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Manager

Philanthropy & Exemptions Unit

Personal and Retirement & Income Division

The Treasury

Langton Crescent

PARKES ACT 2600

**Email:** NFPReform@treasury.gov.au

Dear Sir/Madam

**Re: Review of Not-For-Profit Governance Arrangements, Consultation Paper December 2011**

It is positive that risk management arrangements are one of the five proposed core governance principles that are being considered as most relevant for Not-For-Profit organisations (*Treasury's Not-For-Profit Reform Factsheet*, p1). All organisations face risks that can affect the achievement of their objectives and potentially their very survival.

Consequently, it is mystifying why section 6.3 Risk Management (pp 23-26) of the consultation paper *Review of Not-For-Profit Governance Arrangements* makes no reference to either:

- AS/NZS ISO 31000:2009. *Risk management—Principles and guidelines*. Standards Australia/Standards New Zealand; or
- HB266:2010. *Guide for managing risk in not-for-profit organizations*. Standards Australia/Standards New Zealand.

AS/NZS ISO 31000 is the global standard on risk management that, in 2009, superseded the Australia and New Zealand standard AS/NZS 4360:2004 *Risk Management*.

The handbook HB266, published in 2010, was prepared under the Joint Standards Australia/Standards New Zealand Risk Management Committee OB-007 to facilitate the effective management of risk in independent not-for-profit, non-profit and non-government organisations. Designed to be used in conjunction with AS/NZS ISO 31000, HB266 is a practical 'how to' guide for undertaking risk assessments demonstrated by using basic tools, templates, and a case study. Altogether, HB266 contains 15 templates that can be readily adapted to any Not-For-Profit organisation no matter its size.

To quote from HB266: "Passion and the 'cause' maybe a NFP organization's pulse, but they may not always protect it from unwise decisions, mismanagement or human fallibility. Equally, finding new and more effective ways to support the organization's clients, members and cause involves taking risk. Accordingly, good governance requires the organization to find the right balance between taking risks on an informed basis, treating undesirable risks and having the confidence that the organization can bear its level of risk in pursuing its purpose and objectives." (HB266:2010. *Guide for managing risk in not-for-profit organizations*, p6).

Although arrangements like insurance and internal and external auditing discussed in the consultation paper are important, they cannot provide even the smallest of Not-For-Profit organisations the means for effectively managing their risks.

Rather, to manage risk effectively an organisation, no matter its size, needs:

- A practical process for detecting and assessing risk whenever it emerges or arises (from any source) so it can proactively treat any undesirable risks with suitable actions; and
- A robust means of assuring that its internal controls are adequate and effective so it can respond in a timely manner as its circumstances change.

This is the approach advocated in AS/NZS ISO 31000 and the handbook HB 266.

Yours faithfully

Jeanette Ward

Director

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Co-author of HB266:2010: *Guide for managing risk in not-for-profit organisations*. Standards Australia/Standards New Zealand.