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**LAW FIRM LEADERSHIP SERIES
EXECUTIVE BRIEF**

THE AI GOVERNANCE REQUIREMENT

**Best Practices for Implementing
an Effective GRC Process**

About this Brief

This document is part of a series of Executive Briefs from AllRize. Each one is designed to help law firm leadership teams plan and implement best practices that can improve operational efficiency and strengthen a firm's position for growth in a competitive market. The entire series of Executive Briefs is available at allrize.ai.

Executive Summary

The question for law firms is no longer whether to adopt Artificial Intelligence, but how to govern it. The brief era of experimentation, characterized by siloed pilot programs and individual Shadow AI usage, is over. Firms that fail to transition AI from an ad hoc tactical tool to a governed strategic infrastructure that faces existential risks, including malpractice claims, data breaches, and loss of client trust. It can also result in a competitive disadvantage in an increasingly AI-powered legal industry.

This AI Governance executive brief outlines a framework that enables firms to move beyond simple usage policies toward a comprehensive GRC (Governance, Risk, and Compliance) strategy that turns ethical AI usage into a documented competitive advantage.

Legal AI Accountability

In the early 2020s, the legal industry benefited from essentially a grace period regarding AI errors. But now that grace period has expired. Regulatory bodies and insurance providers view AI hallucinations not as a technical quirk, but as professional negligence if not caught during review by the legal team.

Furthermore, clients—particularly those in highly regulated sectors like FinTech and Healthcare—are now including review of AI tools and policies as part of their standard law firm RFP process. In some cases, **law firms are being asked to show where AI generated client data goes and how it is protected within an LLM** (Large Language Model).

The Gap Between AI Policy and Practice

One of the most significant risks facing firms today is the Shadow AI gap. This is the discrepancy between a firm's official IT policy and the actual daily habits of its associates. When an associate uses an unvetted, personal AI account to summarize a confidential deposition or draft a contract clause, they are effectively leaking firm intellectual property and client data into a public or semi-public training set.

This gap exists because traditional IT governance moves at a linear pace, while AI capabilities are evolving exponentially. Without a centralized, governed infrastructure, the firm loses visibility into its own data lifecycle, potentially creating a black box that is impossible to defend in a malpractice suit.

Actionable Best Practices: Establishing the Governance Framework

01

Formalize the Human-In-The-Loop (HITL) Audit Trail

Governance is absolutely necessary to validate the work of AI, and every AI-generated document must have a digital chain of custody.

Action: Implement a mandatory metadata tag for all AI-assisted drafts. This tag should identify the tool used, the date, and—most importantly—the senior attorney who performed the Verification Review.

Goal: Create an Audit-Ready environment where, if a clause is ever challenged, the firm can produce a record showing exactly who reviewed the AI output and confirmed its legal accuracy.

02

Tiered Vendor GRC Scoring

Not all AI is created equal. Your governance model must distinguish between open systems and closed (enterprise) systems.

Action: Establish an internal AI registry. Each tool must be scored based on its data retention policies, SOC2 compliance, and whether it uses firm data for model training.

Goal: Create an approved list of vetted tools, as well as those vendor tools that do not meet the standards of the law firm. This provides attorneys with the tools they need while maintaining a hard perimeter around client data.

03

The AI Disclosure Client Agreement

Transparency builds client trust and perhaps provides the best defense against litigation.

Action: Update your standard engagement letters to include an AI Disclosure and Consent clause. This should clearly state how the firm uses AI to improve efficiency and reduce costs, and the specific safeguards in place to protect confidentiality.

Goal: Align expectations early. Most clients will support AI usage if it leads to lower bills and faster turnaround, provided they are assured their data isn't being used without permission to train a global model.

04

Algorithmic Bias & Hallucination Testing

AI is not perfect and it can drift over time. A prompt that worked in January might produce different results in June due to model updates. Be aware of that.

Action: Appoint AI leads for each practice area, then conduct quarterly stress tests, during which you run standard legal queries through your vetted and approved AI tools. Check for hallucinations, outdated case law, or biased outputs.

Goal: Treat AI models like any other professional resource and subject them to periodic performance reviews.

The Competitive Advantage of Being Ethical

Because the Internet has become flooded with AI-generated, low-quality legal content, firms must counter that by certifying their work is "AI-enhanced, but human-verified." That simple statement will often command higher fees. That's because governance isn't just a defensive shield; it is a marketing asset.

Think about it. Being able to tell a Fortune 500 client, "we have a proprietary, closed-loop AI system with a 100% human-verification audit trail," is a more powerful value proposition than simply being "the firm that has your back."



KPIs for the Leadership Team

To track the transition from using AI on an experimental basis to making AI part of your core operational infrastructure, monitor these three metrics:

Metric	Definition	Target Goal
Shadow AI Rate	Percentage of employees using unvetted or rejected AI tools (tracked via network audits).	< 2%
Audit Trail Compliance	Percentage of AI-assisted documents containing a "Verification Tag," indicating proper internal reviews	100%
AI Risk Score	Average GRC score based on the use of vetted, approved AI tools and employee adherence to AI policies.	90+ (High Security)

Conclusion

In a sense, AI is the new "electricity" of the legal profession—it's powerful, pervasive, but dangerous if ungrounded. By moving AI Governance from the IT department to the Executive Committee, law firms can ensure that AI acts as a catalyst for growth rather than a source of catastrophic risk. True leadership in the emerging AI-powered legal industry requires both the courage to innovate and the discipline to govern.

About AllRize

AllRize provides law firms with an award-winning, AI-powered practice management platform that includes Marketing, CRM, Matter Management, Document Management, Accounting, and GRC controls. Each module can be deployed separately or together as one integrated platform. AllRize is a Microsoft Partner and has built its software on Microsoft Dynamics 365 and seamlessly integrated each module with the Microsoft office productivity tools law firms already use. This simplifies the user experience, accelerates productivity, and optimizes internal workflows within the law firm. Learn more at allrize.ai.