

Corporate Governance Statement 2016-17

Queensland Rail is committed to ensuring that its systems, procedures and practices reflect the highest standards of corporate governance. Processes have been established to ensure that Queensland Rail's corporate governance practices are reviewed regularly and are continually refined in accordance with its enterprise governance framework.

Guidelines

The responsible Ministers have requested that while Queensland Rail is no longer a government owned corporation, Queensland Rail will continue to apply the *Corporate Governance Guidelines for Government Owned Corporations*, issued by the Queensland Government.

The guidelines reference the *Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations* and they provide the framework for government owned corporations to develop, implement, review and report on their corporate governance arrangements.

An overview of existing corporate governance practices in line with the above guidelines is set out below.

Principle 1 – Foundations for management and oversight

The roles and responsibilities of the Board and individual members are defined in the Board Charter. These roles and responsibilities are reviewed by the Board annually and a copy of the charter is available at queenslandrail.com.au

In accordance with section 15 of the *QRTA Act* the Board's specific functions include:

- Deciding the strategies and the operational, administrative and financial policies of Queensland Rail
- Ensuring Queensland Rail performs its functions and exercises its powers in a proper, effective and efficient way
- Ensuring that, so far as is practicable, Queensland Rail acts under, and achieves the objects in, the strategic and operational plans
- Accounting to the responsible Ministers, as required under the *QRTA Act*, for the performance of Queensland Rail
- Reviewing the performance of the Chief Executive Officer on an annual basis.

In exercising its functions and powers, the Board's key responsibilities include:

- Business strategy and expenditure
- Delegation of authority to senior executive
- Relations with responsible Ministers and key stakeholders
- Financial matters and risk management
- Ethics, governance and policy
- Senior executive appointments.

The Board has delegated responsibility for the day-to-day operation of Queensland Rail to the CEO including the implementation and delivery of the Board's strategic direction. The CEO is supported by the senior executive team with management responsibilities clearly defined and documented through formal position descriptions, performance plans and the Board approved *Authorities, Approvals and Accountabilities Policy*.

Newly appointed members are taken through a formal induction process to provide them with an overview of business operations, strategies and information in relation to the Board and committee functions. The induction process assists the members to understand their roles and responsibilities within Queensland Rail and includes an overview of key corporate expectations, existing governance arrangements and the culture and values of the organisation. Induction materials and individual briefings were provided to incoming members. A formal induction session was not held given the high level of Board activity during the year.

Members are issued with a comprehensive Board handbook that details Queensland Rail and Board operational information, governance requirements and policies. The Board handbook assists with the induction process and also supports existing members with their ongoing governance responsibilities. The handbook is reviewed and updated annually.

Performance evaluations for the CEO and senior executives are carried out each financial year in accordance with Queensland Rail's remuneration framework and the Board approved *Performance Payment Policy: Chief and Senior Executives*. The performance evaluation for the CEO is conducted by the Board and is based on the achievement of agreed Key Performance Indicators (KPIs), which are set annually by the Board and are linked to the strategic and operational objectives of Queensland Rail. The performance evaluation for senior executives is carried out in accordance with the same process based on the achievement of agreed KPIs. The evaluation is conducted by the CEO and the Board.

The outcome of annual performance evaluations for the CEO and senior executives are provided to responsible Ministers in accordance with the *Policy for Government Owned Corporation Chief and Senior Executives Employment Arrangements*.

Principle 2 – Structure the Board to add value

All members of the Board, including the Chair, are non-executive members. Queensland Rail members are appointed by the responsible Ministers in accordance with the *QRTA Act*. As such, the size and composition of the Board is determined by the responsible Ministers.

The Board considers that all Board members who held office during the year are independent as defined under the *ASX Corporate Governance Principles and Recommendations*. In assessing the ongoing independence of each member, the Board considers the assessment criteria outlined in the ASX recommendations. Materiality in relation to independence is considered on a case-by-case basis with reference to each member's individual circumstances.

Board members are required to keep the Board advised, on an ongoing basis, of any business interests and other directorship and employment roles that may conflict with those of Queensland Rail.

In circumstances where a conflict is believed to exist, the member concerned does not take part in any decision or consideration of the issue. In addition, the member will not receive copies of the relevant Board papers. Members must notify the Board via the Company Secretary of changes to business interests and appointments which could potentially conflict with their role as Board member for Queensland Rail.

Details of the current Board members' experience and expertise are disclosed in this annual report as is information on attendance at Board and committee meetings. Information in relation to composition of the Board and terms of appointment for all members who held office during the financial year is set out on pages 43-45 of the Annual Report 2016-17 and pages 29-30 of the Financial Report 2016-17.

A process is in place whereby members, either collectively or individually, may seek independent professional advice where it is considered necessary to fulfil their duties and responsibilities. This is done at Queensland Rail's expense. A member wishing to seek such advice must first obtain the approval from the Chair.

Members are encouraged to further their knowledge through participation in industry, governance and government forums and attend seminars hosted by the Australian Institute of Company Directors, Governance Institute of Australia and other peak professional bodies. In addition to peer review, interaction and networking with other directors and industry leaders, Queensland Rail Board members participate in Queensland Rail leadership forums and actively engage with Queensland Rail employees and visit Queensland Rail operations to gain an understanding of operational employee requirements, challenges and issues.

The ongoing provision of timely and relevant information to the Board is of critical importance in enabling the Board to effectively discharge its obligations in accordance with the requirements of the *QRTA Act*. The structure, format and content of Board agendas and Board papers presented to Board members for consideration and approval, along with Board paper quality and timeliness, is reviewed on an ongoing basis with a formal review annually.

The Board reviews its own performance and that of the committees of the Board on a regular basis to ensure they are working effectively. The Board participates in regular Board member-only sessions that provide an opportunity for the Board members to review and analyse their current performance as a Board and discuss any issues that may exist.

A formal Board performance evaluation is conducted on an annual basis to achieve and maintain corporate governance best practice and continual improvement. An independent consultant is engaged to assist with the evaluation every second year, with the latest independent review undertaken during 2015-16.

The performance evaluation process generally includes the evaluation of the Board as a whole, the chair and the effectiveness of the Board committees. The process is undertaken through a formal questionnaire completed by each member and members of the senior executive team. The review considers a range of issues including Board role, strategy, monitoring performance, risk and compliance oversight, stakeholder communication, Board structure and processes. The independent Board evaluation for 2015-16 was completed in June 2016 with written

advice of the outcome of the evaluation provided to responsible Ministers in August 2016. An internal Board evaluation for 2016-17 is scheduled to be undertaken later in the year.

Principle 3 – Promote ethical and responsible decision making

Queensland Rail has well established policies, procedures and practices that seek to promote ethical standards of behaviour and a culture of compliance that is risk aware and embraces good governance practices in accordance with corporate, legal and community obligations.

These expected standards of integrity, honesty and accountability are reflected in the formal *Code of Conduct*, which applies to all Board members, employees, consultants and contractors and is aligned with the organisation's strategic objectives. The *Code of Conduct* is supported by other policy related documents in relation to ethics, privacy, dealing with conflicts of interest, trading in securities and official misconduct.

While as a statutory authority, Queensland Rail does not issue shares, the organisation has established standards and procedures that set out the legal duties that apply to members and employees in relation to the potential misuse of information including the insider trading prohibition under the *Corporations Act 2001 (Cth)*.

Ongoing training in relation to ethical business practices is provided by the organisation and the Queensland Rail *Code of Conduct* also forms part of the induction process for new employees, consultants and contractors. A copy of the *Code of Conduct* is available on the Queensland Rail website.

Queensland Rail also has in place related processes and policy documents setting out the requirements of the *Public Interest Disclosure Act 2010 (Cth)*, which facilitates disclosure of public interest information and provides protection for those who make public disclosures.

Principle 4 – Safeguard integrity in financial reporting

The Board has established an Audit and Risk Committee that reviews the integrity of Queensland Rail's financial reporting systems. The committee is governed by its own charter, which is approved by the Board and reviewed annually. A copy of the Audit and Risk Committee charter is available on the Queensland Rail website. The committee assists the Board by reviewing and monitoring assurance activities over business operations, the effectiveness of internal controls, regulatory reporting, financial risks, compliance issues and enterprise risk management frameworks. The committee is responsible for oversight and monitoring both internal and external audit functions.

The role of the chair of the committee is not held by the Chairman of the Board and all committee members are independent non-executive members. Membership of the committee and details of attendance at meetings is disclosed on pages 43-44 of the Annual and Financial Report 2016-17.

The CEO and CFO certify in writing that the Queensland Rail financial report represents a true and fair view of Queensland Rail's financial position and performance, and that it has been prepared in accordance with the appropriate Australian Accounting Standards, Statement of Accounting Concepts, Interpretations and Framework for the Preparation and Presentation of Financial Statements in all material respects.

Queensland Rail's internal audit function provides independent assurance to key stakeholders including the Audit and Risk Committee, CEO and senior executives regarding the adequacy and effectiveness of the organisation's system of internal controls, risk management procedures and governance processes throughout the organisation. To maintain independence the internal audit function is governed by the Queensland Rail internal audit charter which is approved by the Audit and Risk Committee.

Queensland Rail has a detailed internal audit plan that is managed by the Senior Manager Internal Audit and General Counsel and Executive General Manager Governance. The risk based internal audit plan is developed through extensive internal and external consultation and a review of the organisation's risk register. This plan is ultimately approved and monitored by the Audit and Risk Committee through regular reporting provided by the Senior Manager Internal Audit.

In addition to the annual internal audit plan the internal audit function completes management request audits throughout the year.

In accordance with the *Auditor-General Act 2009 (Qld)*, the external audit function of Queensland Rail is performed by the Queensland Audit Office. The Audit and Risk Committee monitors the performance of the external auditors on an annual basis.

Principle 5 – Make timely and balanced disclosure

Queensland Rail has established communication protocols and standards in relation to the disclosure of public information and regularly assesses the information needs of all stakeholders to ensure that they continue to be informed about activities in a timely and accurate manner.

In addition, the organisation has a dedicated Government and Community Relations team to assist with management of government and regulatory relationships and the co-ordination of information and reporting requests.

Regular communications are initiated with key stakeholders including responsible Ministers and government representatives. The Chair and CEO meet with responsible Ministers and/or their representatives on a regular basis. Queensland Rail management also meets with representatives of the responsible Ministers after each Board meeting to provide an update on the agenda items considered and discuss any relevant governance matters. Information needs of these stakeholders are also discussed at Board meetings. As required by the *QRTA Act*, detailed quarterly reports are provided to responsible Ministers and their representatives, as well as individual ministerial briefings on specific issues. These reports include information regarding financial performance, updates on major capital programs, key operational matters, risk management and governance issues as well as information required to be given in accordance with Queensland Rail's operational and strategic plans.

Principle 6 – Respect the rights of shareholders

Queensland Rail respects the rights of responsible Ministers as the ultimate owners of the business. The Board and senior executives of Queensland Rail engage with responsible Ministers and their representatives on a regular basis. As at 30 June 2017, Queensland Rail's responsible Ministers were the Honourable Jackie Trad MP, Deputy Premier, Minister for Transport and Minister for Infrastructure and Planning; and the Honourable Curtis Pitt MP, Treasurer, Minister for Trade and Investment. Queensland Rail is committed to ensuring that responsible Ministers and their representatives are provided with information to make informed assessments of Queensland Rail's operational and financial performance and position.

Queensland Rail prepares an operational plan and strategic plan for responsible Ministers' approval in accordance with the *QRTA Act*. The operational plan and strategic plan are formal performance contracts between Queensland Rail and the responsible Ministers detailing proposed undertakings and target performance for the year ahead.

In line with the requirements of the *QRTA Act*, responsible Ministers are advised in a timely manner of all issues likely to have a significant financial, operating, employee, community or environmental impact including those matters that may prevent or significantly affect achievement of the performance objectives outlined in the operational plan.

Approval of responsible Ministers is sought for major investments and expenditure outlays, as well as Queensland Rail's entry into significant supply or customer contracts in accordance with agreed Investment Guidelines.

Principle 7 – Recognise and manage risk

Queensland Rail recognises that effective risk management and compliance frameworks are a key element of an organisation's corporate governance process. The Board has approved a Risk Management Policy and associated framework for identifying, assessing and managing Queensland Rail's strategic, operational, financial and reputation risks.

The objectives of the policy are to:

- Maintain an integrated, fit for purpose, leading practice risk management framework which facilitates the effective management of risks and also provides assurance that risks are being effectively managed and controls are effective
- Ensure the risk management system, together with associated risk tools, allow for the consistent and reliable application of the risk management framework
- Ensure that there are clearly defined roles and responsibilities for managing risk within Queensland Rail
- Ensure that risk management related roles and adequate resources are allocated throughout the business to meet the requirements of the Risk Management Policy
- Ensure that risk management is an integral part of Queensland Rail decision making and business planning
- Document all risks, risk assessments and related controls into risk registers in an agreed business system
- Based on the Board's approved risk appetite, apply risk tolerance levels to ensure the appropriate management and reporting of risk

- Provide risk management training and support to employees to ensure education and awareness of risk management requirements to improve the knowledge, skills and proficiency of risk practitioners, risk champions and others within the organisation
- Assess and continuously improve the effectiveness of the risk management framework and related processes and controls via on-going monitoring, periodic reviews, communication and consultation
- Promote a culture of accountability and responsibility for risk management by including risk related performance measures in individual performance and development plans.

The approach defined within the Risk Management Policy is consistent with the Australian and New Zealand risk management standards (ISO 31000:2009). Supporting the policy is a framework prepared to guide the various business functions in addressing their particular risks through a structured risk management approach. The framework is designed to ensure risks are regularly identified, assessed, monitored and reported to the Board on a periodic basis, along with appropriate risk mitigation and management plans.

The Board evaluates reported risks reaching a defined enterprise risk tolerance level and actively monitors these risks and associated controls, including any additional risk mitigation treatments that are proposed. Assurance activities are undertaken to ensure that the controls are operating effectively.

The Board has charged management with the responsibility for managing risk within the organisation and the implementation of mitigation measures, under the direction of the CEO and supported by senior executives. The group risk management function, led by the General Manager, Risk, Compliance and Insurance and General Counsel and Executive General Manager Governance has been established to facilitate the process by providing a centralised role in advising the various business functions on executing risk management and mitigation strategies, as well as consolidating risk reporting to senior executives and the Board.

The CEO and CFO have declared in writing to the Board that Queensland Rail's risk management and control system is operating efficiently, effectively and economically in all material respects based on representations by management.

Queensland Rail has established an appropriate fraud control framework for the ongoing monitoring and co-ordination of fraud control activities. The framework is supported by the *Code of Conduct* and associated governance principles, standards and procedures that outline employee obligations in relation to ethical behaviour and the process for reporting, recording and investigating allegations of fraud.

A dedicated ethics hotline has been established to enable employees to report any concerns regarding unethical conduct, breaches of the law and suspected fraud or corrupt conduct. A dedicated Crime and Corruption Commission (CCC) Liaison Officer manages the obligations under the *Crime and Corruption Act 2001 (Qld)* in relation to notification of suspected corrupt conduct to the CCC.

Principle 8 – Remunerate fairly and responsibly

The Board has established a People and Safety Committee that, among other things, oversees and monitors Queensland Rail's remuneration framework. The committee is governed by its own charter, which is approved by the Board and reviewed annually. A copy of the People and Safety Committee charter is available on the Queensland Rail website. The committee assists the Board in the effective discharge of its governance and oversight responsibilities relating to human resource and safety practices. It achieves this, in part, by reviewing, overseeing and providing recommendations on the recruitment, termination, retention, succession planning and annual remuneration and performance review of the CEO and senior executives including the establishment of appropriate performance measures.

Membership of the committee and details of attendance at meetings is disclosed on page 44 of the Annual and Financial Report 2016-17. Queensland Rail recognises that the achievement of its corporate objectives is dependent on the efforts of its people and has established remuneration policies, procedures and frameworks designed to attract and retain high calibre employees and to align individual and team efforts to agreed KPIs linked to the operational and strategic plans of the organisation.

The senior executive remuneration arrangements are subject to approval or endorsement by the Board in accordance with the Policy for Government Owned Corporation Chief and Senior Executive Employment Arrangements. Remuneration for Board members is established by the responsible Ministers in accordance with the *QRTA Act*. Details of the nature and amount of payments to each Queensland Rail Board member and specified Queensland Rail senior executives are set out in the Annual and Financial Report 2016-17.

Government policies and guidelines

Queensland Rail complies with relevant government policies and guidelines in accordance with the requirements of the responsible Ministers.