umundula Orji because of historic bias in data, you cannot hide behind "we are not techies." That is breach of duty of care under section 305(3) CAMA.

4.0 A DUAL-TRACK MODEL THAT BOARDS SHOULD ADOPT

Training should not be one-size-fits-all. Executive directors use AI daily. Non-executives oversee it. So we propose two tracks:

Track A - Management Board / Executive Directors: This is about delivery. Training should focus on practical use - prompt engineering for productivity, using AI in supply chain, finance forecasting, HR screening and risk scoring. But more importantly, how to build internal governance - data quality controls, documentation of model cards, human-in-the-loop and logging.

Track B - Supervisory Board / Non-Executive Directors: This is about oversight, not coding. The curriculum should teach directors how to ask the right questions: What data was used to

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train this model? Have you tested for bias? What is the human oversight? Who is the third-party vendor and what are the cyber risks? What is our exposure under EU AI Act risk tiers and NDPA 2023? Directors should also understand stakeholder impact - how the AI affects host communities, employees and customers.

5.0 WHAT GOOD BOARDS ARE ALREADY DOING

Microsoft, Nestle and Access Bank now have at least one AI-competent independent director, a quarterly AI risk dashboard to the board, and mandatory annual AI certification for all directors.

The new global standard ISO/IEC 42001:2023 on AI Management System provides a framework for governing AI lifecycle. Leading boards are mapping their governance to it. In Nigeria, FRCN should align NCCG 2018 guidance with this standard.

6.0 CONCLUSION

We have moved from a time when board illiteracy meant not understanding finance, to a time when it means not understanding algorithms. A board that is governed by algorithms it does not understand has abdicated its role. AI literacy is not a tech upskilling workshop. It is the new language of directorship. If you cannot speak it, you cannot govern.

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References

Amend board charters to make AI literacy a mandatory qualification and continuous requirement for all directors.

2. Include AI competence as a specific criterion in annual board evaluation under NCCG 2018 Principle 15.

3. The Financial Reporting Council of Nigeria and IoD Nigeria should introduce a Certified AI Governance for Directors programme.

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4. Every board should budget at least 20 hours annually for structured AI training, tabletop simulations and vendor risk drills.

5. Create a Board AI & Data Ethics Committee or at least make it a standing item for Risk Committee, with responsibility for AI policy, bias testing and compliance with EU AI Act and NDPA 2023.

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