

Policy - Financial Governance

Policy

Governance and oversight of financial management of the Corporation is the responsibility of the board.

In order to meet its financial governance obligations, management and staff must:

1. Administer, plan and report financial transactions in accordance with applicable Accounting Standards and Government Directions
2. observe the highest standards of integrity in financial matters and maintain a strict separation between work-related and personal financial matters and only use or authorise the use of public financial resources or facilities for work-related purposes
3. provide adequate information in order to:
 - 3.1 [Financial Planning] enable the board to determine the strategic direction of the Corporation and set accompanying financial budgets and targets
 - 3.2 [Performance] monitor the financial performance of the Corporation
 - 3.3 [Financial Risk] ensure effective financial risk management is undertaken by the Corporation

Attachment 1 to this policy provides specific guidance to support these requirements.

4. In addition, the following separate references uphold a high standard of financial probity and support the operation of an effective control environment:
 - 4.1 [Audit Committee] Provides advice to the board on matters of internal control and risk management.
 - 4.2 [Authorisation] Instrument of Delegation established to articulate those powers and actions that are authorised to management.
 - 4.3 [Purchasing Rules] Specific rules that direct purchasing decisions by the Corporation.
 - 4.4 [Probity] Specific rules that direct the use and appointment of probity advisors and auditors.
 - 4.5 [Credit card use] Specific rules to ensure compliance with government requirements.
 - 4.6 [Assurance] A charter to direct the operation of internal audit. Maintenance of a cooperative and open relationship with

- both the Auditor-General's office and internal audit.
- 4.7 [Managing Taxes] Specific rules to direct the management of taxation obligations.
- 4.8 [Compliance report] Specific rules to direct submission of the annual Compliance Report to government.
- 4.9 [Board Agenda Policy] Supports the Statement of Obligation by requiring an annual Board Performance Review, as well as establishing an appropriate meeting schedule.

Attachment 2 to this policy provides further guidance regarding the role of these references to support financial governance.

Definitions Not applicable.

Effective date and review date This policy takes effect on 5 September 2017.
It is due for board review in August 2019.

Who is affected This instruction applies to all directors and employees of Southern Rural Water.

Rationale The Standing Directions of the Minister for Finance form the basis of sound financial management for the state. The Directions are designed to supplement the *Financial Management Act 1994* by prescribing mandatory procedures that must be complied with by all Victorian Public Service entities. This policy is designed to direct financial governance arrangements so that the Corporation is compliant with these directions.

Contact For more information on this policy, contact the Chief Financial Officer.

Related documents

- *Financial Management Act 1994*
- Standing Directions from the Minister of Finance
- Australian Accounting Standards
- Financial Reporting Directions
- Statement of Obligation

Communications This policy will be made available on SRW's website.

ATTACHMENT 1

FINANCIAL GOVERNANCE - GUIDANCE

1 INTERPRETATION

- 1.1 References to the Chief Financial Officer refer to the officer holding that position or its equivalent.
- 1.2 Any authority conferred upon the Chief Financial Officer to grant approvals or exemptions under these policies, shall also be conferred upon the Managing Director.
- 1.3 Where the requirements of these policies are found to be in conflict with an applicable Accounting Standard, law or other mandatory government regulation, such matters shall be referred to the Audit and Risk Policy Committee and any action resolved by the board of the Corporation.

2 FINANCIAL PLANNING

- 2.1 For each Water Plan and Corporate Plan cycle, the board will endorse a timetable of suitable actions and engagement with management to develop or confirm the strategic direction of the Corporation. This timetable will include those steps necessary by the board to consider government priorities and requirements, such as the Letter of Expectations.
- 2.2 An annual budget, and a five-year rolling budget, shall be prepared in accordance with:
 - 2.2.1 s.247 of the *Water Act 1989*;
 - 2.2.2 such corporate planning guidelines as may be issued by the Minister under the above section;
 - 2.2.3 the Corporation's Water Plan, as required by the Water Industry Regulatory Order, and authorised by the Essential Services Commission.
- 2.3 The annual budget tables included within the Corporate Plan are prepared on the basis of the operations and programs stated in the Corporate Plan, which in turn are consistent with the strategic direction of the Corporation.
- 2.4 The budget will include separate annual and five-year operating budgets for each business unit and the content and structure of those budgets shall be appropriate for determining prices in accordance with any determination or decision issued by the Essential Services Commission.
- 2.5 In addition to the operating budgets, the annual and five year budgets shall include:
 - 2.5.1 forecast fund balances for each applicable business;
 - 2.5.2 A listing of non-recurrent projects to be undertaken by each business;
 - 2.5.3 a projected Statement of Financial Position for the Corporation;
 - 2.5.4 a projected Income Statement of the Corporation, expressed in both a Regulatory (for price determination) and Statutory (published results) format;
 - 2.5.5 a projected Statement of Cash Flow for the Corporation;

- 2.5.6 a listing of all projected charges and tariffs to be levied by the Corporation; and
- 2.5.7 a series of appropriate financial performance indicators.
- 2.6 The Managing Director, via the Chief Financial Officer, shall be responsible for overseeing the budget process and ensuring that:
 - 2.6.1 procedures are in place that will result in effective and efficient budgeting
 - 2.6.2 target dates are met
 - 2.6.3 funds and resources are planned economically, efficiently and effectively
 - 2.6.4 adequate human and financial resources are available to execute the budget.
- 2.7 The annual budget must be approved by the Managing Director and the board.

3 FINANCIAL PERFORMANCE

Periodic Financial Performance

- 3.1 A finance report shall be prepared and presented to the board each quarter, comprising:
 - 3.1.1 a consolidated operating statement for the Corporation prepared for both year to date and full year forecast
 - 3.1.2 a statement of Financial Position (Balance Sheet) for the Corporation
 - 3.1.3 financial commentary explaining major variances to the end of year budgeted financial result and position, as well as a status comment for any significant financial risks
 - 3.1.4 a summary of debtor balances by age category
 - 3.1.5 a report of significant capital expenditure, where budget, actual and forecast expenditure is detailed for all capital activities with an annual budget or forecast greater than \$750,000 (Major Project Report)
 - 3.1.6 a performance table against those financial KPI's established within the budget process (Performance Dashboard)
 - 3.1.7 a statement from the Chief Financial Officer that the financial report;
 - has been prepared in accordance with the financial policies of the Corporation
 - presents fairly the financial transactions during the period
 - the Chief Financial Officer is not aware of any circumstances that would render any part of the report misleading or inaccurate.
- 3.2 The periodic financial reporting template must correlate to the reporting format endorsed by the annual budget.

3.3 The financial reports must be reconciled to the general ledger.

Annual Financial Report

3.4 The Annual Financial Report and Report of Operations must be prepared in accordance with the requirements of the Financial Management Act including all applicable Financial Reporting Directions, and with applicable Australian Accounting Standards and any other mandatory professional reporting requirements.

3.5 The Annual Financial Report must be reviewed and recommended by the Audit and Risk Policy Committee prior to finalisation and submission to the board.

3.6 Prior to approval of the Annual Financial Report by the board, the Chief Financial Officer and Managing Director must provide in writing a statement to the Corporation board that:

3.6.1 the financial report presents fairly, in all material respects, of the Corporation's financial condition and operational results in accordance with the requirements of the Financial Management Act

3.6.2 the financial report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board

3.6.3 the Corporation's risk management and internal compliance and control system is operating efficiently and effectively in all material respects

3.6.4 the Corporation has complied with the various Directions and Procedures as contained within the Standing Directions of the Minister for Finance.

3.7 The Report of Operations must be endorsed by the board, and signed by the Chairman.

4 FINANCIAL RISK

4.1 The Chief Financial Officer shall be responsible for overseeing the Corporation's system of financial risk management and internal control, ensuring that

4.1.1 There is a balance of authority so that no single individual has unfettered powers over the finances of the Corporation

4.1.2 Appropriate arrangements are in place so that funds are used with due propriety

4.1.3 Financial reporting is founded on a sound system of internal control

4.1.4 A financial risk management policy is in place which addresses the risks associated with financial management of the Corporation

4.1.5 Suitable documented procedures in relation to financial administration and management are available to Corporation staff

4.1.6 An annual report is provided to the Audit & Risk Policy Committee regarding the effectiveness of financial risk management and internal control procedures.

4.2 Appointments

4.2.1 The position of Managing Director and Corporation Secretary shall be appointed by the board.

4.2.2 The appointment of the Chief Financial Officer shall be endorsed by the Audit & Risk Policy Committee.

- 4.2.3 Prior to appointment, the requisite skills, qualifications and experience of the Chief Financial Officer must be clearly documented and endorsed by the Audit & Risk Policy Committee.
- 4.2.4 All other appointments are delegated to the Managing Director in accordance with the board's Instrument of Delegation.

ATTACHMENT 2

FINANCIAL GOVERNANCE - REFERENCE

1. AUDIT COMMITTEE

- 1.1 The Corporation must appoint an Audit Committee to oversee and advise on matters of financial risk management and internal control. For Southern Rural Water, this committee is known as the Audit and Risk Policy Committee
- 1.2 The board may formally delegate some of its responsibilities to the Audit and Risk Policy Committee but:
 - 1.2.1 This does not diminish the ultimate responsibility of the board to oversee the financial performance of the Corporation and to ensure the integrity of the financial reporting; and
 - 1.2.2 The board remains responsible for the relevant actions and activities of its delegates.
- 1.3 Membership of the committee is to be reviewed by the board at least every three years.
- 1.4 The committee must have a charter that is approved by the board and clearly sets out the role and responsibilities, composition, structure and membership requirements. This charter must comply with any directions or requirements as contained within the Standing Directions of the Minister for Finance.
- 1.5 The charter must be reviewed by the committee at least every three years, with recommendations for updates approved by the board.
- 1.6 Minutes of the committee reflecting work done to address its roles and discharge its responsibilities must be provided to the board at the next meeting.

2. DELEGATIONS

- 2.1 The board must provide clear financial authorisations to specific positions within the Corporation. For Southern Rural Water, an Instrument of Delegation has been established for this purpose.
- 2.2 The board must review the Instrument of Delegation annually to ensure that the categories and types of financial authority remain appropriate, and make any necessary changes.
- 2.3 The Instrument of Delegation must include delegated responsibility for:
 - 2.3.1 Revenue and related transactions
 - 2.3.2 Revenue that is to be foregone, waived or written off
 - 2.3.3 Expenditure for recurrent and capital purposes
 - 2.3.4 Acquiring, transferring or disposing of assets.
- 2.4 The opening or closing of bank accounts cannot be delegated by the board.

3. AUDIT

- 3.1 The Managing Director must ensure that Corporation staff establish and maintain a constructive, open working relationship with internal audit and the Auditor-General.
- 3.2 An internal audit charter must be approved by the Audit and Risk Policy Committee. This charter must comply with the any directions or requirements as contained within the Standing Directions of the Minister for Finance.

- 3.3 All financial audit reports are subject to review by the Audit and Risk Policy Committee. Results of audits are reported to the board by the minutes of the Audit and Risk Policy Committee.
- 3.4 Any outsourced financial functions are subject to internal audit scrutiny.

4. PURCHASING RULES

- 4.1 Purchases shall not be initiated unless adequate budget provision has been approved
- 4.2 In accordance with the requirements of implementing and maintaining effective internal controls over purchasing, a documented framework is essential for establishing effective procedures and practices.
- 4.3 The principles to be met by the framework are;
 - 4.3.1 Value for Money
 - 4.3.2 Open and Fair Competition
 - 4.3.3 Accountability
 - 4.3.4 Risk Management
 - 4.3.5 Probity and Transparency.
- 4.4 The Corporation seeks to promote awareness of opportunities for local and regional suppliers within the procurement stage.
- 4.5 To ensure the above objectives are satisfied, the following outlines the minimum requirements to be followed when obtaining quotes for purchasing decisions;
 - 4.5.1 Purchase of goods or services for less than \$2,000 Requiring –
A minimum of one verbal quote
 - 4.5.2 Purchase of goods or services for between \$2,000 and \$25,000 Requiring –
A minimum of one written quote
 - 4.5.3 Purchase of goods or services for between \$25,000 and \$150,000 Requiring –
A minimum of three written quotes
 - 4.5.4 Purchase of goods or services for greater than \$150,000 Requiring –
A competitive tender process.
A tender limited by invitation must be endorsed by the Managing Director, and tenders must be called from at least three pre-qualified (panel) suppliers.
 - 4.5.5 Purchase of goods or services for more than \$1,000,000 Requiring –
In addition to a competitive tender process, the procurement must be in accordance with the Victorian Industry Participation Policy (VIPP).
 - 4.5.6 Purchase of Goods or Services for more than \$2,500,000 Requiring –
In addition to a tender process and purchasing in accordance with VIPP, all short-listed bidders will be required to submit an implementation plan that identifies how that bidder intends to meet

their VIPP requirements.

Exemptions

- 4.6 Where procurement is less than \$25,000 and in accordance with a consultancy panel contract, the nominated consultancy manager may directly select a consultant from the panel to quote to undertake the work.
- 4.7 An exemption from the requirements of this policy may be granted by the Chief Financial Officer, prior to procurement, having consideration for the following:
- 4.7.1 matters of extreme urgency including public health, security or safety as a consequence of an unforeseen event or occurrence
 - 4.7.2 where insufficient conforming quotes were submitted and it can be demonstrated that quotes were sought from multiple suppliers (either via open tender or direct approach to suitably qualified suppliers)
 - 4.7.3 where the goods or services can only be supplied by a particular supplier and no reasonable alternative or substitute goods or services exist having regard to technical reasons
 - 4.7.4 for additional delivery of goods and services that are intended either as replacement parts, extensions or continuing services for existing equipment, software, services or installations where a change in supplier would necessitate the procurement of goods and service that do not meet the requirements for interoperability or interchangeability
 - 4.7.5 for the protection of patents, copyrights or other exclusive rights or proprietary information
 - 4.7.6 for goods purchased on a commodity market or for purchases made under advantageous conditions including unsolicited innovative proposals
 - 4.7.7 Where procurement is for less than \$50,000 and in accordance with a consultancy panel contract, if nominated consultancy manager considers that a panel consultant has an overwhelming inherent advantage, (such as prior work on investigation and concept), SRW may directly nominate a consultant from the panel to quote to undertake the work
 - 4.7.8 The Chief Financial Officer must report all exemption approvals to the Managing Director.
- 4.8 Where procurement is for more than \$50,000 and in accordance with a consultancy panel contract, an exemption may be granted by the Managing Director if the nominated consultancy manager considers that a panel consultant has an overwhelming inherent advantage (such as prior work on investigation and concept)
- In this circumstance, Managing Director approval must be obtained prior to procurement.
- 4.9 All requests for exemption must be made in writing and must document the reasons for seeking the exemption. Written authorisation from the Chief Financial Officer or Managing Director should be provided in a timely manner.
- 4.10 In the event of an unsatisfactory quote resulting from any exemption, it is important that adequate time remains for SRW to obtain an alternate quote. Accordingly, all exemptions will only be authorised if adequate time has been allowed for the provision of an alternate quotes.

Other Purchasing rules

- 4.11 The unacceptability of splitting identical need
It is unacceptable to divide a procurement into separate parts or use a particular method for calculating the estimated total value for the purpose of circumventing the above key requirements.
- 4.12 The independence of the quotes sought
The quotes sought must not be from related arms of the same organisation.
- 4.13 Consistency of information and assessment
Information provided to suppliers invited to quote must be identical and the evaluation of offers must be based on identical criteria.
Any subsequent information regarding the purchase requirement must be made available to all potential suppliers

5. PROBITY

- 5.1 A probity advisor will be appointed where the activity is high risk to SRW or government. High risk is determined as contracts in excess of \$1m or a contract determined by the board or Managing Director as high risk
- 5.2 The probity advisor is an integral part of the contract team and is appointed by the delegate, and works under the direction of the project manager.
- 5.3 Prior to concluding the contract, the probity advisor will endorse that SRW have complied with the Code of Conduct, Financial Governance policy, government procurement guidelines or any other legislative or government policy requirements.
- 5.4 For contracts greater than \$5m, external probity advice must be obtained prior to finalising the contract. For all other contracts subject to probity advice, an internal probity advisor can be engaged where capability exists within SRW.
- 5.5 Exemption - the Managing Director can take regard of items listed at 4.7 of this policy to exempt the contract from endorsement by a probity advisor.
- 5.6 The board or Managing Director may appoint a probity auditor to review a contract or associated practices.
- 5.7 A probity auditor operates independently of the procurement team and is not subject to direction by the project manager. The probity auditor is appointed by the Managing Director and reports to the Managing Director.
- 5.8 A formal scope of work will be agreed between SRW and the probity auditor.
- 5.9 It is essential that there is a clear separation and no conflict of interest between the probity advisor or auditor and the proposed activity.

6. CREDIT CARDS

- 6.1 Corporate Cards with a maximum monthly purchasing limit of \$2,000 shall be issued to officers by the Managing Director, where a legitimate business need can be demonstrated. Where a limit beyond \$2,000 is required, this must be endorsed by the board.
- 6.2 A credit card limit of \$5,000 was approved for the Managing Director and his direct reports by the board at meeting number 231.
- 6.3 A register of Corporate Cards shall be maintained.
- 6.4 The Managing Director shall issue instructions on appropriate use of the Corporate Card, and these must be formally acknowledged by the Card Holder prior to receipt of the Card.
- 6.5 The Executive will approve all credit card purchases for staff that report to them. The Managing Director will approve all credit card purchases for

staff that report to the Managing Director. The Chairman will approve all credit card purchases by the Managing Director.

- 6.6 In the event of any non-compliance with these rules, the cardholder must advise the Managing Director immediately, who shall without delay advise the Chairman of the Audit and Risk Policy Committee and the board Chairman of the breach and of the action taken.

7. COMPLIANCE REPORT

- 7.1 A draft Compliance Report will be provided annually to the May Audit and Risk Policy Committee for review.
- 7.2 The annual Compliance Report to government must first be endorsed by the Audit and Risk Policy Committee before the Compliance Report is approved by the board for submission to government.

8. MANAGING TAXES

- 8.1 The Managing Director must ensure that taxation obligations are managed in accordance with taxation law, and ensure that procedures enable:
- 8.1.1 the prompt preparation and submission of taxation returns and statements;
 - 8.1.2 maximising of cash flows from tax entitlements, and
 - 8.1.3 informing the responsible department of any issues and risks relating to taxation obligations and concessions that are not unique to SRW and which have potential portfolio-wide implications.