

## **CORPORATE GOVERNANCE STATEMENT 2018**

The Board of Directors of Royal Automobile Club of Victoria (RACV) Limited is responsible for the corporate governance of the company and its subsidiaries (the Group).

This statement outlines the principal corporate governance practices and policies that the Board has established to ensure that the interests of members are protected. These practices and policies were in place throughout the financial year (unless otherwise stated) and are current as at the date of this Statement, being 29 August 2018.

RACV is a public company limited by guarantee. Although RACV is not a listed entity, the Company is nevertheless a major public company and, for this reason, the Board supports the ASX *Corporate Governance Principles and Recommendations*. The Board has therefore adopted a governance framework that reflects many of these principles and recommendations insofar as relevant to a mutual organisation.

### **Key governance roles**

This section explains the role of the Board and key participants in the RACV governance system. It considers the role of the Board, the duties of directors and office holders and the role of Management.

When reading this section, it should be remembered that the Board is ultimately accountable for all matters relating to the running of the Group. Management's role is to manage the organisation in accordance with the direction and delegations of the Board. For its part, the Board's role is to oversee the activities of Management in carrying out these delegated duties.

### **Role and functions of the Board**

The Board is accountable to RACV members for RACV's performance and has overall responsibility for the Group's operations.

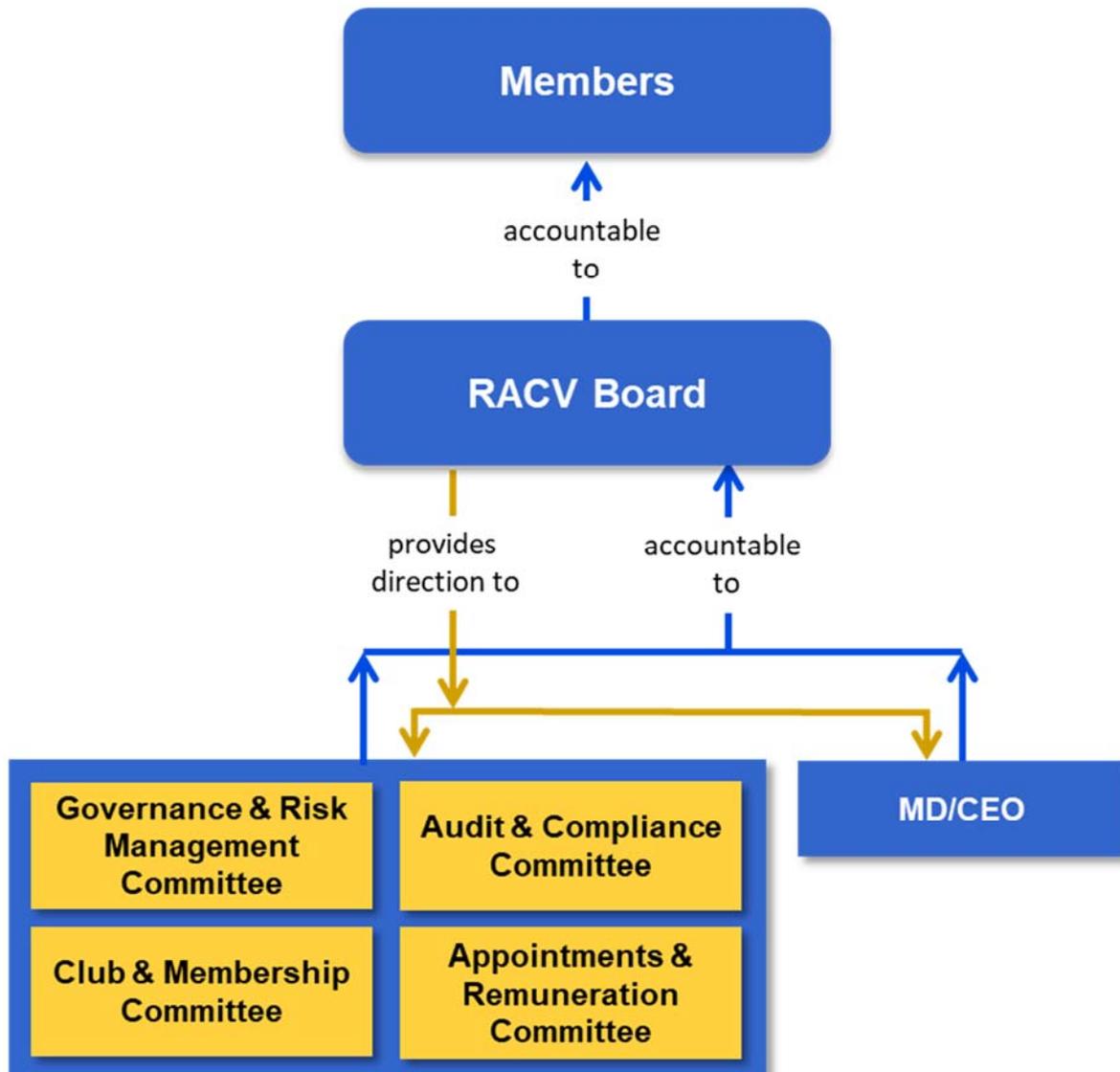
The key functions of the Board include:

- approving the strategic direction and related objectives;
- monitoring the performance of the Managing Director (MD)/Chief Executive Officer (CEO);
- approving the annual business plan and capital budgets;
- monitoring business performance and the Group's financial performance;
- monitoring the process of identifying significant business risks and approving systems and controls to manage those risks;
- monitoring the effectiveness of and compliance with Company and Group policies;
- oversight of culture; and
- reporting to members.

The Board has a number of Committees in place to which it has delegated some of the above responsibilities.

## Governance framework

The RACV Board has approved the following governance framework to ensure the Group operates lawfully and effectively. The framework provides a system of direction and controls so that performance is monitored and objectives are achieved. The governance framework also allows for the escalation of issues and risks to the appropriate level.



## Directors

As members of the peak decision-making body in the RACV, directors share ultimate responsibility for the Company's overall success. Therefore, RACV directors have an individual responsibility to ensure that the Board is undertaking its responsibilities as set out in its Constitution. Directors need to ensure that the Board is providing:

- leadership to the Company, particularly in the areas of ethics and culture;
- a clear and appropriate strategic direction;
- accountability to key stakeholders, particularly members;
- oversight of policies;

- oversight of all control and accountability systems including all financial operations and solvency, risk management and compliance;
- an effective Management team and appropriate personnel policies; and
- timely and effective decisions on matters reserved to the Board.

RACV directors have a number of fiduciary duties. These duties arise because RACV members must be able to trust their directors to act honestly and with care and diligence in the members' best interests. In the case of RACV directors, these duties are contained in the *Corporations Act 2001 (Cth)* and the *RACV Director's Code of Conduct*.

These duties are:

- duty to act for a proper purpose;
- duty of care and diligence;
- duty to act in good faith;
- duty not to improperly use information;
- duty not to improperly use position;
- duty to declare conflict of interest; and
- duty to prevent insolvent trading.

In addition to their fiduciary duties, RACV directors must also be aware of other legislation which impacts upon the RACV. This legislation includes Commonwealth and State environment laws, equal opportunity legislation, work health and safety legislation, sexual harassment legislation, industrial relations legislation and trade practices legislation. RACV directors have a responsibility to ensure the RACV is operating in accordance with these laws. In many cases, they will be liable if the RACV breaches them.

## Other governance roles

- **President & Chairman**

The President & Chairman is responsible for leadership of the Board and ensuring the Board performs its roles and functions. The President & Chairman is considered the "lead" director and utilises their experience, skills and leadership abilities to facilitate the effective contribution of directors by encouraging each one to fully participate in the Board's activities.

- **Company Secretary**

The Company Secretary holds primary responsibility for ensuring Board processes and procedures run effectively and efficiently as well as compliance duties under the *Corporations Act 2001 (Cth)*.

The Company Secretary is accountable to the Board, through the President & Chairman, on all governance matters. All directors have a right of access to the Company Secretary. In addition, the Company Secretary provide assistances and guidance to the MD & CEO as required.

- **Managing Director (MD)/Chief Executive Officer (CEO)**

The Board delegates day-to-day responsibility for the management and operation of the company to the MD & CEO but remains responsible for overseeing management's performance.

In terms of Management's relationship with the Board, the MD & CEO must act in accordance with any policies determined, and any directions given to him or her, by the Board in writing.

## Board structure

This section explains the composition of the board and Board committees, director competencies and how directors are appointed to the Board.

### Board composition

The Board comprises 12 directors:

- eleven independent non-executive directors who are elected by ballot by the members; and
- the MD & CEO who is not elected by ballot but appointed by the non-executive directors.

The positions of President & Chairman and MD & CEO are separate.

The names of current directors appear below while further details of their background, experience and professional skills are set out in the 'Directors' Report' section of the 2018 Annual Report.

Directors in office at the date of this statement are:

Mr GJ Chipp	Ms PM Kelly
Mr GO Cosgriff (Deputy Chairman)	Ms MH Kelsall
Mr A Downie	Mr G J Robinson
Ms JK Green	Mr JMS Slattery
Ms NM Griffin (President & Chairman)	Mr N Taylor (MD & CEO)
Ms JL Leonard	Mr GD Willis

### Director independence

All non-executive directors are considered to be independent.

In assessing the independence of each director, the Board considers whether they have any relationships that would materially affect their ability to exercise unfettered and independent judgment in the interests of RACV and its members. Specifically, the Board considers whether the director:

- is employed, or has previously been employed in an executive capacity by the Company or another Group member, and there has been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with the Company or another Group member other than as a director; or
- has close family ties with any person who falls within any of the categories described above.

A lack of independence does not disqualify a director. However, where the Board determines that a director is not independent, the Board must decide the extent to which the lack of independence should be addressed.

Additionally, RACV serves a strong public advocacy role with a focus on promoting the interests of members in respect of good roads, transport, mobility, safety, their lifestyle and wellbeing and

consumer protection. In this regard, through its Constitution, RACV is an apolitical organisation and as such operates on behalf of its members on an independent basis that is free from political association.

### Board skills and experience

The broad range of relevant skills, experience and expertise present on the RACV Board is represented in the table below. Based on an independent skills assessment, the Board considers that, collectively, directors have the range of skills, experience and expertise at an advanced competency level necessary to govern RACV.

**Technical Skills:** Accounting/Finance; Strategy Development and Implementation; Risk Management; Human Resource Management/Work Health and Safety/Industrial Relations; Legal, Commercial/Business Acumen; Advocacy/Communications; Digital and Data Technology

**Governance Competencies:** Strategy; Financial Monitoring and Compliance; Risk Management; Stakeholder Engagement; Effective Governance

**Behavioural Competencies:** Team Player/Collaborative; Personal Effectiveness; Integrity and High Ethical Standards; Communication; Willingness and Ability to Devote Time and Energy to the Role

To the extent that any skills are not directly represented on the Board, they are augmented through external advisors.

In the event of a casual vacancy, the Appointments and Remuneration Committee uses the Board skills matrix to review and assess the skills and experience required to discharge the Board's duties and works with an external agency to help identify suitably qualified candidates before making a recommendation to the Board.

### Term of office, retirement and re-election of directors

A Board tenure protocol was adopted in 2007, whereby each director elected or appointed after that date, serves a maximum of 12 years on the Board.

In 2015, RACV's Constitution was amended to enshrine the maximum tenure period, introduce transitional arrangements for the election of directors up until 2019 after which time, directors will be elected for a maximum of three terms each of four years. During the transition period, elections for Club and Service directors will be of varying terms.

A casual vacancy is created when a current director retires prior to the completion of their term. When a casual vacancy occurs, the Board maintains the power to decide how the position shall be filled, who shall fill it, and for what term. In filling a casual vacancy, the Board utilises the skills matrix to assist in identifying its needs and determining a short list of appropriate candidates. A casual vacancy appointment lasts until the end of the original director's current term, at which time the appointee must stand for election.

The Board elects one of the independent non-executive directors to be the President & Chairman. The President & Chairman is elected each year as soon as convenient following the Annual General Meeting pursuant to the Constitution. The President & Chairman holds office up to and including the first Board meeting following the next Annual General Meeting provided they continue to hold office as a director. The current protocol limits the President & Chairman 's term to a maximum of three one-year terms. The President & Chairman is required to tender their resignation as a director within 16 months after the expiry of their tenure as President & Chairman.

## Induction of new directors and ongoing development

New directors are provided with a formal letter of appointment which sets out the key terms and conditions of appointment, including their duties, rights and responsibilities; the time commitment envisaged; and expectations regarding involvement with committee work.

All new directors undergo an orientation program which includes meetings with the President & Chairman, the MD & CEO, each Executive General Manager and the Company Secretary. This induction gives them the opportunity to actively participate in Board decision-making as soon as possible. It provides an exposure to and understanding of the Company's financial position, strategies, operations, culture, values and risk management policies. It also explains the respective rights, duties, responsibilities, interaction and roles of the Board, senior executives and the role of the Board committees.

Pursuant to the RACV Director Education Policy, all directors are expected to maintain the skills required to discharge their obligations to the Company. Directors are encouraged to undertake continuing professional development including attendance at industry seminars and approved education courses. Subject to prior approval by the President & Chairman, the reasonable cost of continuing education and training is met by RACV. RACV maintains a register of professional development undertaken by directors to help identify future professional development needs. Directors are also provided with regular briefings by management and external consultants on current issues impacting RACV and attend relevant worksite visits. Additionally, directors take part in periodic development seminars to enhance their knowledge of governance matters, director duties and related key issues impacting RACV.

## Board Committees and membership

To increase its effectiveness, the Board has established a number of Committees. The roles and responsibilities of each Committee are set out in the respective Committee Charters, which are reviewed bi-annually.

Papers for all Committee meetings, including minutes, are made available to all Directors. Following each Committee meeting, the Board is given a report by the Chairman of that Committee. All material items are referred to the Board with a recommendation as required.

The following table provides the purpose and membership of each Committee.

Committee	Purpose	Members
<b>Audit &amp; Compliance</b>	To assist the Board in fulfilling its responsibilities in regard to the integrity of financial reporting and compliance processes	Ms JK Green Ms NM Griffin# Ms MH Kelsall* Ms PM Kelly Mr GJ Robinson Mr JM Slattery Mr N Taylor#
<b>Appointments &amp; Remuneration</b>	To provide advice to the Board on selection and remuneration policies and practices and to make recommendations related to the appointment of and remuneration for Board members, the MD & CEO and senior managers reporting to the MD & CEO.	Mr GO Cosgriff Ms NM Griffin* Ms PM Kelly Ms MH Kelsall Mr N Taylor#

Committee	Purpose	Members
<b>Governance &amp; Risk Management</b>	To assist the Board in fulfilling its responsibilities in regard to oversight of risk and the establishment of RACV's corporate governance framework and governance practices.	Mr GO Cosgriff* Ms JL Leonard Mr GD Willis Ms NM Griffin# Mr N Taylor#
<b>Club &amp; Membership</b>	To assist the Board in fulfilling its responsibilities in regard to the RACV Club, membership architecture, benefits and categories.	Mr GJ Chipp Mr A Downie Ms JK Green Ms NM Griffin Mr JMS Slattery* Mr N Taylor#

Note: \* denotes the Committee Chair; # Chairman & President and MD & CEO attend by invitation

Committees may invite other persons to meetings as deemed necessary, including directors who are non-committee members, senior executives and external advisors.

In addition to the above Committees, some directors are appointed to the Boards of subsidiary and associated companies as RACV's nominee.

## Board meetings

The Board meets regularly and whenever necessary between scheduled meetings to deal with specific matters needing attention. The Board also meets regularly to discuss RACV's strategic plan and set the overall strategic direction of RACV.

The President & Chairman and the MD & CEO establish meeting agendas for assessing RACV's coverage of financial, strategic and major risk areas. At Board meetings, directors are encouraged to participate fully and to bring their independent judgements to bear on the issues and decisions at hand

Senior managers attend Board meetings on a regular basis to present a review of operations and project updates for their business units and are questioned by directors on their responsibilities, performance, problem areas and action programs for improvement.

Minutes are kept and reviewed by the President & Chairman before approval at the following meeting. Minute books are retained.

## Board effectiveness

The ability of the RACV Board to add value to the Company and the Group can be improved by regularly assessing the Board's performance. In addition, appropriate protective measures for RACV Board members need to be in place to enable directors to make well-informed and responsible decisions within RACV's legal framework.

## Evaluating Board, Committee and director performance

The Board considers the ongoing development and improvement of its own performance as a critical input to effective governance. As a result, the Board undertakes an annual evaluation of its performance. The Board may engage an independent expert to facilitate the process. The last external review was conducted in January 2017.

In addition, each year both the Appointments and Remuneration Committee and the Board carries out a performance review process for the MD & CEO.

### Selection and remuneration

The Board has established an Appointments and Remuneration Committee whose role is to provide advice to the Board on selection and remuneration policies and practices. The Committee consists of a minimum of three non-executive directors.

The Committee is responsible for:

- providing advice to the Board on an appropriate level of payment of directors' fees within the 'cap' set by members at the Annual General Meeting;
- recommending to the Board the appointment of a director to fill a casual vacancy;
- recommending to the Board a short list of candidates for the appointment of the MD & CEO, including the terms and conditions applicable to the appointment;
- reviewing and recommending to the Board the key performance indicators for the MD & CEO, undertaking a performance review and recommending the remuneration package;
- reviewing and recommending to the Board professional development plans for the MD & CEO;
- overseeing and recommending to the Board the appointment of senior managers reporting to the MD & CEO including remuneration packages and the terms of appointment;
- reviewing RACV's remuneration policy taking into account market influences and business policies;
- reviewing the Board evaluation process and completion of regular performance evaluation assessments; and
- reviewing RACV's senior management succession planning process.

### Director protection

Protective measures for directors include:

- **Board access to information.** All directors have unrestricted access to company records and information. Directors receive regular financial and operational reports from executive management to enable them to carry out their duties. Each director enters into a Deed of Indemnity with RACV to ensure seven-year access to documents after their retirement. In addition, a retiring Director is entitled to a continuation of their Directors' and Officers' Insurance.
- **Access to the MD & CEO.** The President & Chairman and other non-executive directors regularly consult with the MD & CEO.
- **Access to independent professional advice.** The Board, and each director individually, has the right to seek independent professional advice, at RACV's expense, to help them carry out their responsibilities. While the President & Chairman's prior approval is needed, it may not be unreasonably withheld.
- **Access to the Company Secretary.** The Board collectively and each director has the right to seek information from the Company Secretary to assist them to carry out their responsibilities.
- **Directors and Officers (D&O) insurance.** RACV provides D&O insurance for directors in relation to their liability for certain acts incurred in their capacity as an RACV director.

## Integrity in financial reporting

### *ASX Corporate Governance Principles and Recommendations*

Recommendation 4.2 of the *ASX Corporate Governance Principles and Recommendations* states: 'The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.'

The RACV Board has implemented Recommendation 4.2. As a result, the MD & CEO and CFO have made the following certifications to the Board:

that the company's financial reports give a true and fair view, in all material respects, of the financial condition and performance of the group as at 30 June 2018 and comply in all material respects with accounting standards; and

that the above statement is founded on a sound system of financial risk management and internal control which, in all material respects, is operating effectively in relation to financial reporting risks.

based on the systems of financial risk management and internal control of the group and the consolidated entity, the group has adequate processes, systems and internal controls in place:

- (a) to ensure adequate financial records have been maintained;
- (b) for the production of financial information and regulatory reporting;
- (c) to ensure compliance with all relevant financial accounting and reporting laws and regulations under which its business operates.

### **Audit and Compliance Committee**

The Board is responsible for compliance with regulatory, prudential, legal and ethical standards and monitoring that management has an appropriate risk framework in place. The Board reviews RACV's key risks tri-annually.

An Audit (and Risk Management) Committee was first established by the Board in December 1995.

The responsibilities of the Audit and Compliance Committee, as set out in the Committee's Charter, relate to its objective to assist the Board in fulfilling its statutory responsibilities in regard to the integrity of financial reporting processes and internal control environment, including:

- compliance with applicable laws, regulations, standards and best practice guidelines;
- oversight of external and internal audit processes;
- considering and recommending to the Board the appointment and termination of the internal and external auditors; and
- being satisfied that the internal and external auditors remain independent of RACV.

The Audit and Compliance Committee Charter, which is available on the RACV website, details a number of guidelines regarding the composition of the Committee, including:

- annual review by the Board of the Committee's composition;

- the Committee will be comprised of no less than four directors, the majority being independent non-executive directors; and
- the Chairman of the Committee must be an independent director and must not be the current President & Chairman of the Board.

The members of the Audit and Compliance Committee are listed under the Board Committees and membership section above, while details of the relevant skills and qualifications of these directors are set out in the 'Directors' Report' section of the 2018 Annual Report.

### Auditor independence

The Board is committed to ensure that:

- RACV's financial reports present a true and fair view;
- RACV's accounting methods are comprehensive and relevant to comply with applicable accounting rules and policies; and
- the external auditor is independent.

RACV's external auditor is PwC. PwC was appointed by members at the 1999 Annual General Meeting in accordance with the provisions of the *Corporations Act*. The Board has adopted a policy that the responsibilities of the lead audit partner cannot be performed by the same person for longer than five years. The present PwC lead audit partner for RACV is Mr Jim Power, who assumed this responsibility in February 2014.

RACV's external auditor attends the Annual General Meeting and is available to answer questions from members on:

- the conduct of the audit and preparation and content of the audit report;
- the accounting policies adopted by RACV in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

### Certifications and discussions with the external auditor on independence

The Audit and Compliance Committee requires regular confirmation from the external auditor that it has maintained its independence and has complied with the independence standards as promulgated by Australian regulators and professional bodies.

Periodically, the Committee meets separately with the external auditor without executive management being present. A copy of the external auditor's declaration of independence is contained in the 2018 Annual Report.

### Restrictions on non-audit services by the external auditor

To avoid possible independence or conflict issues, the external auditor is not permitted to carry out certain types of non-audit services for RACV, including:

- financial information systems design and implementation;
- appraisal or valuation services or other corporate finance activities; and
- internal audit.

It is RACV policy to engage the external auditor on assignments additional to their statutory audit duties where their expertise and experience with RACV is important. These assignments are principally non-audit and other assurance services. It is RACV policy to seek competitive tenders for all major consulting projects.

## Risk management

### Approach to risk management

The Board is committed to effective risk management and all executives are accountable for managing risk within their area of responsibility. They are also required to manage risk as part of their business objectives and RACV's approach to risk management is integrated across business processes.

RACV has specific policies and processes which deal with the key areas of financial, reputational, people, service delivery and legal risks.

RACV recognises economic, environmental and social sustainability risks and is committed to conducting its business in an environmentally sustainable way. These type of risks have been incorporated into RACV's risk management framework.

### Risk management roles and responsibilities

The Governance and Risk Management Committee oversees the implementation and maintenance of RACV's Risk Management Framework. Regular reports are received by the Board and the Governance and Risk Management Committee from management on risk matters throughout the year.

RACV's Risk Management Framework also includes an internal audit function. This function is outsourced and is independent from the external auditor. The role of internal audit is to provide an independent, objective assurance and separate consulting service to RACV through the Audit and Compliance Committee. RACV's risk management framework assists in achieving RACV's broad objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes.

## Ethical and responsible decision-making

### Codes of conduct

RACV's codes of conduct set out the principles that govern RACV's conduct and the behaviour which stakeholders can expect from RACV. The codes of conduct apply without exception to all staff and are aligned with RACV's core values and behaviours.

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest and duty.

Furthermore, directors may not make any representations or agreements on behalf of RACV unless such an authority is explicitly delegated by the Board, through a resolution to the director either individually, or as a member of a Board Committee.

### Concern Reporting and Whistleblowing

RACV has a number of key policies to manage its compliance and human resource requirements. There are a range of guidelines, communications and training processes and tools to support these policies. Individual business units also have systems and procedures in place to support RACV policies.

Employees are encouraged to bring any problem to the attention of Management or the People and Culture team. This includes activities or behaviour that may not be in accord with the Code of Conduct, other RACV policies, or other regulatory requirements or laws. RACV also has a Whistleblowing Policy in place.

## Workplace diversity policy

RACV's Workplace Diversity Policy recognises that a talented and diverse workforce is a key competitive advantage and our success is a reflection of the quality and skills of our people.

RACV's diversity related information for the year is set out in the 2018 Annual Report.

## Member communications

RACV promotes timely and balanced disclosure of all material matters concerning the Group.

The Board is aware of the importance of effective communication with its members and encourages participation in Board elections and Annual General Meetings.

Relevant information is conveyed to members through the RACV *RoyalAuto Magazine*, the RACV website, media releases and the Annual Report.

All relevant member information can be accessed at [www.racv.com.au](http://www.racv.com.au).

Approved by the RACV Board on 29 August 2018.