

D4 - FINANCIAL REGULATIONS

1. Introduction

These regulations define the framework of internal financial controls for the Kelda Holdings Group (Group) including Yorkshire Water Services Limited (YWS) and will be supplemented by the issue of Financial Procedures as appropriate.

It is recognised that YWS is under a number of legislative and other regulatory obligations by virtue of its special position as a regulated undertaker. Nothing in these regulations shall be interpreted so as to compromise those obligations.

Any area of conflict between these regulations and the obligations imposed upon Yorkshire Water Services Limited should be brought to the attention of the Group Director of Finance, Regulation and Markets as soon as they are identified.

2. Aim

The Policy aim is to standardise the approach to financial regulations and internal financial controls across the business and mitigate, as far as possible, the risks of financial irregularity and error.

Internal financial controls are established to provide reasonable assurance of the preparation and maintenance of proper accounting records, the reliability of financial information used within the business or for publication and the assurance that committed business targets will be met.

3. Principles

The Group is committed to the following financial regulation principles being applied to all group companies, joint ventures and associated companies. It should be brought to the attention of the Group Director of Finance, Regulation and Markets if these principles are not being followed.

- a) **Accounting policies:** The Group's accounting policies, as set by the Group Director of Finance, Regulation and Markets, and documented in the Group accounting policy manual, are to be applied consistently across the Group.
- b) **Accounting records:** Accounting records should be maintained for each company or business unit and should be held on SAP as the primary source. Records must be retained to comply with legal requirements and in line with the Group document retention policy.
- c) **Financial systems and procedures:** All financial systems and procedures shall be designed, and maintained, to protect the financial integrity of the Group and safeguard its assets.
- d) **Segregation of Duties:** All internal controls have been designed to ensure that key responsibilities are appropriately segregated to prevent the risk of fraud. These must be adhered to at all times.
- e) **Group Internal audit:** Auditors (or their appointed agents) have a right of access at all times (subject to the legal rights of any occupier) to all premises and land, and to all records, documents and other property, including cash, and can require and/or

receive from employees such explanations as may be necessary concerning any matter under examination.

- f) **Tax and Treasury:** The Head of Tax and Treasury is responsible for all areas relating to taxation and treasury with responsibilities more particularly set out in the Treasury Policy contained in Section [D8] of this Manual.
- g) **Orders for work, goods and services:** All purchases need to follow the appropriate process of approval as set out in the Group's Procurement Policy. All orders placed for works, goods and services must be fully approved prior to any formal commitments and must be made in accordance with the Procurement Rules.
- h) **Creditor Payments and purchasing cards:** All systems and procedures involving the payment of money should be reviewed regularly to ensure timeliness, accuracy and efficiency of the transactions processed. In addition, policies are reviewed to ensure they comply with EU Procurement regulations. Delegated levels of authorisation are in place and no payments may be made other than in accordance with the procedures so specified. Payments for work, goods and services must be made against a valid order raised prior to the expenditure being incurred, with the exception of statutory-related payments as detailed in the Procurement Rules Policy, and certain small value items (<£500) which may be purchased using a purchase card. The use of purchase cards should only be made by authorised individuals in accordance with the Purchase Card Policy.
- In 2019 Kelda will be implementing a new version of SAP including SAP Ariba for procurement. As part of this exercise the relevant Policies will be reviewed and aligned to new SAP considering the enhanced level of controls.
- i) **Dividends:** Finance Directors / Heads of Finance / Finance Managers / Senior Finance Business Partners of Group companies must discuss with the Group Director of Finance, Regulation and Markets (in advance) all proposals in relation to dividends between Group companies.
- j) **Business planning and reforecasting:** The Board will determine, at least annually, business plans for each Group company or business unit. Finance Directors / Managers of Group companies are required to report monthly to their respective boards, and to the Group Director of Finance, Regulation and Markets, progress against those budgets and non-financial targets (and any reforecast against such budgets).
- k) **New Businesses:** Governance over new businesses (be they acquired or attained through bidding activity) are set out in Section B3.
- l) **Insurance:** The Group Insurance Manager, acting under the authority of the Group Company Secretary, is responsible for the Group's insurance arrangements, including effecting all insurance cover and administering all insurance claims on behalf of the Group. Guidelines controlling the role are held by the Company Secretary.

No other insurance should be arranged without the prior knowledge and agreement of the Head of Strategy, Risk and Assurance. Group Strategy, Risk and Assurance's responsibilities include:

- Determination of the Group's insurance requirements.
- Management of the Group insurance programme.

- Advising management on risk management and insurance issues.

These responsibilities are guided by Insurance Principles as agreed in an annual review by Group Insurance.

Any additional, or change in, material fact must be reported to the Company Secretary without delay.

All material changes to the insurance cover by the Group Insurance Manager will have the prior approval of the Group Company Secretary and be notified to the Board.

The Group Company Secretary will ensure that sufficient details of the Group's activities are provided to the Group Insurance Manager (by providing all the information requested) to enable him/her to assess, advise upon and effect the level of insurance cover required.

4. Supporting policies and procedures

This policy should be read in conjunction with the following policy and guidance documentation:

- Treasury policy
- Document retention policy
- Delegated business approvals
- Kelda procurement rules policy
- The data protection policy
- Company code of ethics
- Group accounting policy manual
- Purchase card policy