

Protections for board members

Legal information for not-for-profit community organisations

This fact sheet covers:

- ▶ the different protections available to board members
- ▶ the difference between volunteer and paid board members
- ▶ legal duties and responsibilities of board members
- ▶ the thing you can't protect against – reputational damage



Disclaimer

This fact sheet provides general information about the different protections available to board members of not-for-profit organisations. This information is a guide only and is not legal advice. If you or your organisation has a specific legal issue, you should seek legal advice before deciding what to do.

Note – this fact sheet only considers protections for board members of **not-for-profit** organisations.

Note – this fact sheet focuses on the legal duties and responsibilities and the legal and practical protections that apply to not-for-profit board members of **incorporated** organisations (such as companies limited by guarantee, incorporated associations and cooperatives).

The duties of, and protections that affect the governing members of unincorporated groups can be a complicated legal issue. For more information about unincorporated groups, see our webpage [What does incorporation mean, and should you incorporate?](#)

It's important to understand the different protections available to board members

Board members are elected (or invited onto the committee or board) by the organisation's members or board and are trusted to make decisions on behalf of the organisation.

The members of an organisation entrust the elected board members to steer the organisation for the period that they are on the board. In return, the board members agree to act in the best interests of the organisation and must comply with their distinct duties and responsibilities as board members.

This means that board members, are accountable (individually and collectively) for the actions and the decisions they make on behalf of the organisation.



If a board member of a not-for-profit organisation fails to meet their legal duties and responsibilities:

- The board member may be found personally liable (that is, legally responsible) and may be required to use **their own personal money or assets** to pay the debts or costs that the organisation has incurred due to their actions.
- The board member may be subject to fines, disqualified from acting as a board member or, in extreme cases, imprisoned.
- The organisation itself may be liable for an action of the board member, which often means they will have to pay a fine or some other penalty to another person or body. In significant cases where the board member of a registered charity has failed to meet a substantial duty or has breached the governing legislation, the organisation’s registration may also be removed.
- The organisation or board member may suffer reputational damage, which could impact future funding of the organisation and future job opportunities for the board member.



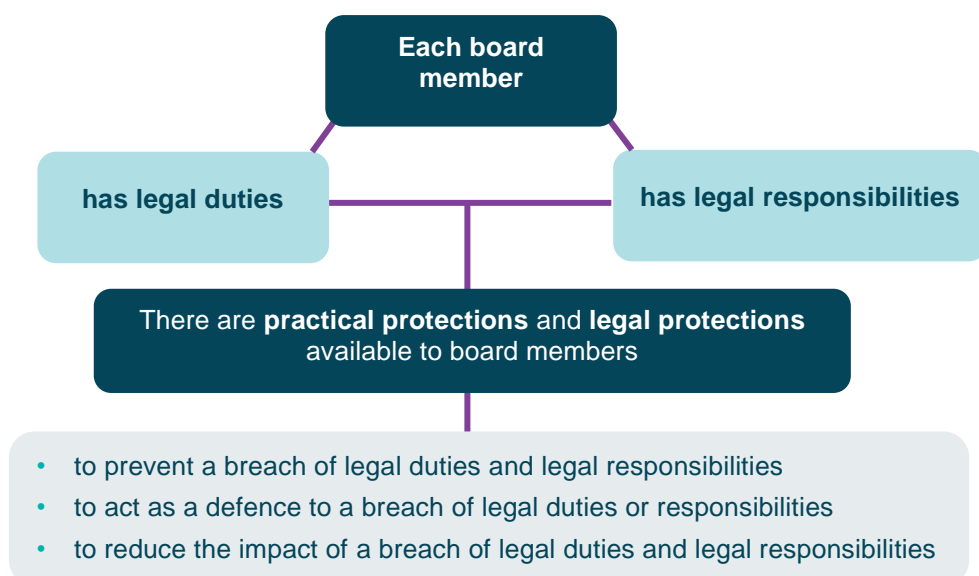
Legal duties vs legal responsibilities

In this fact sheet:

- **Legal duties** refers to the duties that are linked to the governance of an organisation (sometimes referred to as director’s duties or governance standards).
- **Legal responsibilities** refers to the laws and regulations that impact the day-to-day operation of the organisation. For example, employment laws or work health and safety laws which board members must ensure that their organisation is complying with.

However, the law does provide certain **legal protections** if a board member breaches a duty or responsibility even though they took all reasonable steps to comply with their duties and responsibilities.

There are also **practical** steps that board members can take to protect themselves. In this fact sheet we refer to these as **‘protections available for board members’**. It’s important that board members inform themselves of these protections, along with their legal duties and responsibilities to help prevent breaches and reduce the impact in the event of a breach.





Example – Jenny, a volunteer board member – introduction

A local not-for-profit organisation, Youth Inc, asked Jenny to join their board.

Youth Inc. supports disadvantaged young people in the local area. The organisation has a strong reputation in the local community, and Jenny was proud to be associated with it. Jenny has never been on a board before, but she was ready and willing to learn and eagerly attended the first few monthly board meetings.

Youth Inc. had received a large grant to set up a new service in partnership with another not-for-profit organisation. The board had many decisions to make, including assessing the impact of the grant on the operation of the organisation, finding the right not-for-profit partner organisation, entering into a lease agreement and hiring new staff. During this time, there were countless board papers to read, extra board meetings and lots of complicated debates about the financials of the organisation and how best to use the grant.

Jenny knows that she has certain responsibilities as a board member, but she is not sure what would happen if she:

- only read some of the board papers
- voted on financial decisions without fully understanding the decision, or
- started missing some of the board meetings

Jenny knows she’s a volunteer board member but isn’t sure whether this provides her with any special protection. She doesn’t know whether she is covered by insurance, or if the organisation would protect her if something went wrong.

The difference between volunteer and paid board members

All incorporated community organisations have some form of ‘governing body’ often referred to as a board or committee. The not-for-profit community organisation may refer to the people that are elected or appointed to the board or committee as board members, committee members, directors, trustees or responsible persons. What an organisation calls its board members will differ from one organisation to the next.

Board members of not-for-profit organisations can be:

<ul style="list-style-type: none"> • volunteer board members 	<p>Volunteer board members volunteer their time, experience and expertise without the expectation (or receipt) of payment.</p>
<ul style="list-style-type: none"> • paid board members 	<p>Paid board members are paid for their services as a board member (sometimes known as directors’ fees).</p> <p>Compensation may be given to board members for certain responsibilities related to being on the board or for their time involved in fulfilling the role. Remuneration is increasingly being used by not-for-profit organisations to attract more skilled board members to the organisation.</p>



For more information about whether your community organisation is able to pay its board members, see our fact sheet [‘Payment of board members’](#).



A board member can be personally liable for a breach of a legal duty or responsibility regardless of whether the board member is a paid board member or a volunteer board member.

However, in some cases the protections that are afforded to volunteer board members are different to paid board members. Where relevant, this fact sheet will point out the differences between the protections afforded to volunteer board members and paid board members.

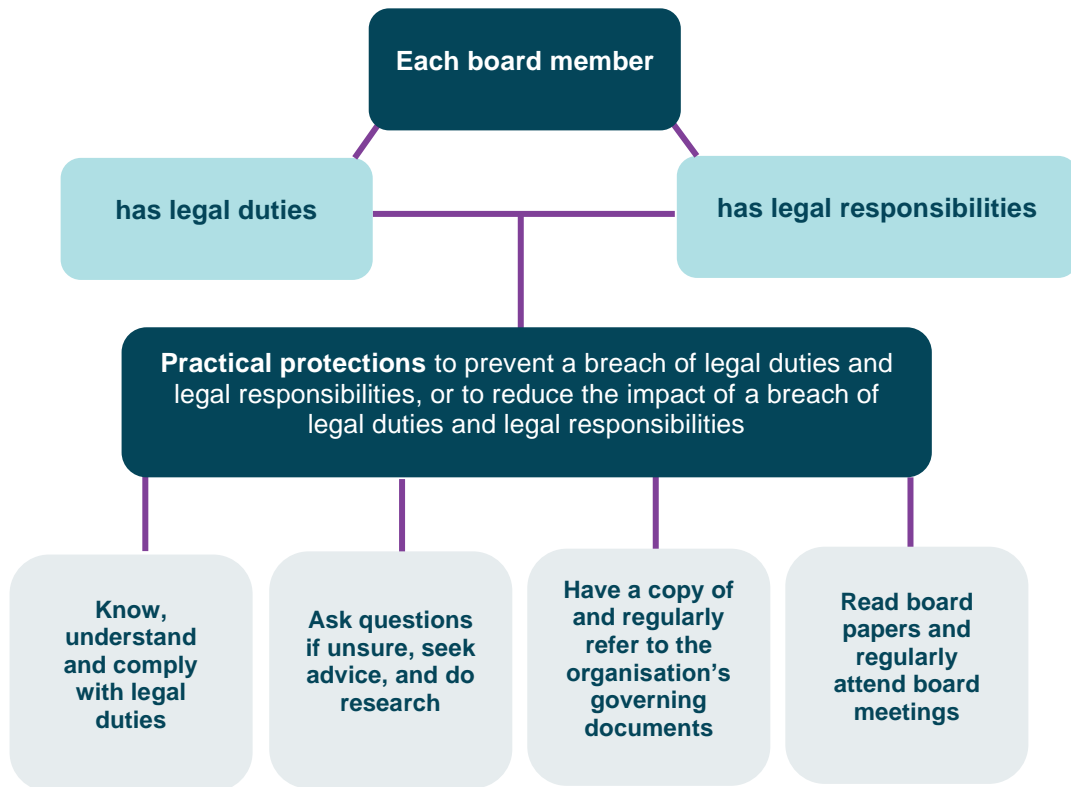


Note – reimbursement of board members

There is a difference between paying a board member for their service and reimbursing a board member for the costs that are reasonably incurred while performing their role (for example, reimbursement for travel costs to a board meeting). Volunteer board members that receive reimbursement for expenses incurred are not ‘paid board members’ for the purposes of this fact sheet (and in general).

Practical protections available to board members

The protections provided by law are only some of the ways that board members are protected from liability. Board members can take proactive and practical steps to protect themselves. Organisations may wish to consider including some of these practical steps in the board induction material.





Practical steps that board members can take to protect themselves include:

- Knowing and understanding their duties and responsibilities as a paid or volunteer board member and complying with them.
- Researching the organisation before becoming a board member, talking to other board members and accessing publicly available information about the organisation, such as through the Australian Charities and Not-for-profits Commission (**ACNC**) charity register (for registered charities).
- Familiarising themselves with, having a copy of, and complying with the organisation's governing documentation (including the constitution, by-laws, sub-committee charters and policies and procedures) and knowing their rights and obligations as board members under that documentation.
- Satisfying themselves that the organisation has effective corporate governance policies and procedures, ensuring that the organisation and its management are adhering to those policies and procedures and, if necessary, implementing changes to ensure compliance.
- Seeking advice and asking questions if they are unsure about a particular area of governance.
- Completing appropriate training to gain the necessary knowledge and skills to properly perform their responsibilities and duties.
- Reading all board papers, requesting further information and asking questions to satisfy themselves that they have all the information they need in order to make an informed decision.
- Ensuring board minutes are maintained, correct and complete.



For more information about preparing to become a new board member and understanding more about the role, see our fact sheet '[New to a board or committee? An introduction to your role](#)'.

For more information about the process for inducting people to the governing body of a community organisation see our fact sheet '[Board inductions – bringing on a new board member](#)'.

Legal duties and legal responsibilities of board members

Before understanding the legal protections afforded to board members, it's important to understand the legal duties and legal responsibilities that board members must comply with. By legal duties and legal responsibilities, we mean:

- **legal duties** of board members associated with the governance of the organisation (sometimes referred to as directors' duties or governance standards), and
- the **legal responsibility** to ensure that the organisation is complying with laws and regulations that impact the day-to-day operation of the organisation, such as employment law and work health and safety laws

By complying with their legal duties and legal responsibilities, board members help maintain, protect and enhance the public trust and confidence in their own organisation.



Example – Jenny, a volunteer board member – part 1

There is a lot of pressure on Youth Inc’s board to start the new project they have received funding for. At a recent board meeting, the board decided to hire a full-time project manager, but to use existing volunteers to get the project running in the meantime. The board decided it would be fair to pay the volunteers \$15 an hour for the eight week period. This would also avoid having to go through the formal process of employing someone for the period.

Jenny is unsure whether Youth Inc can pay volunteers – it seems more like an employment relationship to her. However, Jenny isn’t across the details as she missed the previous two meetings, didn’t have a lot of time to prepare for the recent meeting and hasn’t read the board papers.

Jenny consoles herself by thinking ‘I am just a volunteer!’ She considers the president to be a smart person and as the proposed action would be a low cost, effective way of starting the project without any on-going obligations, Jenny thinks the decision made by the board is probably fine.

Legal duties of board members (compliance with directors’ duties or governance standards)

As discussed above, by becoming a board member of an organisation, the board member agrees to act in the best interests of the organisation and is accountable for the decisions the board makes (in their capacity as a board member of the organisation). Over time, the law has formed these notions into ‘legal duties’ – they are linked with the governance of an organisation.

There are four main legal duties that all board members must understand and comply with.

Four main legal duties of board members

- 1. Duty to act in good faith in the interests of the organisation and for proper purposes
- 2. Duty to act with reasonable care, skill and diligence
- 3. Duty not to misuse position or information
- 4. Duty to disclose and manage conflicts of interest

If a board member of a not-for-profit organisation doesn’t comply with their legal duties (in a way that is reckless or intentional – see below for more information), they may be personally liable.

If a board member is found to be personally liable, they will be required to pay any debts or costs incurred by the organisation due to their actions from their own personal money or assets. The board member may also be subject to fines, subject to disqualification from acting as a board member or, in extreme cases, be imprisoned. This will be the case **regardless of whether the board member is a paid board member or a volunteer board member of the not-for-profit organisation.**



Case example – use of not-for-profit funds for private expenses

Boris Trajkov was a founding member of the Victorian Multiethnic Slavic Welfare Association, which provided support to elderly migrants from the former Yugoslavia. The association also operated a childcare centre in Lalor, in Melbourne's north.

The County Court heard that between 2013 and 2016, parents made cash payments of more than \$1,000,000 for childcare services, but only \$56,107 cash was deposited into the association's bank account.

The County Court of Victoria found that Trajkov had used hundreds of thousands of dollars paid to the association to pay for his own private expenses, including alcohol, fashion items and jewellery.

In the judgment, the Judicial Registrar noted:

'I would be satisfied this conduct amounted to a significant breach of the fiduciary and statutory duties imposed upon Boris. It shows, at best, a complete lack of understanding of the significant duties imposed upon Boris as an office holder, a preferring of his own interests to those of the Association, and a wilful blindness to the damage his conduct caused to the Association at the very least in terms of dishonour fees and loss of reputation.'

Trajkov was ordered to pay a significant amount in damages to the association.

[Victorian Multiethnic Slavic Welfares Association Inc \(In Liq\) & Anor V Trajkov & ANOR \[2017\] VCC 1433](#)



Example – multiple breaches of the main duties of a board member

Where a board member of a not-for-profit organisation:

- uses the organisation's funds to help their de facto partner set up a business, and
- executes a contract for their partner's benefit,

without informing any of the board members or obtaining board approval beforehand, they commit a serious breach of their duty to disclose and manage conflicts of interest.

Furthermore, the board member has also breached their duty to act in good faith in the best interests of the organisation and for a proper purpose, as well as the duty to act with reasonable care, skill and diligence in their role.



Example – Jenny, a volunteer board member – part 2

In Part 1, Jenny admits that she is unsure about the background to the decision made at a board meeting because she hasn't attended the previous two board meetings and she has not read the board papers.

Jenny has a **legal duty to exercise reasonable care and skill in 'guiding' the organisation**. Not being able to attend an occasional committee meeting is OK, but failing to attend regular meetings, without approved leave of absence, and failing to pay attention to the 'goings-on' of the board, could be indicators of a breach of this duty.

Jenny could be legally responsible if anything in the organisation goes wrong (for example, if the organisation gets into financial trouble and starts to trade while insolvent, or if the organisation breaches work health and safety laws, employment laws, or someone starts to defraud the organisation's finances). It is not a defence for Jenny to say, 'I wasn't at the meeting when they made that decision' or 'I'm just a volunteer'.



For a comprehensive summary of the legal duties of not-for-profit board members, refer to our guides:

- [Duties guide](#)
- [Guide to running a CLG](#)
- [Guide to running a registered charity CLG](#)
- [Guide to insurance and risk management for community organisations](#) which summarises the liability for board members of incorporated associations

Also see the [ACNC guidance on the Governance Standards](#).

Legal responsibility of board members (compliance with laws and regulations)

Board members of not-for-profit organisations are also responsible for making sure their organisation complies with applicable laws and regulations.

For example, board members may be found personally liable for the debts and actions of their organisation if the following laws and regulations are not complied with:

- employment laws (such as the *Fair Work Act 2009* (Cth))
- anti-discrimination legislation
- taxation law (such as failure to pay PAYG income tax instalments or compulsory superannuation contributions)
- trading (or operating) while insolvent
- work health and safety laws (or occupational health and safety laws)
- environmental protection laws, or
- Australian Consumer Law (**ACL**)

Note – this is not a comprehensive list, and the laws may differ in each state and territory.



Example – Jenny, a volunteer board member – part 3

In Part 1, Jenny was unsure whether Youth Inc. can pay volunteers – she thinks maybe the volunteers should be treated as employees. However, Jenny decides to go along with the board's decision because she missed the previous two meetings, didn't have time to prepare for the recent meeting, hasn't read the board papers, and isn't across the detail.

Paying volunteers is one indicator of an employment relationship. If it's found that the volunteers should be treated as employees, Youth Inc. may be breaching employment laws. If Jenny is found to be 'involved' in that breach, that is, she is found to have aided, abetted, induced, was knowingly concerned in through her actions or omission, or conspired to cause the breach, she may be found personally liable.



More information on the potential personal liabilities of not-for-profit board members is set out in our fact sheet '[New to a board or committee? An introduction to your role](#)'.

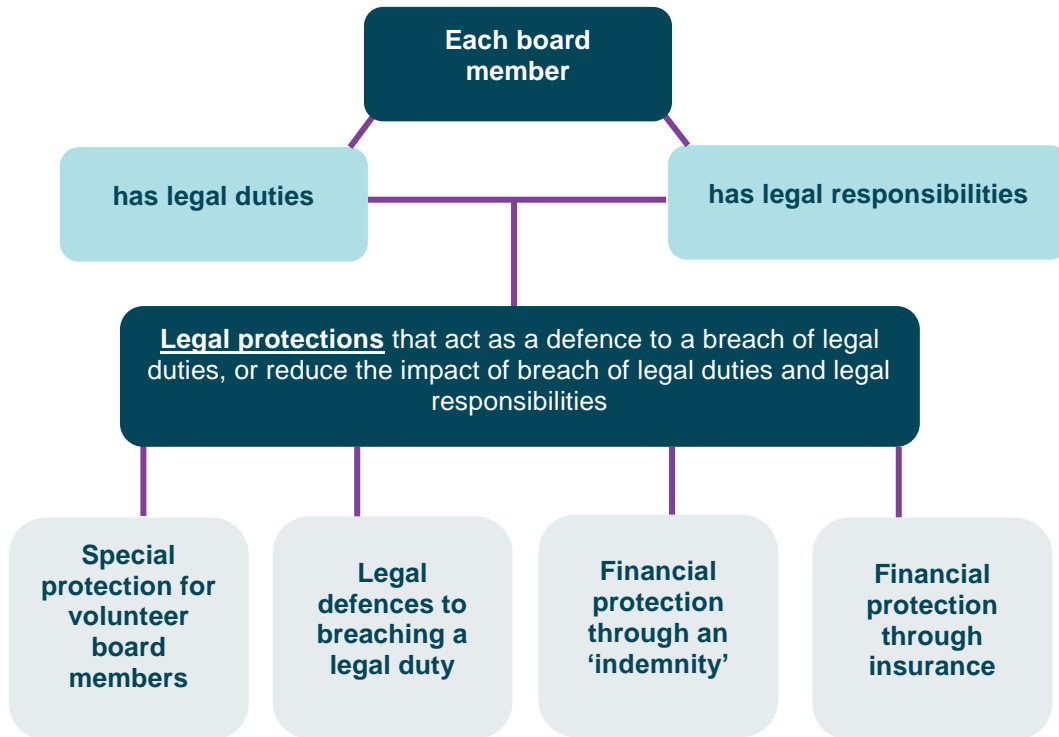


Legal protections available to board members

As discussed above, board members of not-for-profit organisations are subject to a broad range of duties and responsibilities and failure to comply with those duties and responsibilities may expose board members to personal liability and penalties.

There are, however, certain protections available to board members which can serve as a defence to, or mitigate their personal liability (that is, reduce the risk or obligation to pay any debts or costs incurred by the organisation from their own money or assets) in respect of, a breach of those duties and responsibilities.

There are four key types of legal protections.



Special protection for volunteer board members

In some circumstances there is a difference in the protection afforded to volunteer board members and paid board members.

Workplace health and safety laws	<p>Under workplace health and safety laws across Australia, if an organisation has failed, so far as is reasonably practicable, to eliminate or minimise the risk of harm to the health and safety of its employees, volunteers and others (clients, customers, tradespeople, and suppliers who visit the workplace), the organisation and the organisation’s board members may be guilty of an offence under the applicable laws if they have failed to take reasonable care to ensure compliance.</p> <p>Paid board members who fail to comply with workplace health and safety laws may be personally liable.</p> <p>The model Work Health and Safety (WHS) laws, which have been adopted in all states and territories except Victoria, define 'volunteer' as a person who is acting on a voluntary basis (irrespective of whether the person receives out-of-pocket expenses).</p> <p>The WHS laws provide an immunity for volunteer board members such that they can't be prosecuted for failing to comply with their WHS duties as board members. However, a volunteer board member can be guilty of an offence in their capacity as a worker for the organisation if they do not take reasonable care as a worker. This can include taking reasonable care for the health and safety of</p>
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	<p>themselves and others or for failing to co-operate with the organisation’s reasonable workplace procedures relating to work health and safety.</p>
<p>Civil liability laws</p>	<p>Civil liability laws, in general, allow a person who is injured, suffers damage to property or experiences economic loss to take legal action and be compensated by the person who breached their duty of care and in doing so caused or contributed to that injury, damage or loss.</p> <p>This right to take legal action would potentially extend to any board member who has failed to comply with their duties and responsibilities under applicable laws.</p> <p>Civil liability laws across Australian states and territories do, however, exempt volunteer board members from personal liability in certain circumstances. This exemption is not available to paid board members – if a board member is being remunerated for their services, they are not deemed to be ‘volunteers’ under the applicable legislation.</p>



Example – Jenny, a volunteer board member – part 4

In one of the two previous board meetings Jenny missed, the board discussed a WHS training module for workers (including volunteers) of Youth Inc. At the recent meeting Jenny attended, the board decided on the form of the training module. As Jenny is a volunteer board member, she can’t be prosecuted under the WHS laws for failing to exercise due diligence to ensure the training module complied with Youth Inc’s health and safety duties.

However, she may be prosecuted under the WHS laws in her capacity as a worker for Youth Inc. if, for instance, she does not take reasonable care for her own health and safety while attending a board meeting. Additionally, if Jenny begins to receive payment from Youth Inc. for her role as board member, she will lose the protections offered to volunteer board members under the WHS laws and may become personally liable.



Civil liability laws vary in scope across Australian states and territories. See our fact sheet [‘payment of board members’](#) for more information about civil liability laws and the exemptions available to volunteer board members under those laws.

Legal defences to breaching a legal duty

The law recognises that a board member could find themselves in a situation of a possible breach of a legal duty even though they acted in good faith (that is, they acted honestly, fairly and loyally) and took all reasonable steps to comply with their duties.



Example – Jenny, a volunteer board member – part 5

Jenny proposes to the board that they bring in an expert to help the board find the right not-for-profit partner organisation and a suitable location to run the new project from. The board agrees and hires a business consultant named Tony to help them out.

Tony is Jenny's business partner. Jenny discloses this 'conflict of interest' to the board of Youth Inc, removes herself from the room when the decision to hire Tony is made, and ensures that this is all recorded accurately in the minutes of the board meeting.

After receiving advice from Tony, Youth Inc. decides to partner with a not-for-profit organisation that runs youth camps in the local area. Tony assures Youth Inc's board that the partner organisation is a well-run and financially stable organisation that would be a good cultural fit.

A few months into the partnership things start going wrong. There have been several requests made by the partner organisation for money, and the partner organisation has not paid their share of the lease in several weeks. The board finds out that their partner organisation has been trading while insolvent, and that Youth Inc. is potentially liable to pay some outstanding bills.

Youth Inc's board relied on Tony's professional advice to help them find a suitable partner organisation.

Board members have protections available to defend claims of a breach of duty if they can show they have taken reasonable steps to comply with their duty of care, skill, and diligence. Part of the defence might be formed if a board member can show they made the decision based on expert advice and relied on that advice in good faith and, subsequently made their own independent assessment of the information having regard to their own knowledge of the organisation, the complexity of the structure and the operation of the organisation.

If, however, the board member relied on the advice without conducting their own independent assessment, they may be in breach of their duty to exercise reasonable care, skill and diligence.



There are a range of other defences that a board member could use to argue that they did not breach their legal duty. For more information, refer to our guides:

- [Duties guide](#)
- [Guide to running a CLG](#)
- [Guide to running a registered charity CLG](#)
- [Guide to insurance and risk management for community organisations](#) which summarises the liability for board members of incorporated associations

Financial protection through an 'indemnity'



What is an indemnity?

An indemnity is an obligation contained in a document (such as an agreement, deed or an organisation's constitution) or legislation whereby a person or organisation agrees to pay for the penalties or legal fees of another person if something goes wrong or a certain event occurs. Indemnities may extend or limit the rights that parties have if a dispute does occur.



An organisation may indemnify a board member for liabilities that they may incur in the performance of their role as a board member. However, this is usually on the condition that the liability did not occur due to the member breaching their legal duties and responsibilities.



Caution

When indemnifying a board member, or considering whether to do so, make sure the organisation considers the limitations on indemnities, some of which are discussed in further detail below.

There are many reasons why an organisation may be legally required to indemnify a board member:

- In some circumstances it’s required by legislation.
- The organisation’s constitution may expressly require that the organisation indemnifies board members.
- The organisation may enter into a special agreement (often in the form of a deed) which expressly requires the organisation to indemnify the board member.

Indemnities under legislation

In some circumstances, the law:

- requires an organisation to indemnify its board members
- limits the scope of the indemnity an organisation can provide, or
- prohibits an indemnity altogether



Note – the organisation’s legal structure

Whether an indemnity is required, allowed, limited or prohibited depends on the legal structure of the organisation, and the law that has given rise to the board members' liability.



Note – indemnity for legal costs

Legislation will very often distinguish between indemnifying a board member for the costs associated with the liability they have incurred when acting as a board member and the legal costs incurred by a board member when defending an action for a liability.

Organisations which are incorporated associations

Not-for-profit organisations incorporated in Victoria under the *Associations Incorporation Reform Act 2012 (Vic)* are required to indemnify their board members against any liability incurred when acting in good faith and in the course of performing their duties as a board member.

Not-for-profit organisations that are incorporated associations in other Australian states and territories are not legally required to indemnify their board members under the applicable legislation. In the Australian Capital Territory, New South Wales, Queensland, Tasmania, Victoria and Western Australia, there is no



	<p>restriction on electing to indemnify board members under the organisation’s constitution or pursuant to a separate deed of indemnity. There are, however, limitations on this for incorporated associations in South Australia and the Northern Territory.</p> <p>Under the legislation that governs incorporated associations in South Australia (<i>Associations Incorporations Act 1985 (SA)</i>) and the Northern Territory (<i>Associations Act 2003 (NT)</i>), incorporated associations are prohibited from indemnifying a board member for liability (except under a contract of insurance) for actions of negligence, default, breach of duty or breach of trust of that board member in relation to the incorporated association. The organisation can, however, indemnify a board member against any liability incurred in defending any legal proceedings if they are successful (ie. judgment is given in the board member’s favour, or they are acquitted).</p> <p>Seek legal advice if your organisation is in doubt over whether it is allowed to indemnify board members or has appropriately done so.</p>
<p>Organisations which are companies limited by guarantee</p>	<p>Not-for-profit organisations which have adopted a company limited by guarantee (CLG) legal structure are not legally required to indemnify their board members under the Corporations Act and could elect to indemnify board members under the organisation’s constitution or under a separate deed of indemnity. The Corporations Act does, however, place some restrictions on when a CLG (including CLGs that are registered with the ACNC) can indemnify its board members.</p> <p>Under the Corporations Act, CLGs are prohibited from indemnifying directors against any of the following liabilities (other than for legal costs):</p> <ul style="list-style-type: none"> • a liability owed by the board member to the organisation, for example failing to comply with their legal duties • a liability for monetary or compensation orders that is imposed under the Corporations Act, or • a liability owed to someone other than the organisation because the board member failed to act in good faith (that is, they failed to act honestly, fairly and loyally when making decisions for the organisation) <p>A CLG may indemnify a board member against the legal costs incurred in defending an action for a liability incurred as a board member. However, the CLG must not indemnify a person against legal costs incurred in defending an action for a liability incurred as a board member for the situations in which the court:</p> <ul style="list-style-type: none"> • finds that the board member is liable for any of the situations listed above • finds that the board member is guilty in criminal proceedings • finds that there are grounds for an order made by ASIC or a liquidator, or • denies the board member relief (a remedy) in connection with proceedings under the Corporations Act
<p>Indemnities under other laws</p>	<p>There are other laws that may restrict an organisation’s ability to indemnify a board member in full or in part. For example, under the <i>Competition and Consumer Act 2010 (Cth)</i>, an organisation may be prohibited from indemnifying a board member against liability for contravention of that Act, or the legal costs incurred in defending or resisting proceedings.</p> <p>There are also certain provisions in state and territory workplace health and safety and environmental legislation that prohibit organisations from indemnifying a board member.</p>



Indemnities under constitution or a 'deed of indemnity'

Board members may be indemnified by their organisation's constitution. They may also enter into a separate arrangement with the organisation, often referred to as a deed of indemnity.

Board members should review their organisation's constitution to determine if there is an indemnity provided and if so, whether any limitations or conditions apply to that indemnity.

If a separate deed of indemnity is entered into, board members should make sure it is consistent with the organisation's constitution and check whether any limitations or conditions apply to that indemnity.

Limitations on indemnities

It's important to be aware of the limitations of indemnities:

- as mentioned above, the ability to provide an indemnity is sometimes prohibited, or limited in an organisation's constitution, or prohibited or restricted by law
- the indemnity only works if the organisation has the funds to cover the indemnity it has provided, or if the organisation has an insurance policy that covers the indemnity
- it usually does not cover board members that have acted with deliberate recklessness or fraudulently or without good faith, and
- it will often only cover board members after a court action has been finalised (for example, the board member will have to cover their own costs and then later seek reimbursement for the legal fees incurred)

Financial protection through insurance

Insurance coverage can be important for organisations as a way of managing the risks associated with board members governing an organisation – regardless of whether an organisation agrees to indemnify or not indemnify its board members.



Caution

Remember there are two aspects to this coverage –

- cover for the board member personally, and
- cover for the organisation against any liability incurred, as a result of the board members' actions. Speak to an insurer for more information.

If the organisation indemnifies its board members, insurance helps to make sure the organisation can afford to cover the cost of the indemnity. As mentioned above, the indemnity only works if the organisation has the funds to cover the indemnity it has provided.

If the organisation doesn't indemnify its board members, insurance helps to make sure that the costs of any liability incurred by the actions of its board members, or the costs associated with legal proceedings are covered.

Some not-for-profit organisations may take out directors and officers liability insurance (often called 'D&O' insurance). This insurance provides board members with protection against personal liability if they are sued for certain 'wrongful acts' (to the extent allowed under the law) when conducting their duties as a board member. Some of these acts can include negligently giving wrong advice, requesting someone to perform a dangerous task, dismissing staff without proper authority or process, discriminatory conduct and misleading or deceiving the public in some way.

Generally, board members will only be covered if the 'wrongful act' committed was within the scope of their position in the organisation, and the wrongful act was not a wilful (that is, intentional) breach of their duty to the organisation or an improper use of their position or information.



<p>Limitations on organisations which are companies limited by guarantee</p>	<p>The Corporations Act contains limitations on when a CLG can insure its board members:</p> <ul style="list-style-type: none"> • CLGs (and CLGs that are registered charities with the ACNC) cannot pay an insurance premium against a liability (other than one for legal costs) arising out of conduct involving a wilful (that is, intentional) breach of duty in relation to the organisation, and • CLGs (but not CLGs that are registered charities with the ACNC) cannot pay an insurance premium against a liability (other than one for legal costs) arising out of the board member’s improper use of position or information (that is, to gain an advantage for themselves or someone else or cause detriment to the organisation).
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For more information, see our [risk management and insurance for community organisations guide](#).

The thing you can’t protect against – reputational damage

Despite the legal protections available to board members, there are certain situations that you can’t protect yourself from, namely damage to your own personal reputation as a board member and the reputation of the organisation. The best way to prevent this occurring is to take practical steps to protect yourself as a board member.



Example – Jenny, a volunteer board member – part 6

In Part 5 of the case study, it is also revealed that Tony is Jenny’s business partner. The decision to hire Tony is a potential conflict of interest situation for Jenny. A conflict of interest arises when a person, who has a duty to act in the best interests of another, is presented with the opportunity or potential to ‘use’ that position in some way for their own personal benefit (or for the benefit of someone else, such a relative or another related organisation). Board members have a duty to disclose any perceived or actual conflicts of interest to the board.

If Jenny was ever accused of a conflict of interest, she could argue that she managed the conflict of interest by disclosing the interest to the board, removing herself from the room when the decision to hire Tony was made by the board and this was all recorded in the meeting minutes. Because of this, she may be afforded legal protection from a breach of a duty. However, as Tony is Jenny’s business partner, it would be difficult for Jenny to protect herself, and the organisation, from the reputational damage of being so closely associated with Tony and the bad decision.



For more information about risk management, and adequately meeting the obligations of being a board member, see our guides:

- [Duties guide](#)
- [Guide to running a CLG](#)
- [Guide to running a registered charity CLG](#)
- [Guide to insurance and risk management for community organisations](#) which summarises the liability for board members of incorporated associations

Also see our fact sheet [New to a board or committee? An introduction to your role.](#)