

Good Governance Principles for Charitable and Not for Profit Organisations

Ten Principles that Promote Good Governance

Good governance can offer a number of important benefits to charitable and NFP organisations, including:

- better organisational strategies and plans;
- improved operational effectiveness;
- more prudent regulatory compliance, financial and risk management;
- improved member and stakeholder engagement and communication flow;
- increased likelihood and degree to which an organisation delivers on its mission.

While they may not be exhaustive, the following ten principles provide a useful starting point for charitable and NFP organisations to promote good governance practice having regard to their organisation's particular circumstances.

Ten Principles

1. Clarity of mission and strategy.
2. Build and manage organisational capacity and capability to deliver on mission.
3. Lay solid foundations to assure governance and management of the organisation.
4. Structure, populate and manage the board to add value.
5. Promote ethical and responsible decision making and behaviour.
6. Respect the rights of members and engage and communicate effectively with stakeholders.
7. Meet regulatory compliance and reporting requirements.
8. Safeguard the organisation's financial standing and integrity.
9. Recognise and manage risk.
10. Benchmark and report against these "Good Governance Principles for Charitable and Not for Profit Organisations".

Each of these Principles is now discussed in turn. Each Principle is accompanied by a number of ancillary Recommendations or high level suggestions to support the organisation's attainment of the relevant Principle. In addition, each Principle is also accompanied by some Commentary to further assist understanding the relevance of the Principle and to help put the Recommendations in context.

Charitable and NFP organisations are encouraged to consider these Good Governance Principles and to hold themselves accountable to their stakeholders by benchmarking and reporting against them on the organisation's web-site and/or annual report.

Principle 1 - Clarity of mission and strategy

Organisations should have a clearly articulated mission, with a complementary strategy which has been endorsed by its board, to deliver that mission

Recommendations

- Recommendation 1.1: The organisation's mission or purpose is clear and is set out in the organisation's constitution or other binding charter of existence.
- Recommendation 1.2: The organisation takes steps to ensure its mission is communicated amongst its stakeholders including on the organisation's web-site.
- Recommendation 1.3: The board accepts responsibility for the manner in which the organisation is to deliver its mission in the form of a cohesive strategic plan.
- Recommendation 1.4: The board works with the organisation's management to ensure there is mutual ownership of the organisation's strategy.
- Recommendation 1.5: The strategic plan is easily understood and able to be used as a base for tactical planning by the organisation and implementation of the plan by the organisation's management.
- Recommendation 1.6: Management regularly reports to the board on the progress of implementing the strategic plan.
- Recommendation 1.7: The organisation's mission and strategy are periodically reviewed by the board to assure their continuing relevance and effectiveness.

Commentary

Charitable and NFP organisations are established usually for a laudable charitable or other community or social benefit based reasons.

It is vital for the organisation's mission or purpose for existence to be clearly expressed. This should include clear statements as to:

- why the organisation exists;
- what does the organisation intend to achieve;
- for whose benefit does the organisation exist.

It is also vital for the organisation to develop and articulate its strategy from time to time to deliver against its mission or purpose. The organisation's strategy should include clear statements as to:

- how the organisation plans to achieve its mission or purpose;
- what are the strategic objectives for the organisation to achieve those plans;
- what action steps the organisation will implement to achieve those strategic objectives.

The organisation's board and management should work co-operatively together in the organisation's strategic planning to ensure there is mutual ownership and shared accountability for the outcome.

The board's role includes approval of the organisation's strategy, monitoring its implementation by management and reviewing its continuing relevance in the context of the organisation's mission or purpose.

Management's role includes supporting the board in strategy development, implementing the strategy and reporting and holding itself accountable to the board for strategy implementation.

The organisation's mission or purpose, as well as its strategy to achieve its mission or purpose, should be clearly expressed to its relevant stakeholders perhaps by inclusion on the organisation's web-site, in its annual report and/or other relevant communications issued by the organisation.

Principle 2 - Build and manage organisational capacity and capability to deliver on mission

Organisations should identify the resources (human, financial, physical and intellectual/intangible) they need to deliver on mission and meet their strategic objectives, and to plan as to how those resources will be made available to and best managed by the organisation

Recommendations

- Recommendation 2.1: The organisation identifies and periodically reviews the resources needed by the organisation to deliver on mission and meet its strategic objectives.
- Recommendation 2.2: The board in conjunction with management develop plans as to how the organisation will access resources to build organisational capacity and capability.
- Recommendation 2.3: Management, under the oversight of the board, prudentially manages the organisation's resources to ensure their availability for the organisation's needs.
- Recommendation 2.4: Management regularly reports to the board as to progress with respect to resource planning and management for the organisation.

Commentary

In order to be better able to deliver on mission and execute strategies to deliver organisational performance and outcomes, charitable and NFP organisations need to plan and marshall their resources to be applied for that purpose.

Such resources usually include a combination of:

- financial resources (capital, grants, revenue, investment returns and reserves);
- human resources (people with relevant capability, capacity and application, whether paid or volunteer);
- physical resources (premises, plant, equipment and inventory);
- intangible resources (brand reputation, goodwill, networks, systems, processes and intellectual property)

Building and managing organisational capacity and capability enhances the sustainability of the organisation and promotes the ability of the organisation to continue delivering on mission for the present and the longer term.

Both the board and management need to plan, strategise and co-operate in identifying, accessing, marshalling and managing the resources necessary for the organisation to delivery on mission.

The board allocates available resources in the terms of its approval of strategic and business plans, and in its approval of annual operating and capital budgets for the organisation.

Management is responsible for the application of those resources in the day to day management and operations of the organisation. Management also needs to regularly report and be accountable to the board with respect to resource planning and management.

Principle 3 - Lay solid foundations to assure governance and management of the organisation

Organisations should establish and disclose their governance and management structures including the respective roles and responsibilities of their boards and management

Recommendations

- Recommendation 3.1: The respective roles and responsibilities of individual directors, the board and management of the organisation are clearly set out in the organisation's constitution and/or governance charter.
- Recommendation 3.2: Management ensures the organisation's constitution and/or governance charter are available, are communicated and are adhered to throughout the organisation.
- Recommendation 3.3: The board monitors and reviews the organisation's constitution and/or governance charter to assure their continuing relevance, as well as overseeing the adherence by the organisation and its people to their terms.

Commentary

Effective governance can be defined as the systems, processes and practices by which informed decisions are made and implemented by an organisation to enhance the organisation's performance and to better manage the organisation's risks.

Governance is the domain of the board. The board is responsible for ensuring the organisation's governance framework is sound, including by periodically monitoring and reviewing its continuing relevance and effectiveness.

This includes clarity of the respective roles, responsibilities and authority of:

- individual board members;
- the board chair;
- board committees;
- the CEO or general manager;
- other senior executives/managers;
- the organisation's other personnel (including volunteers).

Management has an important role in supporting the board in the development and implementation of the systems, processes and practices which underpin the organisation's governance framework. These systems, processes and practices need to be communicated and applied throughout the organisation so as to become accepted as the cultural norm of how things are done within and by the organisation.

Principle 4 - Structure, populate and manage the board to add value

As the principal decision making and oversight body of the organisation, boards should be of appropriate size, structure, composition, capability and capacity to properly perform their functions and add value to the organisation

Recommendations

- Recommendation 4.1: The board is of sufficient size to perform its functions without compromising efficiency and effectiveness.
- Recommendation 4.2: The chair of the board is non-executive and independent.
- Recommendation 4.3: The board is comprised of a majority of non-executive independent directors.
- Recommendation 4.4: To assist the board in the performance of its role, as appropriate, the board may appoint discrete committees, which report to the board on matters within the scope of their remit (e.g. finance/audit, risk, fundraising, governance etc).
- Recommendation 4.5: The board comprises directors with:
- appropriate skills, capability and capacity;
 - sufficient diversity of relevant experience and perspective,
- having regard to the organisation, its operations and its needs.
- Recommendation 4.6: Through induction practices and continuing professional development relevant to the organisation's needs, the board seeks to enhance the relevant skills and knowledge of board members and key management personnel.
- Recommendation 4.7: The board periodically evaluates and reviews the performance of its board members, the board itself, the board's committees and the organisation's key management personnel.
- Recommendation 4.8: The board manages and recommends prudential succession planning of its board members for determination by the organisation's members.

Commentary

An organisation's board is the peak decision making body of the organisation. Unless the board is structured, populated and managed in a manner which adds value to the organisation, then organisational performance and delivery on mission are likely to be compromised.

There are many important aspects that contribute to an effective and capable board. These include:

- (structure) – including board size and committee structure;
- (composition) – including capability, capacity, diversity, objectivity and application of board members;
- (leadership) – including the role of the board chair and committee chairs;
- (decision making) – including board agendas, board information packs, deliberations and minutes of meetings;
- (dynamics) – including board member behaviours, inter-relationships, mutual trust and confidence and respect

Effective boards also recognise the need to manage their own succession planning, identify gaps in their composition, induct new board members to allow them to contribute more effectively to board deliberations sooner, and improve their performance and that of their board members through evaluation, review and professional development initiatives.

Principle 5 - Promote ethical and responsible decision making

Organisations should actively promote ethical and responsible decision making

Recommendations

- Recommendation 5.1: The board has established a code of conduct or ethical behaviour against which decisions of the organisation and the behaviour of its personnel are held accountable.
- Recommendation 5.2: The code, or a summary of it, is published and communicated throughout the organisation by management under the authority of the board.
- Recommendation 5.3: As part of its oversight responsibilities, the board holds both itself and management accountable for compliance with the code.

Commentary

Charitable and NFP organisations are usually established for laudable charitable or other community or social benefit based reasons. Having a sound ethical base and ensuring responsible decision making are usually germane to the reason for the organisation's existence.

Organisations with a sound governance framework invariably have established a code of conduct or ethical behaviour against which decisions of the organisation and the behaviour of its personnel are held accountable.

The presence of such a code, and its communication and enforcement throughout the organisation, including in connection with the organisation's dealings with third parties, assists in embedding the contents of the code in the culture of the organisation and its people ie. the shared values, norms, practices and beliefs that shape behaviour.

A strong and sound culture which promotes ethical and responsible decision making and behaviour can be a strategic competitive advantage for the organisation especially with respect to the organisation's image, reputation, "brand" value and sustainability.

Principle 6 - Respect the rights of members and engage and communicate effectively with stakeholders

Organisations should respect the rights of members and engage and communicate effectively with stakeholders

Recommendations

Recommendation 6.1: The board has developed policies and practices for the organisation to:

- effectively engage with members and stakeholders;
- transparently communicate with members and stakeholders;
- facilitate the exercise by members of their member rights;
- encourage member participation and voting at member meetings.

Recommendation 6.2: The board, in conjunction with management, has developed policies and practices to assure accountability to members including through the provision of sufficient, timely and relevant information.

Commentary

Charitable and NFP organisations do not operate in a vacuum. They exist for the benefit of their stakeholders and members. They are usually reliant on support from their stakeholders and members in order to deliver on mission.

Key elements of “good governance” include the concepts of accountability and transparency. These key governance elements are supported where there is open communication and engagement between the organisation (including its board and management) and its stakeholders (including members, beneficiaries, donors/grant funders, regulators, employees/volunteers and the community in which the organisation operates).

This includes not only the organisation communicating with and passing information to its stakeholders as to its mission, strategies, operations and affairs, but also seeking and receiving information and feedback from its stakeholders.

Such practices can be constructive in the building of the organisation’s reputation, image and brand.

It is the responsibility of the board, in conjunction with management, to develop policies and practices to assure accountability through effective communication and engagement in a respectful, considered and timely manner.

Principle 7 - Meet regulatory compliance and reporting requirements

Organisations should develop policies and practices to ensure compliance by the organisation and its people with all relevant laws, regulations, and constitutional and legal requirements

Recommendation

- Recommendation 7.1: Management, in conjunction with the board, has adopted policies and developed systems, practices and processes designed to inform and educate the organisation's personnel of, and to assure compliance with, all applicable laws, regulations, constitutional and legal requirements relevant to the organisation.
- Recommendation 7.2: As part of its oversight responsibilities, the board holds both itself and management accountable for the organisation's regulatory compliance and reporting obligations.

Commentary

Charitable and NFP organisations are conferred a "licence to operate" by society, including through legislation and regulatory enactment, often with concessions conferred having regard to the social worthiness of their mission or purpose.

However all organisations are bound by legislation, regulations and other legal requirements which enable society to operate in a civil manner with mutual respect for all citizen's (individual and corporate) rights and responsibilities.

Management, in conjunction with the board, needs to adopt policies and develop systems, practices and processes to assure compliance by the organisation and its personnel with all relevant laws applicable to the organisation and its operations and affairs.

Failure of an organisation or its personnel to comply with such relevant laws not only risks the incursion of fines and other penalties, but may even compromise the organisation's "brand" and prejudice the continuance of the organisation's "licence to operate".

Principle 8 - Safeguard the organisation's financial standing and integrity

Organisations should seek to ensure that their financial standing is sound and that their systems of financial reporting and assurance have integrity

Recommendations

- Recommendation 8.1: The board accepts responsibility for overseeing the integrity and assurance of the organisation's financial position, performance and reporting.
- Recommendation 8.2: The board requires management to develop and adopt systems, practices and processes which are suitable to the nature, scale and scope of operation of the organisation, which are designed to assure the integrity and assurance of the organisation's:
- financial position, performance and reporting; and
 - fundraising and investment policy, strategy and practices (as applicable).
- Recommendation 8.3: The board has established a committee of the board to assist in overseeing the organisation's financial position and performance, and its reporting and assurance systems and processes (with the remit of that committee perhaps also extending to risk recognition and management - refer to Principle 9).
- Recommendation 8.4: That board committee:
- has a formal charter and terms of reference;
 - consists only of independent non-executive directors;
 - is chaired by a person with financial/accounting experience who is not the chair of the board of the organisation;
 - engages with the organisation's financial/accounting personnel and the organisation's auditors (as applicable);
 - reports to the board.

Commentary

Critical to the continued ability of a charitable or NFP organisation to exist and seek to deliver on mission is its financial integrity and sustainability. If an organisation's financial resources are materially depleted or if an organisation is not able to meet expenditure to be incurred in order to continue its operations, then not only will the prospects of achievement of mission be compromised, but the organisation risks insolvency with personal liability risks accruing to its board members and officers.

Boards have responsibility for overseeing the integrity and assurance of the organisation's financial position, performance and reporting. Management has responsibility to develop and apply appropriate systems, processes and practices to support and enable that integrity and assurance.

In order to give appropriate governance attention and focus to the organisation's financial standing and integrity, commonly boards establish a committee of the board which is comprised of board members with financial literacy, and hopefully some financial or accounting expertise, to assist the board in the fulfilment of its responsibility.

Principle 9 - Recognise and manage risk

Organisations should establish a sound system of risk oversight, recognition, management, treatment and control

Recommendations

- Recommendation 9.1: The board, in conjunction with management, has established policies for the oversight, recognition, management treatment and control of material risks relevant to the organisation, its strategies and its operations.
- Recommendation 9.2: Management has designed and implemented systems and practices to give effect to those policies and to periodically report to the board on whether, and the extent to which, those risks are effectively being managed.
- Recommendation 9.3: The board has determined the “appetite” of the organisation for risk (ie. with respect to each material risk identified, the extent to which the organisation should apply resources towards risk management/mitigation/transfer strategies to reduce the risk to a level which is tolerable for the organisation).
- Recommendation 9.4: The board has established a committee of the board to assist the board in overseeing the organisation’s risk recognition, management, treatment and control or has extended the remit of the committee the subject of Recommendation 8.3 to include risk related matters.

Commentary

Effective governance is concerned with the systems, processes and practices by which informed decisions are made and implemented by an organisation to enhance the organisation’s performance and to better manage the organisation’s risks.

Risk identification and management is central to effective governance. Risks for an organisation may include:

- strategic risks (eg. failure of the organisation to achieve its mission or strategies);
- financial risks (eg. loss of funding or revenue, or increases in expenditure or liabilities);
- reputational risks (eg. loss of image, reputation or brand value);
- personnel risks (eg. workplace safety including physical or mental damage to the organisation’s people);
- compliance risks (eg. failure to comply with legislative or regulatory requirements);
- business/operational risks (eg. failure to achieve desired business outcomes);
- business continuity risks (eg. natural disasters or loss of critical supply chain integrity).

There are various publicly available tools (eg. AS/NZS ISO 31000 2009) to assist organisations in their risk management practices including:

- risk identification;
- likelihood of risk occurrence;
- severity of risk impact;
- risk management/mitigation/transfer strategies and their prioritisation.

Although risk identification and management is primarily a function of management, the board has responsibility for determining the organisation’s risk appetite and for overseeing and periodically reviewing the organisation’s risk management framework and effectiveness. Often this is a function delegated by the board to a board committee in order to give appropriate focus and attention to this subject.

Principle 10 - Benchmark and report against alignment with these “Good Governance Principles for Charitable and Not-for-Profit Organisations”

Organisations should benchmark and report against their alignment with these “Good Governance Principles for Charitable and Not-for-Profit Organisations”.

Recommendations

Recommendation 10.1: The organisation openly engages with its members and key stakeholders (including as applicable for charitable organisations, donors, regulators and grant funding agencies) the status of its governance against these “Good Governance Principles for Charitable and Not-for-Profit Organisations”.

Recommendation 10.2: The organisation reports annually to its members and other key stakeholders (perhaps in its annual report, or similar document, or on the organisation’s website) in the terms of the following table with respect to each Principle:

Table 10.2

Principle [*]:

(**)

- the organisation’s governance framework accommodates this Principle in all material respects.
- the organisation is actively working towards aligning its governance framework with this Principle (‡).
- the organisation does not believe this Principle to be relevant to the organisation (‡‡).

Notes:

(*) insert relevant Principle number

(**) tick as appropriate

(‡) if this box is ticked, the organisation should briefly explain its progress towards aligning its governance framework with the relevant Recommendations under the Principle.

(‡‡) if this box is ticked, the organisation should briefly explain why.

Commentary

By benchmarking the organisation’s governance framework against these 10 Principles and by publicly holding itself accountable against such benchmarking, the organisation demonstrates its commitment to advancing the integrity and appropriateness of its governance framework.