



**Key Employment Association Incorporated
Corporate Governance Handbook**

May 2004

Foreword

Key Employment Association Incorporated was formed in November 1992 with the principal aim to find jobs for people with disabilities in our local region.

Supported by a Board of Management that has been extremely stable over those years the work of the Association has been hugely successful. The Board of Management has operated under fair and ethical business practices and has formed best practice standard processes for its reporting and acquittal responsibilities. However it is now time to articulate these processes into a supportable and supported framework for corporate governance which could provide a practical guide for directors, staff, members and users of the service.

The enhancement of corporate accountability and the adoption of this framework for reporting is a major evolution in corporate governance practice in Australia and a necessary step towards the achievement of Key Employment's corporate goals. Yet the corporate governance regime must be sufficiently flexible to cope with a constantly changing environment. Just as a healthy and robust business environment evolves with circumstances, so too must corporate governance best practice. The ongoing relevance and effectiveness of these practices will be reviewed annually.

Chris Worboys

Manager

What is corporate governance? And how is it achieved?

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the Association are set and achieved, how risk is monitored and assessed, and how performance is optimised. Good corporate governance structures encourage companies to create value (through entrepreneurship, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved.

What constitutes good corporate governance will evolve with the changing circumstances of a Association and must be tailored to meet those circumstances. Best practice must also evolve with developments both in Australia and overseas. There is no single model of good corporate governance. This document articulates 10 core principles adapted from the ASX Corporate Governance Council which underlie good corporate governance.

Fundamental to any corporate governance structure is establishing the roles of management and the Board (Principle 1), with a balance of skills, experience and independence on the Board appropriate to the nature and extent of Association operations (Principle 2). There is a basic need for integrity among those who can influence a Association's strategy and financial performance, together with responsible and ethical decision-making (Principle 3).

Meeting the information needs of the local community is also paramount in terms of accountability and transparency. Presenting the Association's financial and non-financial position requires processes that safeguard, both internally and externally, the integrity of Association reporting (Principle 4), and provide a timely and balanced picture of all material matters (Principle 5). The rights of Association members need to be clearly recognised and upheld (Principle 6).

Every business decision has an element of uncertainty and carries a risk that can be managed through effective oversight and internal control (Principle 7).

Keeping pace with the modern risks of business and other aspects of governance requires formal mechanisms that encourage enhanced Board and management effectiveness (Principle 8). Fair and appropriate remuneration systems (Principle 9) serve an important management purpose and the recognition of the rights and needs of all Association stakeholders (Principle 10) must be recognised and upheld.

Acknowledgements

Key Employments Corporate Governance principles and procedures have benefited from the invaluable contributions made by a number of sources including the FaCS developed publication Corporate Governance Handbook for the Board (Oct 2001), the ASX Corporate Governance Council and KEA director and Treasurer John Newell Area Manager Bunnings. Key Employment is most grateful for their input and guidance.

The corporate governance principles of the Board of Management of Key Employment Association Incorporated.

| Principle | Page |
|--|-------------|
| 1. Lay solid foundations for management | 7 |
| Recognise and publish the respective roles and responsibilities of Board and management. | |
| 2. Structure the Board to add value | 10 |
| Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. | |
| 3. Promote ethical and responsible decision-making | 15 |
| Actively promote ethical and responsible decision-making. | |
| 4. Safeguard integrity in financial reporting | 18 |
| Have a structure to independently verify and safeguard the integrity of the Association's financial reporting. | |
| 5. Make timely and balanced disclosure | 19 |
| Promote timely and balanced disclosure of all material matters concerning the Association. | |

| | |
|---|-----------|
| 6. Respect the rights of members | 20 |
| Facilitate the effective exercise of members rights. | |
| 7. Recognise and manage risk | 21 |
| Establish and maintain a risk management process. | |
| 8. Encourage enhanced performance | 22 |
| Fairly review and actively encourage enhanced Board and management effectiveness. | |
| 9. Remunerate fairly and responsibly | 23 |
| Define, implement and monitor an effective remuneration policy. | |
| 10. Recognise the legitimate interests of stakeholders | 24 |
| Recognise legal and other obligations to all legitimate stakeholders. | |

Principle 1:

Lay solid foundations for management

Recognise and publish the respective roles and responsibilities of Board and management.

The Association's framework is designed to:

- enable the Board to provide strategic guidance for the Association and effective oversight of management
- clarify the respective roles and responsibilities of Board members and senior executives in order to facilitate Board and management accountability to both the Association and its stakeholders
- ensure a balance of authority so that no single individual has unfettered powers.

The procedures and practices to support this principle include the preparation of a formal statement of matters reserved to the Board and those delegated to management. Disclosing the division of responsibility assists those affected by corporate decisions to better understand the respective accountabilities and contributions of Board and management.

The division of responsibility may vary with the evolution of the Association and thus will be reviewed annually.

Statement of Responsibilities of the Board

The Board of Management of Key Employment Association Incorporated is responsible for:

- oversight of the Association, including its control and accountability systems
- appointing and removing the manager
- input into and final approval of management's development of corporate strategy and performance objectives
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures
- approving and monitoring financial and other reporting.

To assist directors clearly understand corporate expectations of them formal letters of appointment for directors setting out the key terms and conditions relative to that appointment are used. The contents of this letter of appointment include:

- Term of appointment.
- Time commitment envisaged.
- Powers and duties of directors.
- Any special duties or arrangements attached to the position.
- Circumstances in which an office of director becomes vacant.

- Expectations regarding involvement with committee work.
- Remuneration and expenses.
- Requirement to disclose directors' interests and any matters which affect the director's independence.
- Fellow directors.
- Induction training and continuing education arrangements.
- Access to independent professional advice.
- Indemnity and insurance arrangements.
- Confidentiality and rights of access to corporate information.
- A copy of the constitution.

Principle 2:

Structure the Board to add value

Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

Key Employment Association recognises that an effective Board is one that facilitates the efficient discharge of the duties imposed by law on the directors and adds value in the context of the particular Association's circumstances.

The Board of Key Employment is structured in such a way that it has a proper understanding of, and competence to deal with, the current and emerging issues of the business and can effectively review and challenge the performance of management and exercise independent judgement.

It achieves this Principle by ensuring that a majority of the Board are independent directors as defined by the Corporate Governance Council of the ASX.

“An independent director is independent of management and free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.”

The Association accepts that the chairperson should be an independent director and should not also act as manager.

The process of assessing for independence is based on the following criteria:

An independent director is a non-executive director (ie is not a member of management) and:

1. Within the last three years has not been employed in an executive capacity by the Association or another group member, or been a director after ceasing to hold any such employment
2. Within the last three years has not been a principal of a material professional adviser or a material consultant to the Association or another group member, or an employee materially associated with the service provided
3. Is not a material supplier or customer of the Association or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
4. Has no material contractual relationship with the Association or another group member other than as a director of the Association
5. Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Association
6. Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Association.

Disclosure of independence

The Board regularly assesses the independence of each director in light of interests disclosed by them. So that it can do this, each director provides to the Board all relevant information upon appointment and then as necessary. Independent Directors are identified as such in the corporate governance section of the annual report along with each director's period of office. Where the independent status of a director is lost a meeting of the full Board of Management will be held as soon as possible to decide on possible action.

Selection of directors

A formal and transparent procedure for the selection and appointment of new directors to the Board is in place so as to promote understanding and confidence in that process. The Association has developed and implemented a plan for identifying, assessing and enhancing director competencies and succession plans are in place to maintain an appropriate balance of skills, experience and expertise on the board. The Board has a maximum number of members set at 11 recognising the importance of size and composition to expedient decision making.

The names of candidates submitted for election as director are accompanied by the following information to enable members to make an informed decision on their election:

- biographical details, including competencies and qualifications and information sufficient to enable an assessment of the independence of the candidate
- details of relationships between the candidate and the company and the candidate and directors of the company
- directorships held
- particulars of other positions which involve significant time commitments
- the term of office currently served by any directors subject to re-election
- any other particulars required by law.

Non-executive directors are appointed for 1 year subject to re-election and to the Associations Constitution regarding the removal of a director. Re-appointment of directors is not automatic.

The following material is included in the corporate governance section of the annual report:

- the skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report
- the names of the directors considered by the board to constitute independent directors

- a statement of the procedure agreed by the Board for directors to take independent professional advice at the expense of the company
- the term of office held by each director in office at the date of the annual report

Principle 3

Promote ethical and responsible decision-making

Actively promote ethical and responsible decision-making.

The Association uses a code of conduct to clarify the standards of ethical behaviour required of company directors and key executives (that is, officers and employees who have the opportunity to materially influence the integrity, strategy and operation of the business and its financial performance) and insists on the observance of those standards.

Code of Conduct

1. A Board member must act honestly, in good faith and in the best interests of the organisation as a whole.
2. A Board member has a duty to use due care and diligence in fulfilling the functions of office and exercising powers attached to that office.
3. A Board member must use the powers of office for a proper purpose, in the best interest of the organization as a whole.

4. A Board member must recognize that the primary responsibility is to the organization as a whole but should, where appropriate, have regard to the interests of all stakeholders in the organisation.
5. A Board member must not make improper use of information acquired as a Board member.
6. A Board member must not take advantage of being in the position of Board member.
7. A Board member must not allow personal interests or the interests of any associated person to conflict with the interest of the organisation.
8. A Board member has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board.
9. Confidential information received as a Board member in the course of exercising those duties remains the property of the organisation from which it was obtained and it is improper to disclose it or allow it to be disclosed, unless that disclosure has been authorised by that Association, or the person from whom the information is provided, or is required by law.

10. A Board member should not engage in conduct likely to bring discredit to the organisation.

11. A Board member has an obligation, at all times, to comply with the spirit, as well as the letter, of the law.

Principle 4

Safeguard integrity in financial reporting

Have an independent structure to verify and safeguard the integrity of the Associations financial reporting.

Key Employment has in place a structure of review and authorization designed to ensure the truthful presentation of the Associations financial position as well as a process to ensure the independence and competence of the external auditors.

The manager states in writing to the board at each meeting that the financial reports present a true and fair view in all material respects of the Association's financial condition and operational results and are in accordance with relevant accounting standards.

The manager and treasurer report to the board using guidelines established by the external auditor. Their reports are prepared by the manager, checked by the auditor, approved by the treasurer before being presented to the Board as a true and accurate representation of the Associations financial position.

The Association appoints its external auditor annually at the AGM.

Principle 5

Make timely and balanced disclosure

Promote balanced and timely disclosure on all matters concerning the Association.

The Board has in place mechanisms to ensure that members, funding providers and others are provided with balanced, fair, factual and clear information.

This principle is served by meeting contractual requirements and acquittals in a timely fashion and by publishing this data and information in annual reports. This includes commentary in Easy English on the financial results to enhance the clarity and balance of reporting and to make it more accessible across a range of readerships.

Principle 6

Respect the rights of members

Facilitate the effective exercise of members' rights.

The Association empowers its members by communicating effectively with them, giving them access to balanced and understandable information and making it easy for them to participate in meetings. This communications strategy promotes effective communication with members and encourages effective participation at general meetings. We take advantage wherever practicable of new technologies to provide greater opportunities for this communication and to improve access for those unable to attend meetings. The Board facilitates member interaction and participation by regular newsletters and financial and /or physical assistance for members to attend general meetings. The Association maintains a website.

The Association's external auditor attends Annual general meetings and is available to answer questions about the conduct of the audit and the preparation and content of the auditor's report as well as any questions on the financial situation of the Association.

Principle 7

Recognise and manage risk

Establish and maintain a sound risk management process.

KEA has a sound system of risk oversight, management and internal control which is designed to identify, assess, monitor and manage risk with well established policies on risk oversight and management. These clearly describe the roles and respective accountabilities of the Board, management and the internal audit function and include the following components: oversight; risk management; compliance and control and assessment of effectiveness.

The Association uses the internal audit to analyse the effectiveness of its risk management and internal compliance and control system and of the effectiveness of their implementation. This internal audit function is independent of the external auditor and reports to management with all necessary access to management and the right to seek information and explanations. The Board has access to the internal audit function without the presence of management.

Principle 8

Encourage enhanced performance

Fairly review and actively encourage enhanced Board and management effectiveness.

Directors and management are equipped with the knowledge and information they need to discharge their responsibilities effectively and individual and collective performance is regularly and fairly reviewed. The process for performance evaluation of the Board, committees, individual directors and management is disclosed and open with regular performance reviews against measurable and qualitative indicators.

KEA has a nomination committee which takes responsibility for evaluating the Boards' performance and is also responsible for ensuring that an effective induction process is in place with regular reviews of its effectiveness. The induction procedure is designed to allow new Board appointees to participate fully and actively in decision making at the earliest opportunity. Similar induction processes are also in place for key executives.

Directors and key executives have access to continuing education to update and enhance their skills and knowledge including education concerning key developments in the Association and within the industry community and environment within which it operates.

Principle 9

Remunerate fairly and responsibly

Define, implement and monitor an effective remuneration policy.

The Association ensures that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined. The focus of this policy is to attract and maintain talented and motivated employees so as to encourage enhanced performance of the Association.

As the work of the Association's Board is voluntary this principle is achieved by the transparent application of award wage conditions for all staff and the annual review process of salary for management.

Principle 10

Recognise the legitimate interests of stakeholders

Recognise legal and other obligations to all legitimate stakeholders.

The Board recognises its legal and other obligations to all legitimate stakeholders such as employees, clients /employers and the community as whole. It is accepted that Key Employment can create value by better managing natural, human, social and other forms of capital.

Key Employment has and discloses a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders. The code of conduct enables employees to alert management and the Board in good faith to potential misconduct without fear of retribution and requires recording and investigation of such alerts. There is in place a system for ensuring compliance with this code of conduct and for dealing with complaints.