



**Australian Government**  
**Prime Minister's Community Business Partnership**

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Submission to the Australian Institute of  
Company Directors (AICD)  
Review of good governance principles  
and guidance for Not-for-Profit organisations

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## 1. Introduction

The Prime Minister's Community Business Partnership's ('the Partnership') key remit is to encourage greater levels of giving and social investment in Australia. A critical underpinning of a healthy philanthropic culture is unarguably public trust and confidence in the charities and intermediaries that manage and disperse charity monies, whether received from corporate Australia, high-net-worth individuals or average Australian givers.

The Australian Institute of Company Directors (AICD) Review of good governance principles and guidance for not-for-profit (NFP) organisations ('AICD Good Governance Review') is timely given the major reforms and policy changes since 2013, which are well summarised in the AICD consultation paper. The Partnership strongly agrees that, "Amidst the change and uncertainty in the sector, ensuring strong and appropriate governance should be a critical priority for all NFPs."

In developing its submission, the Partnership has drawn on research and listened to the views of a wide range of government and sector stakeholders, practitioners, leaders and experts, in particular about the obstacles and enablers of giving and volunteering.

The Partnership notes that there are differences in responsibilities and duties for charity responsible persons under the Australian Charities and Not-for-profits Commission (ACNC) and the duties and responsibilities for NFP directors, where the regulator is still the Australian Securities and Investments Commission (ASIC). AICD should carefully consider these differences when framing good governance principles and supporting practices for the entire sector.

This Submission also addresses some specific strategic issues identified in the AICD Good Governance Review relevant to good governance and of particular interest to the Partnership, namely:

- the changing operational environment for NFPs, including in such areas as:
  - changed government funding practices and increased competition in tender processes, both between NFPs and from for-profit providers, including market pressures on NFPs to innovate and consider alliances and mergers
  - the growth in outcomes-based funding arrangements
  - the emerging social impact investing marketplace, including the introduction of social impact bonds and the growing number of social enterprises bringing business practices and principles to tackle social problems, and
  - the challenges to good governance in the sector posed by a complex and demanding external environment (regulatory, economic, industrial, societal).
- levels of public trust and confidence in the NFP sector and individual NFP institutions, including community expectations of the NFP sector, particular the Charities sector, with regard to governance issues and concerns in such areas as:
  - fundraising and application of donor funds, and
  - the responsibilities and duty of care of NFP organisations working with vulnerable people, particularly children.
- making the proposed refined principles and supporting practices accessible and applicable (meaningful) for both the largest and smallest NFP organisations and for NFP organisations across diverse sub-sectors, operations and locations.

## **2. Partnership feedback on strategic governance issues for the NFP sector**

### ***The role of good governance in NFP sector innovation***

Good governance plays a vital role in supporting and sustaining an innovative NFP sector. Evidence<sup>1</sup> on the state of innovation in the NFP sector reveals that the main driver for innovation in NFP organisations is its people. Strategic thinking skills and capabilities, a strong focus on networking, delivering outcomes and impacts, and influencing and driving change underpin the success and growth of the sector to date.

The main barriers to innovation in the sector include:

- a lack of funding and high implementation costs
- government regulation and compliance
- a lack of necessary knowledge or skills
- a lack of a clear innovation strategy
- a lack of senior leadership or vision, and
- a risk adverse management or culture.

Feedback the Partnership has received from social enterprises and sector experts strongly suggests the key role played by Boards in supporting, or impeding, organisations' plans to scale up their operations and to engage in social impact investing:<sup>2</sup>

- leaders of non-profits, particularly board directors, must deeply engage with their organisations and ask the hard questions about real impact– and consider if, and how, the initiatives should be scaled
- some social enterprises have a board full of well-meaning people who lack the necessary business skill set i.e. unable to assess risk and create a risk profile; lack the skills/knowledge to support the CEO and take the business forward
- a key challenge is how to upskill the board/committees of social enterprises to make them more entrepreneurial and acquire the necessary business nous. Boards are often not prepared for increasing scale and there is a mismatch in thinking between the board and the CEO, which can create tensions and hamper business development
- training, support and advice for boards/committees are needed, so that they can better operate on business principles while still pursuing their social purpose. This might include access to a pool of potential board members with required business skills, knowledge and experience (e.g. retired business people), as well as mentors, and encouragement of corporates to mentor small social enterprise start-ups
- one option would be access to online platforms/databases to enable more diversity and professionalism of membership of boards/committees, in particular attracting board members with business skills and acumen and governance expertise. Possible scholarships for company director training were also suggested
- social enterprises noted that different skill sets are needed to scale and grow in different stages of enterprise development i.e. from the initial transition (succession planning) from founder to

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<sup>1</sup> *Innovation Index for the Australian NFP sector 2017*

<sup>2</sup> <https://www.communitybusinesspartnership.gov.au/social-enterprises-and-not-for-profit-organisations-achieving-scale-for-social-impact-roundtables/>

CEO/start-up and then the next stage to scale to market. More assistance and investment in skills development are needed in the start-up stage for social enterprises

- there is a need to better link existing pools of skills and expertise back to NFPs and social enterprises/social entrepreneurs. This might include possible Skill Exchanges drawing on existing models e.g. Social Venture Partners (SVP)<sup>3</sup> model that links social enterprises with corporates to gain the skills they need
- an important first step would be to understand precisely what skills the staff in social enterprises and social entrepreneurs are lacking e.g. legal skills, business acumen, entrepreneurial skills, etc, and
- the World Economic Forum paper 'The Governance of Social Enterprises: Managing Your Organization for Success' (by the Schwab Foundation for Social Entrepreneurship) highlights the evolving governance and skills needs of social enterprises i.e.
  - "No single governance structure fits all social enterprises or even fits the same enterprise over time. Rather, governing boards should be tailored to the organization and be dynamic to the changing needs of the organization over its lifespan. Social enterprises should evaluate and modify their governance structures regularly and in particular during the following circumstances:
    - the enterprise reaches the next lifecycle stage
    - the legal structure of the enterprise changes
    - the financial structure of the enterprise changes, most commonly related to the shareholder base, and
    - the external environment changes (e.g. new government regulations), and
    - the founder steps down." <sup>4</sup>

### ***The role of good governance in ensuring public trust and confidence in the NFP sector***

A critical underpinning of a healthy philanthropic culture is unarguably public trust and confidence in the charities and intermediaries that manage and disperse charity monies, whether received from corporate Australia, high-net-worth individuals or average Australian givers.

Any nefarious behaviour by charities and NFPs reflects on the whole sector. Many established charities have shared their concerns with the Partnership about the potential for poor practices to negatively impact on fund raising and retention and attracting of volunteers. Concern raised in the *Giving Australia 2016* report<sup>5</sup> include the following:

- charities that are intrusive and/or exploit or harass potential donors, for example excessive cold calls and mail, street 'chuggers' and reports of vulnerable citizens being taken advantage of<sup>6</sup>. This pressure presents a dilemma for participants as they generally believe in the cause or know it is important, yet are reluctant to give under perceived pressure. Furthermore, the 'polished spiel' of street fundraisers was considered widely to lack authenticity and pointed to the commercialisation of giving, something that some research participants found abhorrent, and many felt uncomfortable about
- the perception that charities need to reduce disproportionate fixed costs (e.g. administrative expenses), although noting the legitimate need for charities to invest in technology,

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<sup>3</sup> <http://www.socialventurepartners.org/melbourne/>

<sup>4</sup> [http://www3.weforum.org/docs/WEF\\_Governance\\_Social\\_Enterprises\\_2106\\_light.pdf](http://www3.weforum.org/docs/WEF_Governance_Social_Enterprises_2106_light.pdf)

<sup>5</sup> *Giving Australia 2016* DSS August 2017

<sup>6</sup> Widespread media speculation that Olive Cooke, who having received almost 3,000 mailings from charities in a year contributed to her death, the [report from the Fundraising Standards Board \(pdf\)](#)

infrastructure and capacity perception of multiple charities addressing similar if not the same causes widely perceived as resulting in ‘wasted resources’ and effectively diluting the impact of finite resources, and

- Donor fatigue - too many causes may lead to donors being overwhelmed and disillusioned.

The *Giving Australia Individual Report 2016* (pages 28-29): provides further insights into the reasons people do not donate:

“Giving Australia research identified a key role for trustees in ensuring sound financial management of trusts, although the perceived need to employ professional advisers varied with the scale and complexity of philanthropic activities. In addition, just over half of the respondents to the *Giving Australia 2016 Philanthropy and philanthropists* survey indicated their fund applies some form of ethical screening to investment decisions. This may be a negative screen, where investments perceived to create negative social or environmental impacts are screened out (for example, tobacco, weaponry, deforestation); or a positive screen, where investments perceived to create positive impact (such as health care, renewable energy and sustainable development) are screened in.”

The Partnership notes the current exemption of basic religious charities from complying with the ACNC governance standards and from providing annual financial reports, regardless of the amount of their annual revenue. The Partnership considers a level playing field should operate in respect of all charities, without regard to the religion or beliefs of the NFP and its purpose. Greater transparency across religious charities is to be encouraged to ensure greater public trust and confidence.

The Partnership suggested in its submission to the ACNC Review that the current blanket exemption that applies to basic religious charities should be reviewed to ensure a fair and equitable regulatory treatment of charities across the sector.

### ***The role of good governance and the responsibilities and duty of care of NFP organisations working with vulnerable people, particularly children***

There is compelling evidence from the *Final Report of the Royal Commission into Institutional Responses to Child Sexual Abuse*<sup>7</sup> that a major breakdown of good governance principles and practices across religious, secular and government institutions played a major role in repeated incidences of child sexual abuse. A major failure of institutional governance and leadership in turn contributed to an endemic lack of scrutiny, accountability and transparency in responding to, and preventing, child sexual abuse.

The Partnership recommends that the AICD should have due regard to the important lessons raised in the Royal Commission final report for framing good governance principles and guidance for the sector, in particular where there is strong evidence of systemic failures in the application of good governance principles and practices across institutions. These important lessons are likely to be just as relevant for NFPs and institutions charged with the care of all vulnerable persons, not only children, such as people with disability, frail older people, students and people in institutional care or detention.

The Royal Commission concluded that if the problems identified are to be adequately addressed, changes must be made to the culture, structure and governance practices of institutions, identifying multiple governance issues for institutions charged with the care and protection of children:

- independent, autonomous or decentralised governance structures often served to protect leaders in institutions from being scrutinised or held accountable for their actions

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<sup>7</sup> <https://www.childabuseroyalcommission.gov.au/>

- the powers of governance held by individuals were not subject to adequate checks and balances i.e. no requirement for decisions to be made accountable, transparent or subject to due process
- there were a lack of meaningful consultative and participatory processes with internal and external stakeholders
- the absence or insufficient involvement of women in leadership positions and governance structures negatively affected decision-making and accountability leading to hyper-masculine and hierarchical cultures; a sense of being part of a superior and privileged institution, and
- there were inadequate complaint handling processes, investigations and disciplinary action.

The final report<sup>8</sup> of *The Royal Commission into the Protection and Detention of Children in the Northern Territory (NT)* identified a number of reforms needed to address institutional and organisational governance failures in the child protection system and support for young people in detention, including:

- a shared network governance model must underpin engagement with Aboriginal communities in the child protection system, and
- operators chosen to deliver core family support services be required to have the highest standards of corporate and administrative governance as one of the minimum selection criteria.

### **Accessible and applicable principles, practices and resources for the NFP sector**

AICD should ensure the proposed principles and supporting practices are accessible and applicable to all NFPs, irrespective of their size, sector, profile or location. Smaller NFP organisations may be able to derive the greatest benefit for their good governance from the proposed principles and supporting practices, compared with larger NFPs that have greater resources and internal expertise to commit to good governance.

Equally, other NFP organisations may also benefit but only if the proposed principles and supporting practices are readily available in a range of formats for board members, staff and/or volunteers to enable broad access and application, for example:

- 'Easy-English'<sup>9</sup> format for those who have low literacy levels, including people with intellectual or learning disabilities
- multi-lingual formats for people from CALD or Indigenous backgrounds, and
- suitable audio and visual formats for people with visual or hearing impairments.

### **3. Partnership specific feedback to consultation questions**

#### **Consultation question 1:**

- **Do you support the approach of providing supporting practices? If not, what alternative do you recommend?**

The Partnership supports AICD's proposal to introduce 'supporting practices' which describe specific behaviours or actions of NFP organisations that are meeting the principles. However, the Partnership considers that AICD:

<sup>8</sup> <https://childdetentionnt.royalcommission.gov.au/Pages/default.aspx>

<sup>9</sup> <http://accessliteracy.com.au/articles/what-is-easy-english-and-how-does-it-work/>

- could use its position more strategically to facilitate and encourage a greater preventative and early intervention role with NFPs to promote robust governance
- is well-placed to be an active facilitator in education and guidance for the sector in relation to good governance, and
- could enhance the online resources it offers on the AICD website (i.e. webinars, factsheets) to cover other related topics, such as volunteer management and risk management.

Improving the standards of individual NFP organisations supports the integrity of the whole sector, for example:

- behaviour by charities and NFPs reflects on the whole sector. Many established charities have shared their concerns with the Partnership about the potential for poor practices to negatively impact on fund raising and retention and attracting of volunteers
- agreement for the need for more practical advice, tools and resources to support the more effective use of public resources, and
- AICD as a sector body is an appropriate body to help the sector build its capacity.

AICD could be instrumental in helping to implement a sector wide outcomes reporting framework that complements ACNC's Annual Information Statement process and assists non-charity NFPs in demonstrating to donors and investors how they make an impact and their value. AICD could consider enhancing and extending its current role to be an aggregator, network facilitator, thought leader and catalyser for development of the broader NFP sector.

### **Consultation question 2:**

- **What resources would be most valuable in supporting users of the Principles to apply them in their organisations?**

The Partnership considers that more resources including tools, information, research, workshops are needed for NFP organisations in the following key areas:

- fiduciary responsibility and sound financial management
- support for self-regulation
- support for digital literacy
- more diversity
- working in partnership resources
- supporting volunteers, and
- supporting NFPs in regional, rural and remote areas.

### ***Fiduciary responsibility and sound financial management***

*ACNC's 2016 Charity Report* found that, "Charities are diverse: there is no one-size-fits-all approach to financial performance or sustainability. It is highly dependent on individual charities' strategy for achieving purpose and their operating context. A charity's financial status depends on a range of factors, including their purpose, strategy, funding environment, accounting policies, overheads and their wider operating context."

A charity's financial reserves or equity plays an important role in their financial stability and long-term sustainability<sup>10</sup>. Managing reserves is an important aspect of the overall financial management of a charity and a crucial element of good charity governance. Charities should therefore be encouraged to build financial stability via equity in their balance sheets.

In line with good governance and proper risk management, a charity's responsible persons (i.e. its board, committee, or governing body) should consider an appropriate level of reserves for its circumstances, as well as a strategy for building or spending its reserves in a way that is consistent with its purpose.

The CCA report *Better Using Our Assets* suggests that diversifying income streams and establishing income streams independent of government contracts is a valuable strategy to address funding vulnerability and secure an organisation's future. It further suggests that an organisation's board has a critical role in change or innovation, and in risk management and/or oversight related to generating new income streams or investments. A board that is highly risk adverse to change or innovation can impede progress.

### ***Support for self-regulation***

The Partnership considers attention should be given to how (or if) non-charitable NFPs could be supported to greater levels of self-regulation through voluntary codes of conduct. This could both increase public trust and better align to an empowered sector committed to determine its own future, build its capability, and effectively manage its resources and drive innovation.

### ***Support for digital literacy***

The rapid adoption of digital tools for social and political action has brought unarguable innovation and opportunity across the sector. However, "digital civil society" also brings with it a complicated new set of risks associated with the ways people and organisations use private resources for public benefit.

The AICD should take into account the critical need for safe, ethical and effective use of private digital resources (e.g. digital donor data) for public benefit, and to maintain public trust and confidence.<sup>11</sup> This may call for the creation of new approaches to governing and regulating digital assets and support and tools for the charitable sector.

Evidence from the Partnership's own consultations<sup>12</sup> about the need for investment in digital giving platforms and the adoption of new digital and online technologies is that while these are recognised as critical for innovation, the costs are seen as an administrative "overhead", lacking support internally (from the board) and externally (from donors, as an acceptable use of donated funds).

### ***More diversity***

There are 'unacceptably low levels of diversity' in some parts of the sector e.g. emergency services requiring new diversity policies and programs focused on this area. Diversity in the NFP sector encompasses gender, race, disability and culture. Low rates of participation for people from diverse backgrounds in many areas of the sector has ramifications for the capacity of the NFP services to modernise and build human service capability.

There is recognition that NFPs need to better reflect the communities they work to serve, and growing awareness of the many benefits that can result from diversity. Strong leadership is about driving

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<sup>10</sup> 'Charity reserves: financial stability and sustainability' <https://www.acnc.gov.au>

<sup>11</sup> *Philanthropy and Digital Civil Society: Blueprint 2018. The Annual Industry Forecast* by Lucy Bernholz  
[The Digital Civil Society Lab at Stanford University's Centre on Philanthropy and Civil Society.](#)

<sup>12</sup> <https://www.communitybusinesspartnership.gov.au/about/working-groups/innovation-and-culture/>

transformational cultural change. Through that process, it will be necessary to uncover and consistently address the systemic and attitudinal barriers to diversity and inclusion. There is a need for strong leadership strategies that are embedded throughout the organisations, and a long-term commitment to facilitating and supporting this change.

Evidence from the *Giving Australia 2016* research<sup>13</sup> is that:

- age diversity brings different levels and types of experience and expertise to the nonprofit effort, and more robust decision-making and action. Involving young people in governance was especially important for organisations that worked with social issues affecting this age group to ensure services reflected their needs and were appropriate and accessible, and
- board participation was an area of concern identified by focus groups and interview participants, who observed that most board members were older, and recognised the value in having diversified age groups on the board.

Earlier complementary research commissioned by DSS on Giving and volunteering in culturally and linguistically diverse (CALD) and Indigenous communities (2016) found that:

- volunteering and giving among CALD communities are constrained by a range of challenges:
  - lack of English: CALD participants often saw English language requirements as a barrier to volunteering outside their communities
  - potential for exploitation and racism: Some noted that they were unappreciated by non-CALD workers and managers; others identified issues of exploitation, discrimination and racism
  - burnout: The level of demand placed upon community members was seen by some as connected to burnout, leading in some cases to withdrawal from volunteer activities, and
  - lack of transparency and flexibility: Participants described a lack of transparency and flexibility in how donations are distributed by charitable organisations.
- volunteering and giving among Indigenous communities are constrained by a range of challenges, including:
  - burnout: Many Indigenous community members volunteer in multiple ways – sitting on boards, looking after children – while still holding down a full-time job. Indigenous Elders were seen as particularly at risk of burnout, and
  - potential for discrimination and racism: Many participants were wary of organisations where they may face racism or discrimination or be uncomfortable due to lack of cultural awareness on the part of staff and other volunteers.

There is evidence<sup>14</sup> that attention is needed on the particular governance issues and challenges faced by many Indigenous-based NFP organisations, particularly those in remote areas of Australia:

- strengthened Indigenous governance is both an end in itself (as an inherent public good), as well as a critical factor in achieving improved effective service delivery outcomes
- there is considerable evidence to show that Indigenous organisations are more effective in delivering services and achieving development outcomes when there is strong governance in

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<sup>13</sup> *Giving Australia 2016 - Giving and volunteering: the nonprofit perspective*, November 2017

<sup>14</sup> *Closing the Gap Clearinghouse: Funding Indigenous organisations improving governance performance through innovations in public finance management in remote Australia*. AIHW 2014

place. Indigenous organisations increasingly work alongside a range of providers at the frontline of service delivery, which is at the point of contact with beneficiaries

- Indigenous organisations with strong governance are well placed to provide a range of services to Indigenous communities as they:
  - have a greater claim to representativeness and therefore offer an avenue for grassroots accountability
  - are inclined to offer culturally appropriate services and mechanisms for engagement
  - are more likely to be accessed by Indigenous people
  - provide a space for Indigenous ownership, which is increasingly acknowledged as a fundamental starting point to overcoming disadvantage, and
  - have more legitimacy to advocate and provide feedback to policymakers on behalf of their communities.
- the governance capabilities of Indigenous organisations can be enhanced when discretion is devolved locally, including the powers to budget, plan and make operational decisions, allowing the organisation to respond to locally identified priorities. Supporting culturally and contextually appropriate governing structures is likely to have a positive effect on governance capabilities.

Useful additional resources to increase and support diversity across the sector, and in individual NFPs, could include the following.

- tools that can be implemented widely among organisations that are committed to organisational and cultural change that allowed self-review in the context of their community and in particular assess the extent to which the organisation's paid and volunteer workforce matches the profile of the community they serve:
  - mapping organisational and community values and attributes will give insights as to where current areas of strength lie, and what values are most important for supporting diversity
  - consider specific barriers of that organisation and how they can be overcome, and
  - implement practical strategies re volunteer management, recruitment and community engagement
- more education: Lack of clarity as to what diversity is, the value of the benefits diversity offers, and how to best place and integrate diverse people into current operational activities in a way that does not position them as 'the problem', rather than as a source of skill, creativity and innovation.
- brokerage tools to increase board diversity by identifying people who want a volunteering opportunity because they:
  - wish to contribute (give back) to their community – a strong finding of the CIRCA research we commissioned indicates although CALD are underrepresented in volunteering participation there are high levels of commitment to give back to the Australian community
  - want to utilise existing or develop new skills sets to improve employability, and
  - want to improve English skills and engage socially
- cultural change tools to ensure we have diversity among volunteer boards and leadership to support volunteering sustainability
- communication tools:

- lack of diversity in communications, language, visuals which results in lack of diversity, and
- the need to have inclusion as a strategic priority and taking the next step in challenging status quo, and
- resources to assist to establish CALD Reference Groups to drive organisational change.

### ***Working in partnership resources***

Boards of management and organisations need the capacity to work with philanthropic foundations; this may include assistance with application processes and training on policies and procedures related to philanthropy. Support for partnerships and collaborations that promote better understanding, communication, relationship-building and culturally sensitive approaches among volunteer-involving organisations and philanthropic organisations, could be effective in building a more accessible and responsive NFP sector for meeting community needs.

### ***Supporting volunteers***

As pointed out in the AICD consultation paper, most boards are voluntary, and more resources are needed to support these volunteers:

- the level of demand placed upon community members in particular in regional and rural communities, is connected to burnout, leading in some cases to withdrawal from volunteer activities.
- volunteers, as key assets of the community, require investment. This investment should include financial resources and time, and people to consider and imagine new methods and processes supporting a wider application of volunteer capacity and capability.
- expand on traditional models to attract, retain, train and support volunteers. These traditional models are inherently rigid and, moreover, they resist those activities that are able to capitalise on recent trends to recruit and retain volunteers
- there is ample research on volunteering and volunteering trends that highlight that there is an untapped pool of people that want to volunteer for their community, but they have other priorities such as families, work and other activities that take their time. The current structures of many NFPs have policies and processes that are prohibitive for these potential volunteers
- rising expectations of the volunteer workforce have expanded the role of volunteers, requiring upskilling. The focus on building community resilience is also placing new demands on the volunteers, hence investment in a more agile volunteering model that includes responsive cues to the external environment, such as the demands on volunteers based on demographic changes, rather than an internally focused model, will support different levels types of volunteer participation in the sector, and
- adaptive leadership can be a powerful tool to help navigate transformation; an adaptive leader is inclusive and motivated to build resilience in the team and in the community. Encouraging this type of leadership requires significant investment in a leadership strategy that will aim to nurture and develop adaptive leadership across the board, regardless of their level or volunteer status, would equip volunteers with new skills.

### ***Supporting NFPs in regional, rural and remote areas***

The AICD should consider the particular governance issues and challenges of NFP organisations located in regional, rural and remote locations. Evidence<sup>15</sup> is that the majority of charities registered with the

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<sup>15</sup> *Australian Charities Report 2016*

ACNC are based in major cities (67.3 per cent), with around 30 per cent based in regional locations and only around 3 per cent based in remote locations.

Charities based in regional and remote locations often face greater challenges in good governance such as attracting diversity to their boards, attracting and retaining skilled staff and building their IT capacity.

### Consultation question 3:

- **Do the proposed 10 principles adequately capture the high-level principles of good governance in the NFP context? Should any be added, changed or removed?**

The proposed approach to the refinement of the 10 principles is generally supported. However, the Partnership questions replacing “Board roles and responsibilities” with “Purpose and Strategy” as the first proposed principle. The Partnership argues that this basic understanding and operational principle should rank in priority above all other proposed principles.

If an effective board is not operational, then it will not be able to deliver appropriate purpose and strategy. For example, board members need to understand their fiduciary duty to take an active interest in board activities and their legal responsibility to understand the finances of the organisation and then make decisions in good faith based on this understanding.

The previous judgment on the factors behind the collapse of the National Safety Council drew a line in the sand as regards directors taking reasonable responsibility for their actions on the board.<sup>16</sup>

The Partnership considers there is an omission that relates to the purpose of NFP organisations that are registered as charities. The proposed principles make no mention that these NFPs need to ensure their organisational purpose is aligned to its charitable purpose as prescribed in its charity registration and also as documented for DGR purposes.

The Partnership understands that the ACNC may soon require that all registered charities report against their charitable purpose to avoid ‘mission drift’. Hence, this is an important issue for the good governance of registered charities.

### Consultation question 4:

- **Do the proposed supporting practices capture the features of good governance relevant to each principle? Should any be changed, added or removed?**

The Partnership generally agrees with the proposed supporting practices detailed. However, it suggests the following additions may further refine and inform them:

#### **Principle 3: Board composition**

- tenure of the chair of the board is limited and is regularly rotated amongst directors.

#### **Principle 4: Board effectiveness**

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<sup>16</sup> THE NATIONAL SAFETY COUNCIL FRAUD - REGULATORY SLIP OR SYSTEMIC REGULATORY FAILURE? by Myles McGregor-Lowndes, Associate Professor Program on Nonprofit Corporations, Queensland University of Technology, 1991

- greater provision of best practice guidelines to support improved board performance.

***Principle 6: Organisational performance***

- the board understands that it is appropriate, indeed imperative, for the organisation to make a financial surplus – even though the organisation may be described in its mission statement as a not-for-profit entity
- the board understands that in order for the organisation to achieve a financial surplus, it is appropriate, indeed desirable, for the organisation to accumulate equity in its balance sheet, commensurate with appropriate long-term viability and financial management of the organisation, and
- the board encourages a diversity of income streams and investments in order ensure the organisation's financial future viability.