

# NOT-FOR-PROFIT GOVERNANCE PRINCIPLES – THIRD EDITION, APRIL 2024

## Snapshot



### PRINCIPLE 1 – PURPOSE, VISION AND STRATEGY

#### KEY POINTS

- A core responsibility of an NFP board is to contribute to defining, documenting and realising the NFP's purpose, vision and strategy.
- The purpose, vision and strategy represent the spine or heart of an NFP and serve as both the motivation and the guiding lights for the decisions and actions of the organisation.

#### Questions for directors

- How frequently does the board review the NFP's purpose and vision and ensure the NFP's activities are in alignment?
- If the NFP is a registered charity, does the board monitor that its activities are consistent with its charitable purpose?
- What is the best way to co-design the strategy with management?
- Does board reporting provide visibility on the progress of the strategy and its key initiatives?
- How is the NFP's purpose, vision and strategy documented and communicated to stakeholders?



### PRINCIPLE 2 – ROLES AND RESPONSIBILITIES

#### KEY POINTS

- An NFP board should define and document roles and responsibilities as a foundational component of effective governance.
- An NFP board should have visibility and oversight of the role of key third party service providers, including understanding their performance.
- Comprehensive and clear board reporting, including engagement with management, ensures that the board is well-informed and can make sound decisions.

#### Questions for directors

- Does the board (and any board committees) have charters that set out the roles and responsibilities of the directors?
- Is there an organisation delegation policy and are delegations clear and regularly reviewed? Does the board understand what it cannot delegate?
- Is the board clear about the roles and responsibilities of the CEO, including the relationship between the board and CEO?
- Does the board have visibility of key employee and volunteer recruitment and training policies, including how people are screened and trained?
- Does the board approve key service provider arrangements, including key fundraising contractors?
- Is the board receiving clear, relevant reporting that enables directors to ask questions and challenge management?



## PRINCIPLE 3 – BOARD COMPOSITION AND EFFECTIVENESS

### KEY POINTS

- The board should have an appropriate mix of people with a diverse set of skills, experience, and backgrounds, that aligns with the NFP’s purpose, vision and strategy.
- The selection of directors through a transparent process is essential for maintaining trust and accountability.
- Board evaluations, including on composition, effectiveness, and governance structures, should be conducted periodically.

### Questions for directors

- Is there a rigorous process for appointing, electing and inducting directors that clearly outlines the requirements and expectations of directors?
- What expertise and experience (including board diversity) would the board benefit from including in the board’s skills matrix to address the evolving needs of the organisation?
- Are board meeting agendas structured to allow sufficient time for discussion and opportunity for all directors to contribute?
- What regular actions does the board take to review its performance?



## PRINCIPLE 4 – RISK MANAGEMENT

### KEY POINTS

- The board should oversee a risk culture that aligns with purpose, vision and strategy.
- Board decision-making should be informed by a risk management framework that sets out an appropriate risk appetite.
- The board should periodically review the risk management framework, conduct scenario planning and dynamically assess emerging risks.

### Questions for directors

- Does the board understand the underlying organisational risk culture?
- Does the board understand how the risk appetite statement and risk register operates, with risk owners and risk treatments in place?
- Does the board periodically conduct scenario planning and assess contingency plans?
- Has the board considered recommendations from internal audits?
- Does the board provide adequate support and resources for assurance activities?
- When was the last time the NFP’s risk management approach was externally reviewed?



## PRINCIPLE 5 – PERFORMANCE AND ACCOUNTABILITY

### KEY POINTS

- Directors should closely oversee the performance of the NFP with a focus on its financial health and whether it is effective in achieving its purpose.
- The board should set a tone of internal accountability and transparency from the top, including holding management to account and ensuring that employees and volunteers understand the NFP's performance.
- External accountability extends beyond annual reporting and the AGM to a focus on dynamic and proactive transparency and building trust and confidence with key stakeholders.

### Questions for directors

- Is the board receiving the right information to form a view on the financial performance and financial position of the NFP?
- Are there specific financial measures or ratios that the board should be focused on?
- How does the organisation measure the impact of its programs and service?
- Do the performance and consequence management settings in the NFP align with the strategic plan and board expectations of employees?
- Other than the annual report and AGM, how does the NFP demonstrate accountability and transparency with its stakeholders?



## PRINCIPLE 6 – STAKEHOLDERS

### KEY POINTS

- The board should consider stakeholder views as providing valuable insights into whether the NFP is achieving its purpose, and as an early warning signal for key risks.
- The board oversees a framework in engaging with key stakeholders and considering their interests, having regard to the purpose and strategic objectives of the organisation.
- Open and transparent engagement with stakeholders fosters trust and goodwill towards the NFP which can benefit the NFP in attracting volunteers, donations, and partnerships.

### Questions for directors

- Which stakeholders are vital to the organisation's long-term success and what are their perspectives and interests?
- Does the organisation need a formal stakeholder governance framework?
- How do stakeholder perspectives inform board decision-making, management oversight and risk management?
- How clear are the board's and management's roles in stakeholder engagement?

## PRINCIPLE 7 – SUSTAINABILITY

### KEY POINTS

- Sustainability considerations are central to best practice governance and should be regularly considered by all NFP boards in a manner that is consistent with purpose, including charitable purpose.
- An NFP's purpose, vision and strategy should guide the organisation's approach to sustainability with the board overseeing a framework for evaluating the risks and opportunities related to sustainability.
- Given the broad set of sustainability considerations, boards should be clear on their approach to sustainability, especially when it comes to resource allocation.

### Questions for directors

- How does the board's approach to sustainability align with the purpose and vision of the NFP?
- Has the board assessed the impact of sustainability issues on the NFP?
- Has the board considered how peer organisations are responding to sustainability issues?
- What governance structures and processes will enable the board to oversee the NFP's actions on key sustainability issues?

## PRINCIPLE 8 – ORGANISATIONAL CULTURE

### KEY POINTS

- Directors should lead by example in modelling the organisational culture they expect of employees and volunteers.
- Assessing and monitoring an NFP's organisational culture requires the board to proactively obtain meaningful information on key elements of culture, including employee and volunteer satisfaction and compliance with relevant laws.
- The board has a key role in promoting employee and volunteer recognition and meaning, including through ensuring sufficient resources are dedicated to recognition.

### Questions for directors

- Has the board defined an appropriate set of core values and desired cultural attributes for the organisation, which align to purpose and strategy?
- Does the board set a clear example and provide direction to the NFP regarding the behaviour that is expected of employees and volunteers?
- Does the board hold the CEO to account for ensuring the core values and desired cultural attributes are present in the organisation?
- Does board reporting enable directors to obtain insight into organisational culture?
- Are emerging areas of cultural focus, such as addressing sexual harassment, receiving board and senior management attention?
- Is there a strategy for recognising employees and volunteers that is aligned with the board's desired organisational culture?

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