

AUSTRALIAN INSTITUTE
of COMPANY DIRECTORS

Not-for-Profit Governance Principles

Snapshot



Overview

The Not-for-Profit Governance Principles (Principles) have been developed by the Australian Institute of Company Directors (AICD) as part of its commitment to promote good governance in the not-for-profit- (NFP) sector.

The Principles are a practical framework to help NFPs understand and achieve good governance.

The original version of the Principles was published in 2013. This revised edition reflects the changes in the sector since that time, including the increased expectations of governance in NFP organisations. It also includes more detailed descriptions of good governance practices as well as additional guidance to support users to understand and apply the Principles. This additional level of detail and practical guidance was developed in response to strong NFP sector feedback.

Who have the Principles been designed for?

The Principles have been prepared primarily for those people who are involved in the governance of NFPs. It is written for an audience of directors and executives, but other people involved in the governance of NFPs such as managers, staff and members may also find this document useful.

The Principles have been designed to be a flexible framework that is scalable to both NFPs large and small.

Structure of the Principles

The Principles consist of three components: 10 individual principles, accompanied by supporting practices and guidance.

Each of the 10 principles includes several 'supporting practices' which describe activities or behaviours of organisations that are likely to be meeting the principles.

The supporting practices are drafted in an outcomes-based way. They describe the outcome the supporting

practice aims to achieve but do not prescribe how this is to be accomplished. Two different organisations may demonstrate the supporting practices in very different ways.

The guidance to the supporting practices includes two case studies that demonstrate how the principles and supporting practices can be applied. The case studies are based on two fictional organisations that are very different in terms of their purpose, activities, size and complexity.

Use of the Principles

The Principles are intended to be voluntary in application, and will be reviewed periodically. The Principles seek to go beyond what may be considered a minimum standard of governance, and aim to encourage organisations to strive for and achieve good governance. The Principles should be viewed as complementary to, and building on, the Australian Charities and Not-for-profits Commission Governance Standards.

Reporting on the Principles

The AICD encourages NFPs to consider assessing governance practices against the principles, and reporting on this to members and stakeholders. The AICD encourages an 'if not, why not' approach to reporting, noting that the Principles are not intended to be prescriptive, but to act as a guide.

The AICD welcomes feedback on the Principles to nfp@aicd.com.au.

The full set of Principles and related tools to assist with their implementation can be found [here](#).

Snapshot of the Principles

Principles

Supporting practices



1. Purpose and strategy

The organisation has a clear purpose and a strategy which aligns its activities to its purpose

- 1.1 The organisation's purpose is clear, recorded in its governing documents and understood by the board
- 1.2 The board approves a strategy to carry out the organisation's purpose
- 1.3 Decisions by the board further the organisation's purpose and strategy
- 1.4 The board regularly devotes time to consider strategy
- 1.5 The board periodically reviews the purpose and strategy



2. Roles and responsibilities

There is clarity about the roles, responsibilities and relationships of the board

- 2.1 Directors' roles are clear and understood by the board
- 2.2 Directors understand and meet their duties under the law
- 2.3 Directors meet any eligibility requirements relevant to their position
- 2.4 Delegations of the board's authority are recorded and periodically reviewed
- 2.5 The role of the board is clearly delineated from the role of management



3. Board composition

The board's structure and composition enable it to fulfil its role effectively

- 3.1 Directors are appointed based on merit, through a transparent process, and in alignment with the purpose and strategy
- 3.2 Tenure of directors is limited to encourage renewal and staggered to retain corporate knowledge
- 3.3 The board reflects a mix of personal attributes which enable it to fulfil its role effectively
- 3.4 The board assesses and records its members' skills and experience, and this is disclosed to stakeholders
- 3.5 The board undertakes succession planning to address current and future skills needs in alignment with the purpose and the strategy

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4. Board effectiveness

The board is run effectively and its performance is periodically evaluated

- 4.1 Board meetings are chaired effectively and provide opportunity for all directors to contribute
- 4.2 Directors seek and are provided with the information they need to fulfil their responsibilities
- 4.3 Directors are appropriately inducted and undertake ongoing education to fulfil their responsibilities
- 4.4 The board's performance, as well as the performance of its chair and other directors, is periodically evaluated
- 4.5 The relationship between the board and management is effective



5. Risk management

Board decision making is informed by an understanding of risk and how it is managed

- 5.1 The board oversees a risk management framework that aligns to the purpose and strategy
- 5.2 Directors seek and are provided with information about risk and how it is managed
- 5.3 The board periodically reviews the risk management framework



6. Performance

The organisation uses its resources appropriately and evaluates its performance

- 6.1 The board oversees appropriate use of the organisation's resources
- 6.2 The board approves an annual budget for the organisation
- 6.3 The board receives and considers measures which evaluate performance against the strategy
- 6.4 The board oversees the performance of the CEO
- 6.5 The board monitors the solvency of the organisation



7. Accountability and transparency

The board demonstrates accountability by providing information to stakeholders about the organisation and its performance

- 7.1 The organisation's governing documents and policies relevant to its governance are available to stakeholders
- 7.2 The board oversees appropriate reporting to stakeholders about the organisation's performance and financial position
- 7.3 Transactions between related parties, if any, are disclosed to stakeholders
- 7.4 Directors' remuneration and other benefits, if any, are disclosed to stakeholders
- 7.5 Members have the opportunity to ask questions about how the organisation is run and to hold the board to account for their decisions

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8. Stakeholder engagement

There is meaningful engagement of stakeholders and their interests are understood and considered by the board

- 8.1 The board understands who the organisation's stakeholders are, their needs and their expectations
- 8.2 The board oversees a framework for the meaningful engagement of stakeholders
- 8.3 Stakeholders are considered in relevant board decision making
- 8.4 There is a process for gathering and responding to complaints and feedback from stakeholders
- 8.5 The board oversees a framework for how the organisation works with and protects vulnerable people



9. Conduct and compliance

The expectations of behaviour for the people involved in the organisation are clear and understood

- 9.1 The board articulates its expectations of conduct, and the consequences for misconduct, for the people involved with the organisation
- 9.2 The board oversees compliance with relevant laws, regulations and internal policies
- 9.3 Conflicts of interest are identified, disclosed and managed
- 9.4 There is a process for investigating misconduct and relevant instances are brought to the attention of the board



10. Culture

The board models and works to instil a culture that supports the organisation's purpose and strategy

- 10.1 The board defines and models a desired culture that aligns to the purpose and strategy
- 10.2 The board oversees a strategy to develop and maintain the desired culture
- 10.3 The board oversees mechanisms to monitor and evaluate organisational culture
- 10.4 The organisation's values are clear, periodically reviewed and communicated to stakeholders
- 10.5 The board oversees a framework for the reward and recognition of workers

ADDITIONAL RESOURCES

- Online versions of the Principles are available at [companydirectors.com.au/nfppinciples](https://companydirectors.com.au/nfppprinciples) along with a suite of relevant tools and content to assist users
- Further NFP resources including director tools are available here: companydirectors.com.au/resources/not-for-profit-resources