Southern Rural Water

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 3 December 2024.

It is due for board review in 2027.

Who is affected

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

Rationale

The Standing Directions issued by the Assistant Treasurer 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, Risk and Governance 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, Risk and Governance 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 and Governance 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 and Governance Committee.

4.2.3 Prior to appointment, the perquisite skills, qualifications and experience of the Chief Financial Officer must be clearly documented and endorsed by the Audit, Risk and Governance 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, Risk and Governance Committee

1.2 The board may formally delegate some of its responsibilities to the Audit, Risk and Governance 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, Risk and Governance 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, Risk and Governance Committee. Results of audits are reported to the board by the minutes of the Audit, Risk and Governance 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 compliant with the Standing Directions issued under the Financial Management Act 1994, Victorian Government Purchasing Board requirements, Local Jobs First and Social Procurement requirements must be is established.

4.3 The procurement principles to be met by the framework are:

4.3.1 value for money, taking into account

- the total benefits and costs over the life of the goods, services or works procured
- environmental, social and economic factors
- any risk related to the procurement.

4.3.2 competition and contestability to all suitably qualified suppliers

4.3.3 accountability for procurement commensurate with appropriate levels of authority and responsibility

4.3.4 probity through the application of integrity, ethical behaviour, fairness, transparency and timeliness in the conduct of procurement processes

4.3.5 scalability so that procurement governance policies and processes are appropriate and efficient, taking into account the capability of available resources, innovation and responsiveness in the supplier market, the complexity of the procurement undertaken and delivery of procurement objectives

4.3.6 provide opportunities for local and regional suppliers within the procurement stage

4.3.7 fostering continuous improvement and building appropriate skills and capability in the conduct of Procurement;

4.4 To ensure the above objectives are satisfied, the following outlines the minimum requirements to be followed for purchasing decisions:

Table 1

Thresholds (including GST)	**Procurement Rules**
Greater than $2,000	Minimum one verbal quote
Greater than $2,000 – Less than $25,000	Minimum of one written quote or invitation to supply
Greater than $25,000 – Less than $200,000	Minimum of three written invitations to supply or three invited tenders; or For Construction Procurement less than $75,000 - one minimum tender or invitation to supply invited
Greater than $200,000	Competitive tender

No threshold	Mandatory State Purchasing Contract where a single supplier has been set by the contract. Minimum of one written invitation to supply (see clause 4.6 where a State Purchasing Contract sets a panel arrangement)
No threshold	Sole Entity Purchasing Contract approved by the board. Minimum of one written invitation to supply

4.5 Special Circumstance/Exemptions from the requirements in Table 1 may be granted prior to the procurement, having consideration for the following:

4.5.1 Only a single or a limited number of participants could perform the service or provide the goods for any of the following reasons:

- The good or service is part of a State Government Purchasing Contract (SPC) and:
  - It is mandatory for Southern Rural Water to use the SPC
  - The Chief Procurement Officer cetifies that a non-mandatory SPC demonstrates value for money to Southern Rural Water.
- the requirement is for a work of art
- to protect patents, copyrights or other exclusive rights or proprietary information or
- due to an absence of competition for technical reasons
- where an opportunity for social or local job procurement is approved by the Chief Procurement Offcer, procurement can progress in an open and competitive manner to one or more eligible suppliers from an available group of social or local job participants.
- where a procurement category plan is established I accordance with Victorian Government Purchasing Board policies and the Chief Procurement Officer approves a documented market assessment which restricts the number of participants.

4.5.2 the services are to be carried out in, or goods are related to, leased premises or a third-party property where:

- the supplier must be approved by the lessor, or another third party; or
- the costs of the approved services or goods are to be reimbursed to the lessor in accordance with the leasing arrangements, or another third party in accordance with the arrangements for the third-party property;

4.5.3 critical incidents: due to reasons of extreme urgency brought about by events unforeseeable and the procurement could not be obtained in time by means set by table 1. Such reasons may include:

- life threatening situations
- occupational health and safety

- essential security interests
- loss of essential services
- avoiding significant loss or damage to assets, or significant service delivery disruption
- weather protection or
- any comparable events beyond the control of the SRW.

As set by the Instrument of Delegation, where the extreme urgency is also a level 2 or 3 incident in accordance with the Corporate Incident Management Plan, purchasing authority may be exercised without limit or other approvals by the Managing Director, Incident Controller or Liaison Officer.

Any critical incident purchase must be reviewed for suitability and effectiveness, and this information reported to the next board meeting. Critical incident purchases are also listed in the Annual Report of the corporation.

4.5.4 to perform additional services or provide goods by the original supplier not included in the initial procurement where changing supplier would require SRW to procure services or goods that do not meet the requirements of interchangeability or interoperability with the existing equipment, services or goods.

4.5.5 to perform additional services or provide additional goods that are an extension of services or goods not included in an existing contract, but that are within the objectives of the original documentation; and proportionate to the original procurement value.

4.5.6 the supplier of the services or goods is selected as a result of a design competition.

4.5.7 where the procurement is conducted in accordance with the State Government Market-Led Proposals Guideline.

4.5.8 exceptional circumstances as certified by the Managing Director; or

4.5.9 the Works comprise a utility asset being installed by a third party and SRW requests increased scope or changes to the specification for the utility asset, or

4.5.10 When the provisions of International Agreements apply to a Limited Tender, Special Circumstances 4.5.6 and 4.5.9 are not allowed.

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.

4.6 Special Circumstances/Exemptions from the requirements in Table 1 apply to supplier panel arrangements which have been:

- approved by the Managing Director
- set by a State Purchasing Contract

4.6.1 The Managing Director may approve the establishment of a supplier panel arrangement:

- Where creation of the panel is conducted by an open market approach with the same probity standards as a tender
- The term of the panel does not exceed five years

4.6.2 The Managing Director must approve the rules of any panel established by SRW or set by a State Purchasing Contract inclusive of arrangements which encourage competition and contestability:

- Upto $200k: Minimum of one written quotation from a panel member
- Upto $500k: Minimum of two written quotations from panel members
- For Public Construction Works, up to $750k: Minimum of three written quotations from panel members.
- Otherwise an open tender can be limited to panel members as long as the panel comprises at least three suitable panel members or the Managing Director approves that a special circumstance applies consistent with 4.7.

4.7 Special Circumstance/Exemptions from the requirements in Table 1 may be granted after procurement activity has occurred, having consideration for the following

4.7.1 where, in response to a request for quote, invitation to supply or tender :

- an insufficient number of conforming tender, invitation to supply or quote was submitted
- no tender, invitation to supply or quote that represented a value-for-money outcome was received

provided that, in the tender or specification documentation for the resulting procurement activity, the request does not substantially modify the essential requirements set out in the original documentation.

4.8 Approval for the above exemptions of special circumstances where the procurement is:

4.8.1 for Construction Procurements, may be granted by:

- General Manager Asset Futures where procurement is less than $200,000 (inclusive of GST).
- Chief Procurement Officer or Managing Director.

4.8.2 for Non-Construction Procurements, may be granted by Chief Procurement Officer or Managing Director

4.9 All requests for exemption should be in writing and document the nature of the Special Circumstances and proposed approach for procurement. Approval of such request should be provided in a timely manner.

<u>Other Purchasing rules</u>

4.10 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.

4.11 The independence of the quotes sought

The quotes sought must not be from related arms of the same organisation.

4.12 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

Purchasing Definitions

4.13 Non-construction procurement

Procurements which are not Construction Procurements under the Project Development and Construction Management Act 1994 (Vic) definition of public construction, examples may include:

- Services indirectly related to the delivery of Works, including legal advisory services, commercial advisory services
- Goods with no installation
- Services which do not impact on the physical infrastructure or building assets
- Cleaning, where not included as a maintenance package of works
- Vehicles
- Furniture and fittings

4.14 Construction Procurement

The Project Development and Construction Management Act 1994 (Vic) defines public construction as any matter relating to the construction, maintenance, rehabilitation, alteration, extension or demolition of any improvements on land by, or on behalf of, departments and public bodies and includes:

- design and construction practices
- tendering processes
- project delivery
- contract administration.

For example:

- All fixed Infrastructure assets works
- All SRW building works

4.15 Works

Works for construction, maintenance, rehabilitation, alteration, extension or demolition of any improvements on land.

4.16 Construction Services

Services directly related to the delivery of Works, including architectural and design services. It does not include services indirectly related to the delivery of Works, including legal advisory services, commercial advisory services.

4.17 Limited Tender

The engagement of a supplier to perform Works or Construction Services in accordance with competition and contestability conducted:

- without competition – that is by inviting a single tender participant; or
- with limited competition – that is by inviting two or more tender participants.

4.18 Selective Tender

A competitive tender open only to suppliers on a register or panel, established in accordance with the Ministerial Directions for Public Construction in Victoria, as the rules of that panel or register allow.

<u>Probity</u>

4.19 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

4.20 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.

4.21 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.

4.22 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.

4.23 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.

4.24 The board or Managing Director may appoint a probity auditor to review a contract or associated practices.

4.25 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.

4.26 A formal scope of work will be agreed between SRW and the probity auditor.

4.27 It is essential that there is a clear separation and no conflict of interest between the probity advisor or auditor and the proposed activity.

5. CREDIT CARDS

5.1 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.

5.2 A credit card limit of $5,000 was approved for the Managing Director and his direct reports by the board at meeting number 231.

5.3 A register of Corporate Cards shall be maintained.

5.4 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.

5.5 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.

5.6 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, Risk and Governance Committee and the board Chairman of the breach and of the action taken.

6. COMPLIANCE REPORT

6.1 A draft Compliance Report will be provided annually to the July Audit, Risk and Governance Committee for review.

6.2 The annual Compliance Report to government must first be endorsed by the Audit, Risk and Governance Committee before the Compliance Report is approved by the board for submission to government.

7. MANAGING TAXES

7.1 The Managing Director must ensure that taxation obligations are managed in accordance with taxation law, and ensure that procedures enable:

7.1.1 the prompt preparation and submission of taxation returns and statements;

7.1.2 maximising of cash flows from tax entitlements, and

7.1.3 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.