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AUSTRALIAN CHARITIES & NOT-FOR-PROFIT COMMISSION

Response to Treasury Consultation Paper Review of Not-For-Profit Governance Arrangements

Overview

The consultation paper examines issues relating to the role of the Australian Charities and Not-For-Profits Commission (ACNC) in relation to being the regulator responsible for, amongst other things, “promoting sound governance through a compliance framework to maintain the public’s confidence in NFPs”.

Powers of ACNC:

In our view there is a risk of the ACNC usurping the regulating role of other bodies such as ASIC, for companies limited by guarantee and special purpose non-profit companies, and the Department of Commerce in Western Australia, for associations and co-operatives. There is no guarantee yet that State based accountabilities will be reduced by the work of ACNC.

On face value we have at present the prospect of significant additional reporting by charities and not-for-profits to the ACNC. This is at variance with the stated intentions of the reform agenda of the Federal Government because co-operation with all of the States and Territories has not yet been secured.

“An independent one-stop shop regulator has been sought for many years by the NFP Sector and recommended in several recent reports and inquiries to reduce regulatory overlap and increase the transparency of Australia’s NFP Sector. To fully realise this ambition will require the support of the Commonwealth and each of the States and Territories.” (The Hon. Bill Shorten as Assistant Treasurer and Minister for Financial Services and Superannuation, 9 December 2011)

The consultation paper suggests that the ACNC will have a role initially with charities and later with other Not-For-Profits in monitoring their governance arrangements. The implication is that a failure to demonstrate good governance may lead to deregistration as a charity.

Reference is made to the *Final Report on the Scoping Study for a National Not-for-Profit Regulator*, which suggested at 13.6:

“over the long term, the national regulator should be provided with powers regarding asset protection, the suspension and/or removal of responsible persons, registration and deregistration, the enforcement of governance rules, investigative processes, enforcement

powers, including civil penalties and the imposition of fines, proportional compliance activities, and, dispute resolution processes.”

It is not clear how all of the above powers would work. For example a “responsible person” may be a director of a company limited by guarantee, which is a charity. That person at present can be banned from acting as a director for the maximum of five years under the Corporations Act only by ASIC. Only the members of the company can remove that person as a director. It is not clear therefore how ACNC could suspend or remove a “responsible person” in this context.

Similarly the “enforcement of governing rules” would be difficult without being the body which determines the incorporation of the charity. **It seems the proponents of the ACNC envisage an agency which is interventionist in its dealing with charities rather than simply determining the registration and deregistration of the charity.**

The Explanatory Materials Exposure Draft for the ACNC Draft Bill suggests that:

“The proposed governance principles are grouped into the following areas:

- duties and minimum standards of responsible individuals, including rules for proper organisational management and running of the entity;
- disclosure requirements and managing conflicts of interest;
- risk management procedures, including external reviews and auditing requirements;
- the minimum requirements of governing rules; and
- relationships with members (where applicable).“

These are essentially sound principles and provide a helpful framework for assessing the constitution and operations of an entity for registration and later re-registration. **What is new is the requirement for risk management procedures.**

The draft Annual Information Statement for a charitable entity requires a reference to the existence of a risk management plan for Tier 2 & 3 entities. **You will see from our response to Question 16 that we consider that this should not be a reportable item at all – but should be an educational one.**

Responsible Persons:

The definition of “responsible persons” includes an individual:

- who makes, or participates in making, decisions that affect the whole or a substantial part, of the registered entity’s activities; or
- who has the capacity to significantly affect the registered entity’s financial standing; or
- who in accordance with whose instructions or wishes the responsible individuals of the registered entity are accustomed to act (excluding advice given by the individual in the proper performance of functions attaching to the individual’s professional capacity or their business relationship with the registered entity).

This definition will be a significant concern for the many charities that exist as separately incorporated entities but are a part of a broader group. An example of this would be a Bible College, which is part of a denomination of churches. The Bible College is an incorporated association, but the College Board is accustomed to acting in accordance with the directions of the governing body of

the denomination. It may be held under this definition that the governing body of the denomination are acting as “responsible persons” in relation to the affairs of the Bible College.

It is not clear what, if anything, the ACNC would do in such a situation. The definition of shadow or de facto directors is covered in the Common Law and also in Section 9 of the Corporations Act. However it is not commonly considered in relation to associations and other legal entities, although the capacity to do so under the Common Law has existed for some time. **The issue will no doubt confuse many as it is made explicit under this proposed Draft Bill.**

Accounting Standards:

The major issues emerging in this governance consultation paper (and also in the Draft Bill) relate to reporting and auditing. Whoever wrote the Governance draft seemingly does not understand the Australian Accounting Standards. **Not only here, but also elsewhere, there is a lack of clarity in this area where accuracy is essential. The Standards are already legal obligations. The Draft Bill needs to be accurate in this area or there will be enormous conflict.**

The reference to applicable standards in paragraph 111 on page 20 contains at least two errors.

Currently in AASB 12 " Disclosure of interest in other entities" - there is a specific prohibition on its application to Not-For-Profit entities until the AASB has had time to consult on it.

In relation to AASB 120 " Australian Government Grants" - this applies to for profit entities only - the relevant standard for Not-For-Profit entities is AASB 1004 "Contributions".

Definition of Revenue:

Of critical importance is the definition of revenue to assist in determining into what Tier a charity fits.

At 1.72 on page 28 in the Explanatory Materials (EM) for the Draft Bill it identifies that “Revenue should be calculated in accordance with the relevant accounting standards.” The implication is that all recognition and measurement principles in the AASBs need to be applied as identified in the AASBs: “Framework for the Preparation and Presentation of Financial Statements”.

In identifying what are financial statements, which medium and large entities must lodge with ACNC the EM says:

At 1.95 on page 30: The financial statements for the financial year are the financial statements in relation to the registered entity required by the accounting standards.

At 1.96: The notes to the financial statements are any disclosures required by the regulations to this Act, accounting standards, and any other necessary information that is required in order to give a true and fair view of the entity’s financial position.”

The implication is that AASB 101 “Presentation of Financial Statements” will apply to the format of financial statements or if General Purpose Financial Statements are requested, AASB 1053 ‘Application of Tiers of Australian Accounting Standards’ and AASB 2010-2 ‘Amendments to Australian Accounting Standards Arising From Reduced Disclosure Requirements’ will apply. **This is a substantial increase in financial reporting obligations for many medium to large associations who rely on Special Purpose Financial Reports (SPFR) at present without reference to all of the accounting standards.** Yet the Australian Accounting Standards Board (AASB) provides a facility for

reporting on the basis of SPFR. It would be preferable for the ACNC to leave the reporting issues for AASB to set, as that procedure is understood by all.

We add that the AASB is currently reviewing several of the Accounting Standards that impact on the Not-For-Profit Sector. We suggest this gives added force to the proposal that the AASB should be the standard setter for the Sector, not the ACNC. If this is not done there is the potential for significant differences to emerge adding to the misunderstandings over reporting issues.

Assuming that the Not-For Profit entity is not a Reporting Entity the current guidance for a Company Limited by Guarantee is that a Special Purpose Financial Report for that company need only comply with the following mandatory accounting standards:

AASB 101: Presentation of Financial Statements;

AASB 107: Statements of Cash Flows;

AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors;

AASB 1031: Materiality; and

AASB 1048: Interpretation of Standards.

Arguably the ACNC may be filling an information gateway role for all Government departments who may rely on the financial reports sent to ACNC for making economic decisions about the charity by way of approving or withdrawing grants. If this is the case then reporting to the ACNC has the potential to make all charities "reporting entities" and thus demand the preparation of General Purpose Financial Reports.

This would impose a significant burden on most of the Charity Sector. To ensure appropriate flexibility in reporting, the ACNC needs to specify the Australian Accounting Standards to be applied in the preparation of financial statements provided by charities in their Annual Information Statement.

This will involve an educational program for the preparers of financial statements for Tier 2 & Tier 3 entities and also for the preparers of Form A for Tier 1 entities.

We also foresee problems for the ACNC where a Tier 1 entity opts for a cash accounting basis to prepare their Form A. As their cash income becomes close to the \$250,000 threshold there will be classification issues since they will not be able to apply AASB 118 or AASB 1004, which require accrual accounting as the basis for preparation of any financial statement.

The ACNC are seeking to improve the level of accountability. While we agree with this objective it will ~~also~~ require an extensive education program and will need time to explain the implications to the associations and even to those accountants who do not normally work in the Sector. ACNC will, of necessity, need to provide assistance to them.

The discretion on a format and notes meaningful to members for financial reports is seemingly to be removed from the charity with a higher obligation to the ACNC. However, the Australian Accounting Standards Board (AASB) already provides a facility for reporting on the basis of SPFR, as SPFR reporting is used extensively throughout the Sector, including many Tier 3 entities. The introduction of a reporting format that is inconsistent with AASB requirements will only add to the uncertainties that are now developing.

We are not convinced that the ACNC approach is beneficial and again state that this is a matter that could wisely be left to the AASB.

Small Charities:

We then need to ask the question – “How workable is it for the very small charity?”

Many small charities (Tier 1) will find the understanding and application of principle-based governance very challenging. There will need to be an extensive education program to explain these matters and what is described as the proportional application of the principles.

It should be understood that the Common Law duties of directors already apply in any case to the “responsible persons” in a small charity. There is nothing new here, apart from an emphasis on risk management.

The draft Annual Information Statement for a charitable entity allows for a cash basis in the preparation of a balance sheet and an income statement. This is an obvious error since a balance sheet and income statement requires the application of accrual accounting principles. A different form for a cash basis preparation should be considered, with a statement of receipts and payments, supported by a reconciliation to movements in cash balances.

Our more detailed comments are attached as brief answers to each consultation question.

NOEL HARDING

CHAIRMAN

ADD-MINISTRY INC.

27 January 2012

Review of Not-For-Profit Governance Arrangements.

Response to Questions

<p>1. Should it be clear in the legislation who responsible individuals must consider when exercising their duties, and to whom they owe duties?</p>	<p>ANSWER: 1. Yes, the legislation should stipulate what the responsible individuals should consider and to whom they owe duties. However, given that the definition of responsible individuals is very broad; this is not a simple question. Also, in our view, Board obligations would be primarily to members and beneficiaries. They have clear legal obligations with those two relationships. Responsibilities to donors, volunteers and Government are real but come with an ethical as opposed to a legal obligation. Therefore there is a need to differentiate between legal and ethical responsibilities and also between whether the responsible individual is a member of the Board or comes under the wider umbrella of a responsible person. The legislation therefore needs to be broader than the question suggests.</p>
<p>2. Who do the responsible individuals of NFPs need to consider when exercising their duties? Donors? Beneficiaries? The public? The entity, or mission and purpose of the entity?</p>	<p>ANSWER: 2. As stated in 1, the breadth of the definition of responsible individuals complicates the question. The Board have a responsibility to consider a wide range of obligations. Firstly, they need to look at their Charter and keep their Objectives clearly in view. Too often a need within the community catches the attention, which may be inconsistent with the Charter (Objects) of the entity. Our suggested list in order of priority would therefore be: -</p> <ul style="list-style-type: none">• The Objects;• The Members;• The beneficiaries;• The donors;• Staff and volunteers;• Legal obligations to Government;• The wider public.
<p>3. What should the duties of responsible individuals be, and what core duties should be outlined in the ACNC legislation?</p>	<p>ANSWER: 3. Where the responsible individual is a member of the controlling Board (however it is legally structured), the duties of a Director as set out in the Corporations Act 2001 should be applied. Corporations Act and case law will also capture “de facto” directors.</p> <p>The definition of “responsible individuals” may be too wide and catch people who would not be seen as a director or de facto director under the Corporations Act or the Common Law. Where however the responsible individuals are not Board members and also not deemed to be Board members under Corporations Act, it may depend</p>

	<p>upon the nature of their relationship to the entity as to whether they have legal obligations or merely ethical obligations. Again we need to say that given the broad definition of responsible individuals, the legislation needs to take care to differentiate between the different areas of responsibility.</p> <p>We affirm our support for the breadth of the definition of responsible individual in respect to the requirements of the auditor, but in other circumstances it presents problems. The breadth of the definition could mean that a person, who has a limited involvement without any decision-making authority or role, may be inadvertently and unreasonably caught. Care needs to be taken to ensure that the very significant volunteer force within the Not-for-Profit Sector does not become too afraid to participate and the Sector becomes weaker for it.</p> <p>Our response is therefore in two parts. One focuses on that area of law, which may trap the unwary, and the other raises concerns about the limited knowledge many volunteers will have in the area of governance. We affirm the desirability of lifting the understanding of those with limited skills and emphasise the need for the educational role of the ACNC.</p> <p>Unless the ACNC is actively involved in an educational role it should not be involved in regulation.</p>
<p>4, What should be the minimum standard of care required to comply with any duties? Should the standard of care be higher for paid employees than volunteers? For professionals than lay persons?</p>	<p>ANSWER: 4 The greater the responsibility, the greater the standard of care is expected of the individual. There is a passage in Scripture that says, "To whom much is given much will be required". We consider that expresses an important truth that needs to be applied with sensitivity in the Not-For-Profit Sector. Allowance needs to be made for the individual's knowledge of their role but we also affirm that the minimum standard of care should be as described in paragraphs 91 and 93 of the Discussion Paper.</p> <p>We also comment that the reference to "professionals" in this context is not helpful. The term is undefined. It infers membership of a professional body with some tertiary level qualifications. The relevant issue to us is whether the professional qualification has any relevance whatsoever to the administration and management of a charity or Not-For-Profit entity. Many professional qualifications would appear to have little or no relevance in this area.</p>

<p>5. Should responsible individuals be required to hold particular qualifications or have particular experience or skills (tiered depending on size of the NFP entity or amount of funding it administers)?</p>	<p>ANSWER: 5. No. No particular qualifications are necessary but there should be a demonstrable capacity to understand the work of the NFP, the reasonable expectation that the individual could contribute to the governance of the NFP and exercise responsible judgement in accordance with their duties as a decision maker. The imposition of a qualification obligation for certain roles would immediately cause the loss of many able volunteers. The negative impact on the Sector would be substantial.</p> <p>There is a significant difference between an <u>obligation</u> to hold a qualification before a Board appointment and the <u>opportunity</u> of obtaining relevant skills training once becoming a Board Member. There are a number of organisations that provide training support for the Sector. Such training is relevant but does not normally result in a formal qualification.</p> <p>Such courses, in WA, are available through: -</p> <ul style="list-style-type: none"> • WA Council of Social Service; • Christian Management Association; • Add-Ministry Inc. • Local TAFEs; • Chartered Secretaries Australia
<p>6. Should these minimum standards be only applied to a portion of the responsible individuals of a registered entity?</p>	<p>ANSWER: 6. As identified earlier, the broad definition of responsible individual, which goes way beyond Board Membership, is the problem with a one-standard approach here. Negligence will continue to be a separate area of legal obligation, but where a person has acted in good faith but with limited knowledge there needs to be the opportunity for volunteers to learn leadership skills, or positions will never be filled with new blood. However we also affirm that the obligations set out in paragraphs 91 and 93 of the Discussion Paper need to be applied to all Board Members and persons with management authority in the organisation.</p>
<p>7. Are there any issues with standardising the duties required of responsible individuals across all entity structures and sectors registered with the ACNC?</p>	<p>ANSWER: 7. Yes. The duties and responsibilities need to be decided by the entity itself. It would be a different matter if the question referred to the provision of guidelines without an absolutist approach, which is what is inferred by the question. The ACNC must educate people about their responsibilities in taking on a role. (This is an essential part of the ACNC role but where it seems they are only considering a very limited role.) However where the NFP raises money from the public as a DGR with Public Fund status those funds should be controlled by people who meet</p>

	the current definition of “responsible persons” under the tax ruling on Public Funds.
8. Are there any other responsible individuals’ obligations or considerations or other issues (for example, should there be requirements on volunteers?) that need to be covered which are specific to NFPs?	ANSWER: 8. No requirements on volunteers, unless they are Board Members. Then the obligations in paragraphs 91 & 93 apply.
9. Are there higher risk NFP cases where a higher standard of care should be applied or where higher minimum standards should be applied?	<p>ANSWER: 9. Yes - the Board should anticipate and manage risk. However where an individual entity has an activity where there are significant risks involved, it needs to ensure it has appropriate safeguards to manage the increased risks. This could relate to handling substantial cash funds, handling of controlled medications or similar.</p> <p>This, and other questions raise the potential benefit of having four Tiers, with the first Tier being for the very small entities with revenue below \$50,000. There is a significant amount of available evidence to show that while there are some very large charities and other Not- For-Profit entities in Australia, most are in fact very small. Reference to the various reports from the Industry Commission Inquiry into Charitable Organisations In Australia of 1995 onwards confirms that. The Victorian Review of NFP Regulation 2007 states that 90% of entities surveyed had revenue under \$200,000. The Australian Accounting Research Foundation Discussion Paper by M A Sadhu provides figures for NSW & Victoria (Figures 1 & 2) that demonstrate that 71% of Associations in those States had a revenue base below \$50,000. While it is an older study it is consistent with recent studies – most NFPs will be very small.</p> <p>The Charities Commission of England & Wales appears to have five levels for reporting, with the two lowest being set at GBP £25,000 and GBP £10,000. The needs of the very small entities need special recognition in respect to over regulation with a correspondingly reduced level of regulation.</p>
10. Is there a preference for the core duties to be based on the Corporations Act, CATSI Act, the office holder requirements applying to incorporated associations, the requirements applying to trustees of charitable trusts, or another model?	ANSWER: 10. Yes, the preference should be for consistency with the Corporations Act plus special trustee considerations akin to the NSW Trustees Act where a Trust exists.
11. What information should registered entities	Answer: 11. Disclosure information does not, of itself, ensure good governance procedures are in

<p>be required to disclose to ensure good governance procedures are in place?</p>	<p>place, and even if such procedures are documented as being in place, they may not necessarily be followed. Furthermore, the type and amount of procedures in place will depend on the size of the charity. Internal control procedures must be designed to reduce the risk of error in reporting (deliberate and accidental) by prevention and detection as well as to safeguard the assets of the charity. The auditor of such an organisation will review such processes during the course of the audit/review. There are many publications available through the main accounting bodies to assist Boards in this regard.</p> <p>Legislation may also prescribe certain duties of Board members; e.g. to act in the bona fide interest of the charity etc. State legislation also prescribes specific matters for some charities; e.g. re investments, and these could be included in Commonwealth legislation.</p> <p>The comments regarding compliance with Australian Accounting Standards (Clause 109 to 112) are noted, but compliance with such Standards does not necessarily ensure good governance. Many examples exist in the corporate arena where financial reports have complied with these Standards and yet corporate governance was found to be lacking, (even with high levels of expertise involved at governance level).</p> <p>We recommend that the concept of differential reporting (i.e. Special Purpose AND General Purpose Financial Statements) should be maintained according to the current practice of reporting for the majority of Not-For-Profit organisations.</p> <p>See also our response at Question 9 regarding the very small entities.</p>
<p>12. Should the remuneration (if any) of responsible individuals be required to be disclosed?</p>	<p>ANSWER: 12. Concerns arise as to the disclosure of remuneration on an individual basis. While it may be appropriate to lodge information with a government body, such information should not necessarily be publicly available, at least not on an individual basis by employee.</p> <p>Disclosure in aggregate for key management personnel (as defined in AASB 124) may be appropriate for Tier 3 entities, however, care should be taken in the application of this Standard, as much of it only applies to disclosing entities (e.g. Listed companies).</p>

<p>13. Are the suggested criteria in relation to conflicts of interest appropriate? If not, why not?</p>	<p>ANSWER: 13. Yes, the criteria should be applied and also the Boards of NFPs educated. However it needs to be noted that with very small Tier 1 entities there will be comprehension issues regarding recording conflicts arising unless there is a useful level of education.</p>
<p>14. Are specific conflict of interest requirements required for entities where the beneficiaries and responsible individuals may be related (for example, a NFP entity set up by a native title group)?</p>	<p>ANSWER: 14. Disclosure should be made in instances where the responsible individuals are also beneficiaries because they belong to a class of beneficiaries, even though they receive no material personal interest or benefit. There will be many instances in small rural organisations where there are relationships by blood or marriage. With ethnic groups, particularly where the members are refugees, there are also other complex issues arising here, so this issue is not restricted to native title groups.</p>
<p>15. Should ACNC governance obligations stipulate the types of conflict of interest that responsible individuals in NFPs should disclose and manage? Or should it be based on the Corporations Act understanding of 'material personal interest'?</p>	<p>ANSWER: 15. Obligations should be related to the provisions in Corporations Act relating to "material personal interest", apart from the circumstances identified in 14 above.</p>
<p>16. Given that NFPs control funds from the public, what additional risk management requirements should be required of NFPs?</p>	<p>ANSWER: 16. This issue takes the ACNC into the role of regulator apart from the controller of registrations. In our view it will be impractical to regulate for risk management procedures. This can be, and should be, encouraged but a risk management plan should not be a reportable item given the breadth of the Sector and the generally low risk profile. It also needs to be understood that a large number of entities only administer internal or mutual funds. To infer that all entities are administering public funds is therefore an inappropriate emphasis.</p>
<p>17. Should particular requirements (for example, an investment strategy) be mandated, or broad requirements for NFPs to ensure they have adequate procedures in place?</p>	<p>ANSWER: 17. No. ACNC should be reactive in this area. In other words it should be complaints driven on risks not being managed and investigate. An investment strategy is part of the duties of the Board but should not be a requirement for registration. ACNC will have to educate on this.</p> <p>It also needs to be noted that by far the majority of NFPs, irrespective of Tier level, do not have funds available for investment. To impose an obligation for an investment strategy or similar would be an onerous imposition in an area where it has no relevance.</p>
<p>18. Is it appropriate to mandate minimum insurance requirements to cover NFP entities in</p>	<p>ANSWER: 18. No. The emphasis should be on the provision of advice on what may be appropriate</p>

the event of unforeseen circumstances?	and adequate insurance – not minimum insurance levels. However all NFPs should be encouraged to have adequate insurance in respect to their circumstances.
19. Should responsible individuals generally be required to have indemnity insurance?	<p>ANSWER: 19. No. The question suggests that the responsible individuals themselves should take out the insurance, whereas such responsibility lies with the Board charged with management. State Laws already obligate Workers Compensation Insurance in any event. It would be wise for ACNC to encourage Directors and officers insurance, volunteer insurance and professional indemnity insurance, where appropriate. However to mandate such insurance, however desirable this seems, is in our view inappropriate. Each entity needs to identify, with appropriate advice, its responsible actions in this area.</p> <p>There is a continuing emphasis in this document about regulatory control instead of education. The ACNC is, we understand, there to encourage, to educate, and to advise. “Regulate” is consistently being publicised as the last resort. These questions seem to be reversing the intended process – with no benefit to Government, to the ACNC, to the Sector.</p> <p>We can however give support to Guidance Notes regarding preferred minimum levels of insurance for both Tier 2 and Tier 3.</p>
20. What internal review procedures should be mandated?	ANSWER: 20. No. It is not the role of ACNC to mandate internal reviews. They must educate on the importance of internal controls related to exercising the duties of responsible individuals. They can only insist on external review or audit as appropriate but may extend the scope of audit to cover good governance practices.
21. What are the core minimum requirements that registered entities should be required to include in their governing rules?	ANSWER: 21. The core minimum requirements should be as at present: a principal purpose and objects clauses, a not for profit clause and a winding up clause prohibiting distribution to members.
22. Should the ACNC have a role in mandating requirements of the governing rules, to protect the mission of the entity and the interests of the public?	Answer: 22. No, this is going too far. This can be education and advice by ACNC on changes to the constitution.
23. Who should be able to enforce the rules?	ANSWER: 23. The members in the first instance. Then it will also be up to the government body that grants incorporation.

<p>24. Should the ACNC have a role in the enforcement and alteration of governing rules, such as on wind-up or deregistration?</p>	<p>ANSWER: 24. No. The ACNC should leave the governing rules to the incorporating body, be it the State Associations administering entity, or ASIC.</p> <p>They do have a role at wind up or deregistration if the approved constitution for registration has not been followed in relation to distribution of DGR funds in particular.</p>
<p>25. Should model rules be used?</p>	<p>ANSWER: 25. No. Model rules should not be used by ACNC but they may suggest model clauses for objects, not-for-profit and winding up relevant to the type and sub type of entity. The various State bodies administering Associations in most instances nominate a set of Model Rules. In some States the Model is enforceable where the Rules of the Association are not in compliance with the Act itself. For the ACNC to add to what is already in place seems to be an intrusion on the role of the other regulator.</p>
<p>26. What governance rules should be mandated relating to an entity's relationship with its members?</p>	<p>ANSWER: 26. None - this is beyond the scope of ACNC and should be the role of the incorporating body at State level or of ASIC.</p>
<p>27. Do any of the requirements for relationships with members need to apply to non-membership-based entities?</p>	<p>ANSWER: 27. All NFPs will have members unless they are Trusts or a corporation sole. Where a Charitable Trust exists and the Trustee authorises a benefit to a named beneficiary, the beneficiary should be advised of the entitlement within a reasonable period and also of the conditions (if any) that are appropriate to the benefit. However, where the beneficiary is a class of beneficiaries, such advice would not be possible or appropriate.</p>
<p>28. Is it appropriate to have compulsory meeting requirements for all (membership based) entities registered with the ACNC?</p>	<p>ANSWER: 28. No, see 26. These issues are already covered by the appropriate State Law or Corporations Act.</p>
<p>29. Are there any types of NFPs where specific governance arrangements or additional support would assist to achieve in better governance outcomes for NFPs?</p>	<p>ANSWER: 29. No.</p>
<p>30. How can we ensure that these standardised principles-based governance requirements being administered by the one-stop shop regulator will lead to a reduction in red tape for NFPs?</p>	<p>ANSWER: 30. This may be achieved by being the incorporator as well as the regulator. This would involve a separate not for profit entities act which replaces incorporation under the Corporations Act, the Associations Incorporations Act and other legislation. The current reforms suggested still leave unanswered the role of State governments in regulating associations, co-</p>

	<p>operatives and trusts.</p> <p>What ACNC and Treasury need to understand is that standardised principle- based Governance requirements will automatically lead to an increase in administrative obligations to by far the majority of Tier 1 and Tier 2 entities and also to some Tier 3 entities. We support the encouraging of improving the Governance standards within the Sector. However we are concerned by the use of words such as “mandated” and “enforced”. This should be solely an educational area. There should be recognition of the role of the States where applicable. There are other procedures already in existence to cover significant departures from wise governance. What is being proposed, though it can be seen as beneficial, will create uncertainty, fear and distrust in the Sector.</p>
<p>31. What principles should be included in legislation or regulations, or covered by guidance materials to be produced by the ACNC?</p>	<p>ANSWER: 31. The principles on Governance should be covered in guidance materials only – not in legislation or regulation.</p>
<p>32. Are there any particular governance requirements, which would be useful for Indigenous NFP entities?</p>	<p>ANSWER: 32. The CATSI Act appears to us to provide good guidance already.</p>
<p>33. Do you have any recommendations for NFP governance reform that have not been covered through previous questions that you would like the Government to consider?</p>	<p>Answer: 33. Complexity should be removed as far as possible. Very small organisations such as small churches and small rural entities should be able to be registered as a charity and function under a fourth Tier where there income is below\$50,000 with minimum obligations. The ACNC will always retain the ability to become involved either as an educator, or as a regulator, if there is a need.</p>

N E Harding
Chairman
Add-Ministry Inc.

27 January 2012