



Data Assurance Summary 2019/20

July 2020

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1. Introduction

Affinity Water Limited is the largest water only supply company in the United Kingdom, owning and managing the water assets and network in an area of approximately 4,500km² across three supply regions in the South East of England. We sub-divide our supply regions into eight different communities, based on our existing water resource zones and each named after a local river, allowing us to tailor a high quality service to customers at a local level.

Our vision is to be the UK's leading community-focused water company. It reflects the importance we place on our people working within and for the communities of customers we serve. By understanding and responding to the needs of different community groups, we are accountable to them at a local level for how well we provide our services.

We want our customers, regulators and other stakeholders to have trust in our services and our performance, so we publish a range of information about our activities and results including how we are performing against the commitments we made in our 2015-2020 business plan. This helps provide our customers and stakeholders with confidence that we are delivering what they have told us they need and want from their water company.

We take full ownership and responsibility for the information we report. This document describes the main assurance activities that we carry out ourselves and those carried out independently by third-party providers, so that the information we report to customers, stakeholders and regulators is accurate, transparent, reliable, relevant, complete and up to date. We consider it essential to demonstrate that the information we report on our performance meets these criteria.

This publication also fulfils the expectation from the water industry regulator (Ofwat) for Annual Performance Reporting, that we publish a *'data assurance summary of the results of the data assurance that the company has carried out to evidence that the data provided is accurate.'*

Ofwat also require us to publish an assurance plan each year. During 2019/20 we published a draft assurance plan and after consulting with regulators, customers, and other stakeholders, we published our Final Assurance Plan in March 2020. This sets out the main categories of information we publish and the processes in place to assess and assure that information. Our Final Assurance Plan can be found here:

https://www.affinitywater.co.uk/docs/governance_assurance/Final-Assurance-Plan-2019-20.pdf

2. Our Approach to Assurance

By assurance, we mean the checks and assessments we make on the information we publish or provide to stakeholders, to ascertain that it is robust, accurate and complete. This section provides an overview of our approach to assurance and summarises the responsibilities of different participants in our assurance procedures.

2.1 Principles of Assurance

Risk Management Framework

We have an established framework for identifying, evaluating, and managing the key risks we face. Our aim is to foster a culture in which teams throughout the business manage risks as part of their management of day-to-day operations. We identify, record, assess and manage risks at two levels as follows:

- Strategic Risks – those risks which potentially have a material adverse effect on our business, financial condition, results of operations and reputation; these risks are reported in our Statutory Financial Statements as our “Principal Risks and Uncertainties”
- Operational Risks – those risks which potentially have a material adverse effect on the effectiveness or efficiency of day-to-day business processes.

The strategic risk register includes the principal regulatory risk of ‘failure to comply with laws, our instrument of appointment and other recognised standards’. This risk encompasses, amongst other things, the risks managed at directorate level relating to the provision of accurate information to customers, regulators and stakeholders.

All of the above risks are recorded in our Risk Registers, assessed, and action plans prepared, if necessary, for further mitigation. Activities against these plans are monitored on an on-going basis. Risks are also regularly re-assessed and ranked by our teams during the year. Strategic and directorate risks are reviewed at least quarterly by our Executive Management Team and Audit Committee. Strategic risks are also reviewed at least twice-yearly by our Board, in particular as part of their approval of our Annual Report and Financial Statements and from 2019/20 we are also required by the Corporate Governance Code 2018 to carry out a robust and transparent assessment of our emerging risks.

Three lines of defence model

The Company follows the principles of the ‘three lines of defence’ model, as promoted by the Institute of Internal Auditors and other professional and commercial organisations, as the basis of its assurance process. Assurance is achieved as follows:

1st Line: Management control

Controls are exercised by the operational managers who own and manage risks day to day. Controls form an integral part of systems and processes under the guidance of operational management.

2nd Line: Risk management and peer review

This comprises risk management and compliance functions established by management to help build and / or monitor the first line of defence controls, ensuring they are properly designed, in place and operating as intended.

3rd Line: Internal Audit

Internal Audit provides the Board and senior management with assurance based on a high level of independence and objectivity within the organisation. Internal Audit provides assurance, on a test basis, as to the effectiveness of governance, risk management and internal controls.

It should be noted that the three lines of defence model does not always require the controls within the three lines to be performed in strict chronological order. In fact, it is not uncommon for all three to be performed concurrently.

External Assurance

We also make use of third-party organisations to provide the Board with external assurance that the information prepared by management is accurate and compliant. This particularly applies to major items such as the Annual Performance Report and Annual Accounts and the annual tariff setting process. The main parties used to provide this assurance are PricewaterhouseCoopers LLP (PwC), who provide assurance on financial data, and Atkins Limited (our Reporter), who provide assurance on engineering and technical data. These contracts are periodically re-tendered and providers may change.

Internal systems and processes

We design our internal systems to manage the risk of failure to achieve business objectives (though such risk cannot be completely eliminated), and provide reasonable, but not absolute, assurance against material misstatement or loss. Features of the systems of risk management, planning and controls include:

- a comprehensive suite of internal control procedures across both operational and financial matters, supported by detailed delegated levels of authority;
- an Internal Audit function, the head of which has direct access to the Audit Committee, together with other internal control and assurance resources which monitor compliance with laws, regulations, policies and procedures;
- specialist planning teams retained within the organisation to work on major projects, such as business planning activities, supported by external specialists where appropriate;
- use of appropriate fiscal, regulatory and operational external assurance review. The Board approves the company's annual budget and regularly reviews actual performance. The Board review and approve all major transactions; and
- whistleblowing procedures where employees can raise any concerns they have with the company's practices or conduct, including data reporting, without fear of detriment to their career.

2.2 Principal Actors in our Assurance Activities

Role of the Board

Our Board has overall responsibility for monitoring our systems of internal control and for reviewing the effectiveness of these systems, including financial, operational and compliance controls and risk management, and is advised by our Audit Committee on these matters.

Role of Employees

Where we have assigned employees as data providers, we require that they prepare data by following data collection methodologies that have been approved by their line manager. The methodologies detail amongst other things, the sources for data, details of calculations or processes applied to data and details of measures taken to ensure the data's reliability, accuracy and completeness. They also highlight where there are uncertainties with data, for example where data is based on estimates or statistical samples. In this capacity, employees are typically also required to meet with external and internal auditors to present their data and resolve any issues that are identified.

Role of Internal Audit

Within Affinity Water we operate an Internal Audit team who prepare an annual plan of reviews, taking into account risks identified in risk registers and carry out a number of audits each year. Internal Audit's risk-based approach means that it prioritises its activity and not all areas are reviewed every year. The Audit Committee approve its annual audit plan and monitor delivery over the course of the year. When reviewing processes, which include recording and processing of data to be used in regulatory reporting, Internal Audit particularly focuses on ensuring the effectiveness and efficiency of controls to ensure accuracy and completeness of that data.

Role of external assurance providers

We also appoint third-party organisations to provide the Board with external assurance that the information prepared by management is accurate and compliant. This particularly applies to major items such as the Annual Performance Report and Annual Accounts. The main parties used to provide this assurance are PricewaterhouseCoopers LLP (PwC), who provide assurance on financial data, and Atkins Limited (our Reporter), who provide assurance on engineering and technical data. Periodically, we re-tender these contracts and providers may change.

In addition, from time to time we may also use other external assurance providers, such as Deloitte, Frontier Economics, Ernst & Young and Oxford Economic Research Associates, on specific issues where management or our Board consider it appropriate.

Role of the Customer Challenge Group (CCG)

Our CCG has an independent chair and its primary role is to comment on how well Affinity Water considers customers' views and priorities and how well it manages customer risks in relation to achievement of our performance commitments. CCG's terms of reference also include a requirement for the CCG to access assurance reports from auditors. The CCG also comment on and challenge the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels we use. The CCG is required to produce an annual report and present to our Board at least once per year, ensuring an independent direct line to Board members.

The CCG's full terms of reference can be found here:

<https://www.affinitywater.co.uk/docs/ccg/CCG-Terms-of-Reference-June-19.pdf>

3. Assurance of our Annual Performance Report 2019/20

For our Annual Report, including the APR and reports required by stakeholders such as CCWater and the Environment Agency, the company's main current assurance controls in place are summarised in the table below. These are designed to ensure that all information reported is transparent, reliable, relevant, complete, and up-to-date.

Our Annual Report contains two broad types of information, financial and non-financial data. We use different specialist external providers to provide assurance; PricewaterhouseCoopers LLP (PwC), who provide assurance on financial data, and Atkins Limited (our Reporter), who provide assurance on non-financial engineering and technical data. The tables in section 3.1 and 3.2 summarise the activities of our external assurance providers

PwC's 2019/20 report can be found in our Annual Report and Financial Statements, at the following link:

<https://www.affinitywater.co.uk/corporate/investors/library>

Atkins Limited's assurance report can be found on our website using the following link:

<https://www.affinitywater.co.uk/corporate/about/governance-assurance>

Annual Performance Report – Summary of Assurance Activities		
1st Line Assurance	2nd Line Assurance	3rd Line Assurance
<ul style="list-style-type: none"> We operate a wide variety of day-to-day operational controls to ensure that all transactional data is accurately and completely recorded. We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to 	<ul style="list-style-type: none"> Reporting experts in the Regulation team carry out regular detailed reviews of underlying data and information to ensure accuracy and completeness Relevant members of Executive / Senior Management review all information prior to publication 	<ul style="list-style-type: none"> Atkins carry out reviews of methodologies and processes by which non-financial data are produced and information generated. We consider it essential to have this independent review given the penalties and rewards associated with the achievement of performance commitments and the consequent impact on

Annual Performance Report – Summary of Assurance Activities		
1st Line Assurance	2nd Line Assurance	3rd Line Assurance
<p>frequent self-assessment and independent review by Internal Audit on a cyclical basis</p> <ul style="list-style-type: none"> Separation of duties is in place wherever possible to ensure that no single individual has complete responsibility for a business process and its constituent controls 	<p>or submission</p>	<p>customers' future bills</p> <ul style="list-style-type: none"> PwC carry out an annual audit of the Regulatory Accounting Statements contained within our Regulatory APR. We have a regulatory obligation for our external auditors to confirm that these statements have been presented in accordance with Condition F and the Regulatory Accounting Guidelines issued by Ofwat. These reviews also confirm whether reports are prepared in accordance with relevant guidance and regulatory requirements Internal Audit provides assurance, on a test basis including recording and processing of data to be used in regulatory reporting. Their programme of audit work in any year is approved by the Audit Committee
	<ul style="list-style-type: none"> In conjunction with external and internal assurance providers, the Audit Committee oversees all processes required to produce the Annual Report and Financial Statements, including the Annual Performance Report. The Board approves the APR prior to submission. 	

3.1 Financial data

The table below summarises the scope of 3rd line assurance procedures carried out on financial data by PricewaterhouseCoopers LLP (PwC) in 2019/20.

Annual Performance Report – 3rd Line Assurance Analysis	
Data	3rd Line Assurance procedures performed
Certificate of Adequacy	Limited assurance review by PwC in relation to the sufficiency of financial resources. A full report of the external Auditor's work on the ring-fencing certificate has been provided to Ofwat with no issues noted.
Tables 1A, 1B, 1C, 1D, 1E, 1F, 2A, 2B, 2C, 2D, 2E, 2F, 2G, 2I, 2J and 2K	External audit by PwC.
Tables 4B, 4C, 4D, 4F, 4G, 4H, 4I, 4J, 4L and 4V, transactions with associated companies and current tax reconciliations	Agreed upon procedures performed by our external auditor, PwC, including checking application of the guidance in the Regulatory Accounting Guidelines, checking application of the methodology statement,

Annual Performance Report – 3rd Line Assurance Analysis	
Data	3rd Line Assurance procedures performed
	checking consistency with other tables within the APR and reviewing the calculation of current year data where numbers do not directly extract from other tables.
Viability statement	As part of their statutory audit of the company's Annual Report, PwC performed procedures in relation to the viability statement, as they must report by exception if they do not agree with the Board's statement that the Annual Report, taken as a whole, is fair, balanced and understandable. Separately to these procedures, the company engaged PwC to perform assurance procedures for the Board to conclude on the accuracy of the stress testing underpinning the viability statement. These included agreeing models to approved plans and checking the mathematical accuracy of the underlying calculations for each of the stress tests underpinning the viability statement.
RAG5 Audit	PwC perform agreed upon procedures over our compliance with Regulatory Accounting Guideline 5.07. These procedures include review of the Corporate Services Agreements between group entities and ensuring that recharges are in compliance with the "Guidance for transfer pricing in the water and sewerage sectors (RAG 5.07)", checking the consistency of the disclosures in the notes in the Annual Performance Report, ensuring the wholesale water charges to group entities are in line with the "settlement report" provided by the Market Operator and ensuring the mathematical accuracy of the charges.

3.2 Non-Financial data

The table below summarises the scope of 3rd line assurance procedures carried out on non-financial data by Atkins Limited in 2019/20.

Annual Performance Report – 3rd Line Assurance Analysis	
Data	3rd Line Assurance procedures performed
3A Outcome performance (13 Performance Commitments) AMP6 Ofwat 3C Abstraction Incentive mechanism (AIM) AMP6 Ofwat 3D Service incentive mechanism (SIM) AMP6 Ofwat 3S Shadow reporting of new definition data (AMP7) AMP7 Ofwat 4A Non-financial information (other) AMP6 Ofwat 4D Wholesale totex analysis and unit costs AMP6 Ofwat 4L Capital enhancement expenditure 4P Water resources, treatment, and distribution AMP6 Ofwat	External review by Atkins of the procedures used to collect and report the information.

Annual Performance Report – 3rd Line Assurance Analysis	
Data	3rd Line Assurance procedures performed
4Q Properties, pollution, and other information. AMP6 Ofwat C-Mex AMP7 Ofwat D-Mex AMP7 Ofwat	
Other Shadow Reporting AMP7 Internal use Annual average out-turn (water balance) for each resource zone. AMP6 EA CCWater Annual Report AMP6 CCWater Water UK Discover Web AMP6 Water UK Reporting of Green House Gases	External review by Atkins of the procedures used to collect and report the information.

4. Other Annual Performance Report Assurance Activities in 2019/20

In 2019/20 we produced, for the first time, a half-yearly annual performance report. This comprised preparing half-year results for non-financial performance data and employing external auditors to review the information. As well as demonstrating that we had made improvements to reporting identified from prior years’ reviews, this also helped us develop, improve and strengthen the reporting systems that we will need to use in 2019/20 and for future performance reporting during the 2020-25 period.

In November 2019, we also carried out an assessment of the risks, strengths and weaknesses of the systems and processes we have in place to support our Board in providing assurance of the information we report. As a result of this assessment, we published and distributed our draft Assurance Plan 2019/20 and Risks, Strengths and Weaknesses Statement.

Our Risks, Strengths and Weaknesses Statement can be found here:

https://www.affinitywater.co.uk/docs/governance_assurance/Risks,%20Strengths%20and%20Weaknesses%20Statement%20November%202019%20FINAL.pdf

Since then we have:

- consulted with our key regulators to discuss the Risks, Strengths and Weaknesses Statement;
- engaged with members of our Customer Challenge Group (CCG) in respect of the Risks, Strengths and Weaknesses Statement; and
- asked customers, stakeholders, and regulators to provide us their views on the way we assess data and information, and how we present our performance to them.

We reflected the feedback received in respect of our draft Assurance Plan and Risks, Strengths and Weaknesses statement resulting in our publication of our final Assurance Plan in March 2020.

https://www.affinitywater.co.uk/docs/governance_assurance/Final-Assurance-Plan-2019-20.pdf

This year we began our Data Insight Project, which intends that we embed the principles of the Ofgem Data Assurance Guidance (DAG) in our data strategy. We will assure our next APR, for report year 2020/21 according to this guidance. In the meantime, we have constituted a project team to work with key data stewards to embed the DAG assessment and CART (Completeness Accuracy Reliability Timeliness) methodology.