Governance beyond listed companies

MODULE 3 | PART E.1 | STUDENT COMPANION

The same idea applies everywhere: whenever people manage resources for others, they need direction, control and accountability. What changes is who is trusting whom, and which risks matter most.

	Family business and SME	Not-for-profit and charity	Public sector
Who trusts them	Family owners, lenders, staff	Donors, members, clients, volunteers, funders	Citizens, parliament, the minister
Main governance risk	Family conflict; growth beyond the family's capacity	Misused funds; skills gaps; founder succession	Misuse of public money and public power; unclear roles
Key tools and guidance	Family council; board with outside directors; external accountants	ACNC Governance Standards; AICD not-for-profit principles; committees	Economy, efficiency, effectiveness; public sector governance principles; integrity bodies

Family council or board? A family council handles family questions: who may work in the business, the dividend policy, succession. A board, ideally with outside directors, makes business decisions. Separating them moves the firm from family relationships to business relationships.

The six ACNC Governance Standards

1. **Purposes and not-for-profit nature**
   Genuinely pursue the charitable purpose, and show it
2. **Accountability to members**
   Give members a real chance to raise concerns
3. **Compliance with Australian laws**
   No serious offences, such as fraud
4. **Suitability of responsible people**
   Check they are not disqualified; remove any who are
5. **Duties of responsible people**
   Care, honesty, no misuse, disclose conflicts, sound finances, no insolvent trading
6. **Public trust and confidence**
   Join the National Redress Scheme where required

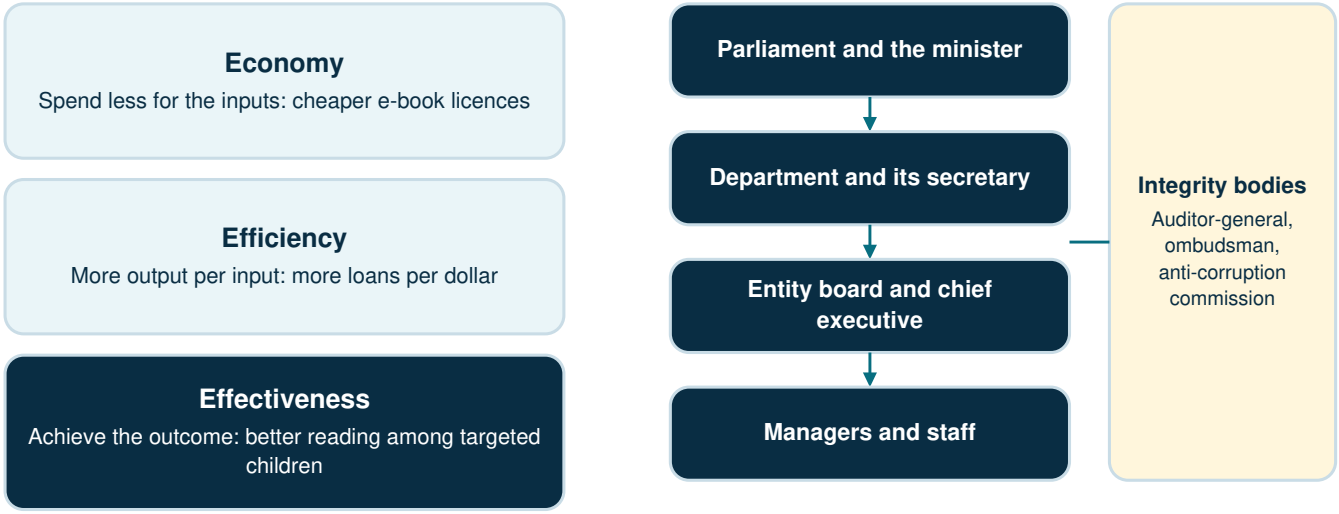
Standard 5 and directors' duties

MODULE 3 | PART E.1 | THE DUTIES OF RESPONSIBLE PEOPLE

ACNC Standard 5 duty	Matching directors' duty from Part A
Act with reasonable care and diligence	Duty 5: care and diligence
Be honest and fair, acting in the charity's best interests and for its purposes	Duties 2 and 3: good faith and proper purposes
Don't misuse position or information	Duty 1: no improper use of position or information
Disclose conflicts of interest	Duty 1: avoid, disclose and manage conflicts
Manage the financial affairs responsibly	Duties 5 and 6: care and diligence; remain informed
Don't let the charity operate while insolvent	Duty 7: prevent insolvent trading

Charities working overseas also meet four External Conduct Standards: control of activities and resources; annual review and records for each country; anti-fraud and anti-corruption; protection of vulnerable people.

Public sector governance



Australian Public Service Commission guidance frames public sector governance as **performance plus conformance**, built on six principles: accountability, transparency, integrity, stewardship, efficiency and leadership.

Real case - Robodebt. An automated debt recovery scheme (about 2015 to 2019) used averaged income data to raise debts against people who had received welfare payments. In 2021 the Federal Court approved a class action settlement including $112 million, on top of refunds and the cancellation of debts. The Royal Commission's final report (7 July 2023, 57 recommendations) found the scheme unfair and unlawful. Lawfulness and fairness are not optional when using public power.

Practice questions

MODULE 3 | PART E.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Rossi Fresh Pasta Pty Ltd

Using the lesson's facts (founder deciding informally, two children working in the business, two cousins owning shares but not working there, a dividend dispute and no succession plan), recommend four governance changes and explain how each helps.

Question 2 - Northside Food Rescue

The treasurer's catering business supplies every fundraising event without the committee being told, and the committee keeps running a loss-making gala program while unpaid bills pile up. Which Standard 5 duties are under strain, and what should happen next?

Question 3 - economy, efficiency or effectiveness?

Library service measure	E?	Library service measure	E?
(a) Each e-book licence costs 12% less after renegotiation		(d) Processing time per new book fell from five days to two	
(b) Loans per dollar of operating cost rose this year		(e) A cheaper supplier provides shelving of the same quality	
(c) Reading results improved among children in targeted suburbs		(f) Adults say job-skills workshops helped them find work	

Worked answers

MODULE 3 | PART E.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Rossi Fresh Pasta

- **Family council:** a forum for family questions such as who may work in the business, family employment rules and expectations, so disputes don't spill into operations.
- **Dividend policy:** an agreed, written policy balancing payouts to non-working owners with reinvestment, removing an annual argument.
- **A formal board with outside directors:** business decisions such as the new factory made at minuted board meetings, with fresh experience and independent challenge.
- **Succession plan:** identify and develop future leaders, family or professional, before Maria retires.
- **External accountant support:** risk management, internal controls and reliable financial reporting suited to the company's size.

Question 2 - Northside Food Rescue

Treasurer: failed to disclose a conflict of interest, may be misusing his position, and isn't acting solely in the charity's best interests. **Committee:** isn't managing the financial affairs responsibly or with reasonable care and diligence, and risks letting the charity operate while insolvent.

Next steps: the treasurer discloses the interest and steps out of related decisions; supply is put to a fair comparison; the committee reviews the gala program with a cash flow forecast, stops incurring debts it may not pay, and seeks professional advice if insolvency is a risk.

Question 3

(a) Economy | (b) Efficiency | (c) Effectiveness | (d) Efficiency | (e) Economy | (f) Effectiveness

Rossi Fresh Pasta, Northside Food Rescue and the library service are imagined examples. Real case sources: Prygodicz v Commonwealth of Australia (No 2) [2021] FCA 634; Royal Commission into the Robodebt Scheme, final report (7 July 2023). Study guide reference: Module 3, Part E, sections 3.12 to 3.15.