



Your local supply, on tap

## Assurance Plan 2016/17

---



# Contents

<b>Introduction and Background</b>	<b>3</b>
About Affinity Water	3
About this document	4
<b>Our Assurance Plan</b>	<b>6</b>
General approach to assurance and information	6
Assurance of reported information	9
Risks, Strengths and Weaknesses Statement feedback	15
Ofwat's assessment	16
Future Assurance Plans	18
Feedback	18

# Introduction and Background

## About Affinity Water

As your local water supplier, we manage water in your area every single day – treating it and supplying over 900 million litres of it so we can ensure that 3.6 million people have high quality drinking water when they need it. We understand that we provide an essential service to households, water retailers and businesses across our region. It is what drives our ambition to be your trusted, community-focused water company.

But we face a very real challenge to our ability to continue to meet demand in the longer term. We supply water to one of the fastest-growing, most economically active regions in the country. While demand is increasing, the amount of available water is decreasing.

In 2014 we submitted a five-year Business Plan to our regulator which set out a path to meeting this challenge. In developing our Business Plan we sought the views of our customers and stakeholders through face-to-face community meetings, online panels and our Let's Talk Water Campaign.

As a result of what our customers told us, we set out 13 key commitments. These commitments are designed to ensure that we:

- have enough water to meet demand, while leaving enough water in the environment;
- minimise disruption to your supply;
- provide high quality water; and
- offer customers a value-for-money service.

We want to be open with our customers and stakeholders about our performance against those commitments. We want you to have trust in our service and confidence in the information we publish about our performance. We encourage you to provide feedback at any time about how you think we're performing against our commitments.

## About this document

We regularly publish information on our performance to demonstrate to customers, stakeholders and our regulators that we are delivering the services expected of us.

This document describes the main assurance activities that we either carry out ourselves or engage third-party providers to carry out independently, so that the information we report to stakeholders is transparent, reliable, relevant, complete and up-to-date. We consider it essential to demonstrate to our customers and other stakeholders that we report information on our performance that meets those criteria. This is part of our commitment to demonstrate that we take ownership of the information we report.

The water industry regulator, Ofwat, requires companies to provide different levels of assurance to support the information they publish, depending on Ofwat's confidence in the quality of the information that companies produce. In its November 2016 Company Monitoring Framework review of 2015/16 reporting, Ofwat reported that:

- Affinity Water had met Ofwat's expectations in most aspects of our assurance and that in many respects our approach to assurance was good, with evidence of our having listened to, and responded to stakeholder and customer views;
- there were no significant concerns arising from Ofwat's financial monitoring, charges schemes and outcome assurance assessments of Affinity Water; and
- it had three minor concerns where they had assessed Affinity Water's data as being inaccessible, poorly explained or hard to find

The minor concerns raised by Ofwat and our responses to them are listed on pages 16-17 of this document.

Overall, principally as a result of these minor concerns, Ofwat assessed Affinity Water as 'targeted', meaning that it considers us to have not consistently met the high standards customers and other stakeholders expect.

In January 2017 we 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. Through publication of a Risks, Strengths and Weaknesses Statement, we asked stakeholders to give us their views on the way we assess data and information, and how we present our performance to customers and other stakeholders.

Since publication of our Risks, Strengths and Weaknesses Statement, we have:

- consulted with our key regulators and offered meetings to discuss the statement;
- sought and received feedback from the Chair of our Customer Challenge Group (CCG) on how best to engage with CCG members as a whole; and
- developed a plan for engaging with a wider stakeholder audience.

This Assurance Plan sets out the main categories of information we publish and the processes in place to assess and assure that information. In producing and publishing this document we have aimed to:

- provide transparency around how we support our Board in providing assurance of the information we report
- address the minor concerns noted in Ofwat's updated monitoring framework assessment; and
- respond to feedback received from stakeholders in respect of the Risks, Strengths and Weaknesses Statement, published in January 2017, as referred to above.

# Our Assurance Plan

## General approach to assurance and information

### Role of the Board

Our Board has overall responsibility for monitoring the Company's 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. We continue to maintain a multi-layer assurance process.

### Internal systems and processes

Systems are designed 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. Particular 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 segregation of duty matrices and 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; and
- the use of appropriate fiscal, regulatory and operational external assurance review. The Board approves the company's annual budget and regularly reviews actual performance. All major transactions are reviewed and approved by the Board.

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 are designed into 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.

Internal Audit prepares an annual plan of reviews, taking into account risks identified on corporate risk registers, and carries out a number of audits each year. Not all areas are reviewed every year. The Internal Audit Plan is approved by the Audit Committee, which also monitors its delivery over the course of the financial / regulatory 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.

#### 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 Report and the tariff setting process. The main sources of assurance are PricewaterhouseCoopers LLP (PwC), who provide assurance on financial data, and Atkins Limited, who provide assurance on engineering and technical data. These contracts are periodically re-tendered and providers may change.

In addition we also use other assurance providers, such as Deloitte, Frontier Economics, Ernst & Young and Oxford Economic Research Associates.

## 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. Operational risks are recorded, assessed, and action plans prepared, if necessary, for further mitigation. Activities against these plans are monitored on an on-going basis. Operational risks are also regularly re-assessed and ranked by our teams during the year. Based on these rankings the most significant risks are discussed by our senior management and included in the strategic risk register, which is presented to the Board and the Audit Committee on a regular basis.

The strategic risk register, which is published in our Statutory Financial Statements, 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 our regulators and stakeholders.

## **Assurance of reported information**

The tables on the following pages describe, for each of the types of information we publish, the main current assurance controls in place so that all information reported is transparent, reliable, relevant, complete and up-to-date.

Report Areas	Main Risks	Controls / Assurance in Place		
		1 <sup>st</sup> Line (Data providers and management)	2 <sup>nd</sup> Line (Regulation, Financial Control, senior management)	3 <sup>rd</sup> Line – Internal Audit / External Providers
<p><b>Regulatory Annual Performance Report</b> (included within the Annual Report and Financial Statements)</p> <p>Summarises company performance in the preceding year and meets specific information requirements.</p>	<p>Underlying non-financial data is inaccurate or incomplete.</p> <p>Information reported is unclear or misleading.</p> <p>Reporting requirements are not sufficiently well understood by staff resulting in inappropriate reporting methodology.</p>	<p>A wide variety of day-to-day operational controls are operated to ensure that all transactional data is accurately and completely recorded.</p> <p>We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis.</p>	<p>Reporting experts in the Regulatory team carry out regular detailed reviews of underlying data and information to ensure accuracy and completeness.</p> <p>Executive / Senior Management review all information prior to publication or submission.</p> <p>The Audit Committee oversees all processes required to produce the Annual Report and Financial Statements, including the Annual Performance Report. The Board approves the Annual Performance report prior to submission.</p>	<p>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 customers' future bills</p> <p>PwC carry out an annual audit of the Regulatory Accounting Statements contained within our Regulatory Annual Performance Report. 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.</p> <p>These reviews also confirm whether reports are prepared in accordance with relevant guidance and regulatory requirements.</p>

Report Areas	Main Risks	Controls / Assurance in Place		
		1 <sup>st</sup> Line (Data providers and management)	2 <sup>nd</sup> Line (Regulation, Financial Control, senior management)	3 <sup>rd</sup> Line – Internal Audit / External Providers
<p><b>Other Regulatory Reporting</b></p> <p><b>Data and information provided to our main regulators Ofwat, DWI and EA, and to CCWater.</b></p> <p><b>In particular: GSS information, written complaints data, annual data tables, annual tariffs and charges, quarterly reports to CCWater.</b></p>	<p>Underlying non-financial data are inaccurate or incomplete.</p> <p>Information reported is unclear or misleading.</p> <p>Reporting requirements and the purposes for which submitted information will be used are not sufficiently well understood by staff, therefore reporting methodologies are inappropriate.</p>	<p>Day-to-day operational controls are operated to ensure that all transactional data is accurately and completely recorded.</p> <p>We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis.</p>	<p>Reporting experts in the Regulatory team carry out regular detailed reviews of underlying data to ensure accuracy and completeness.</p> <p>Executive / Senior Management review all information prior to publication or submission.</p> <p>Our Audit Committee reviews and our Board approves our annual data tables submissions.</p>	<p>Atkins carry out reviews of methodologies and processes by which data are produced and information generated for inclusion in regulatory reporting submissions. Again, we consider it essential that we have this independent review of our processes and procedures given the importance of the information provided to customers and regulators.</p> <p>These reviews also confirm whether reports are prepared in accordance with relevant guidance and regulatory requirements.</p>

Report Areas	Main Risks	Controls / Assurance in Place		
		1 <sup>st</sup> Line (Data providers and management)	2 <sup>nd</sup> Line (Regulation, Financial Control, senior management)	3 <sup>rd</sup> Line – Internal Audit / External Providers
<p><b>Financial Reporting</b></p> <p><b>Regulatory and statutory financial information, submitted to Companies House.</b></p>	<p>Underlying financial transaction data are inaccurate or incomplete.</p> <p>Incorrect classification of transactions and balances.</p> <p>Incomplete / unclear notes to the accounts.</p>	<p>Day-to-day financial controls over financial transaction recording. Verification applied through delegated authority by managers.</p> <p>Senior Finance managers are responsible for ensuring that all accounting processes are aligned to UK Generally Accepted Accounting Practice and relevant requirements of the Companies Act 2006.</p> <p>We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis.</p>	<p>Finance produces monthly management accounts which are reviewed by Executive / Senior Management and the Board.</p> <p>The Audit Committee oversees all processes required to produce the Annual Report and Financial Statements, including review of draft reports, and recommends to the Board that they can be signed off.</p>	<p>As required by the Companies Act, PwC conduct annual audits of our financial statements in accordance with International Standards on Auditing (UK and Ireland).</p> <p>The objectives of these audits are to confirm that our financial statements give a true and fair view of the state of the company's affairs, profit and cash flow; that they have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and have been prepared in accordance with the requirements of the Companies Act 2006.</p>

Report Areas	Main Risks	Controls / Assurance in Place		
		1 <sup>st</sup> Line (Data providers and management)	2 <sup>nd</sup> Line (Regulation, Financial Control, senior management)	3 <sup>rd</sup> Line – Internal Audit / External Providers
<p><b>Direct Customer Communications</b></p> <p><b>Multi-channel communications such as website information, on-line surveys, social media, customer call centre data, operational staff contact, customer billing leaflets, etc.</b></p>	<p>Information provided is inaccurate, incomplete or unclear.</p> <p>Information provided does not meet the needs of customers.</p>	<p>Day-to-day controls are in place to ensure that all data are accurately and completely recorded. Data assurance is carried out by operational management.</p> <p>We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis.</p>	<p>All materials used to communicate directly to customers are developed jointly by our Customer Relations and External Communications teams.</p> <p>Reporting experts in the Regulatory team carry out regular detailed reviews of underlying data pertaining to regulatory submissions to ensure accuracy and completeness.</p> <p>Executive / Senior Management review information prior to publication or submission.</p>	<p>Individual communications materials are not typically subject to specific external assurance. However, any underlying data used in such communications will be subject to external review by Atkins as part of their assurance work on our Annual Performance Report and other Regulatory Reporting.</p>

Report Areas	Main Risks	Controls / Assurance in Place		
		1 <sup>st</sup> Line (Data providers and management)	2 <sup>nd</sup> Line (Regulation, Financial Control, senior management)	3 <sup>rd</sup> Line – Internal Audit / External Providers
<p><b>Other Stakeholder Information</b></p> <p><b>Information provided to a range of customer, community, consumer and local government and other stakeholder groups.</b></p>	<p>Information provided is inaccurate, incomplete or unclear.</p> <p>Information provided does not meet the needs of relevant stakeholders.</p>	<p>Day-to-day controls are in place to ensure that all data are accurately and completely recorded. Data assurance is carried out by operational management.</p> <p>We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis.</p>	<p>All materials used to communicate directly to customers are developed by our External Communications team in conjunction with other areas of the company dependent upon the nature of the information being reported.</p> <p>Reporting experts in the Regulatory team carry out regular detailed reviews of underlying data pertaining to regulatory submissions to ensure accuracy and completeness.</p> <p>Executive / Senior Management review information prior to publication or submission.</p>	<p>Individual communications materials are not typically subject to specific external assurance. However, any underlying data used in such communications will be subject to external review by Atkins as part of their assurance work on our Annual Performance Report and other Regulatory Reporting.</p>

## Risks, Strengths & Weaknesses Statement feedback

We received feedback from CCWater and our customer challenge Group (CCG) in respect of our Risks, Strengths & Weaknesses Statement. The specific feedback received and our responses are shown in the table below.

Feedback	Response
<b>CCWater</b>	
<ul style="list-style-type: none"> <li>The document itself is clearly written and succinct but as a result does not go into the detail that some other companies have. Other companies, for example, have taken specific bits of data like the ODIs, information returned to CCWater, etc. and given it an individual risk rating. Then the risks are assessed and a level of assurance placed on each area dependent on the risk. It would appear that you have chosen to apply the same process to everything.</li> </ul>	<ul style="list-style-type: none"> <li>Our Risks, Strengths and Weaknesses Statement was deliberately pitched at a relatively high level. In this document we have gone into somewhat more detail with regards to the risks pertinent to the different types of information we publish and the assurance we have in place to mitigate those risks.</li> <li>Assurance in place in respect of our ODIs is detailed in the Regulatory Annual Performance Report table on page 10.</li> </ul>
<ul style="list-style-type: none"> <li>It's also not clear which areas you will have externally audited and why.</li> </ul>	<ul style="list-style-type: none"> <li>The tables on pages 10 to 14 of this document show the types of information which are subject to external assurance, the nature of that assurance work and why we consider it important for it to be conducted.</li> </ul>
<ul style="list-style-type: none"> <li>We have picked up some issues with the data provided to CCWater through the unaudited Quarterly reports and Delving into Water report submissions which should have been audited.</li> </ul>	<ul style="list-style-type: none"> <li>The data referred to was not subject to full review by our reporter. We had not envisaged this data being placed into the public domain or used for comparative reporting purposes. All data provided to any of our stakeholders are now subject to appropriate internal and/or external assurance.</li> </ul>
<b>Customer Challenge Group (CCG)</b>	
<ul style="list-style-type: none"> <li>Our CCG raised various concerns with regards to the structure and format of our Risks, Strengths &amp; Weaknesses Statement and the relatively short period of time we gave to stakeholders to provide feedback and consultation responses.</li> </ul>	<ul style="list-style-type: none"> <li>The timetable for producing a Risks, Strengths and Weaknesses Statement and this Assurance Plan was particularly challenging given that the requirement to do so only emerged as a result of Ofwat's November 2016 review. Our timetable for future years will allow us to develop a more comprehensive description of our assurance activities as well as allowing longer periods for stakeholder consultation in respect of our draft assurance plans.</li> </ul>

## Ofwat's Assessment

The table below shows the “minor concerns” raised by Ofwat in their Company Monitoring Framework report, published in November 2016 and our responses designed to ensure that these concerns are addressed in future reports and submissions.

Assessment	Response
<b>Final 2010-15 reconciliation data submission</b>	
<ul style="list-style-type: none"> <li>We noted minor data ambiguities in and across tables which when queried were easily corrected and we considered them to be in part a consequence of interpreting our guidance in a not unreasonable way. However there was insufficient detail provided in the initial commentary to allow us to assess serviceability and change protocol. Consequently we raised a number of queries seeking to clarify our understanding of the information provided in the submission which the company resolved proactively to our satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>In future submissions we will seek to:               <ul style="list-style-type: none"> <li>make it clear in our commentaries where we have felt it necessary to make any interpretations of guidance and the nature of those interpretations; and</li> <li>minimise data ambiguities in and across tables.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>During our analysis of the RCM information we identified an issue that confirmed the PR14 final determination and consequently the initial submission did not comply with the RCM guidance. This was resolved through discussion with the company to bring about the correct outcome for customers however we were disappointed with the company's initial reaction when we alerted it of the error affecting its final determination.</li> </ul>	<ul style="list-style-type: none"> <li>We will introduce further internal and external assurance with regards to PR19 submissions to ensure they are fully compliant with Revenue Correction Mechanism guidance.</li> </ul>
<b>Targeted reviews</b>	
<ul style="list-style-type: none"> <li>The published tax reconciliation note identified some large variances in the reported tax charge from what was allowed at the PR14 final determination. The company noted the driver of the majority of this difference but further narrative on why this difference had arisen would be helpful to understand why the assumptions in the business plan varied so much from the actual position.</li> </ul>	<ul style="list-style-type: none"> <li>We will closely review all future notes to our accounts where the wording could be simplified and improved. Specifically in relation to tax reconciliation, we will aim to make our notes more accessible to stakeholders when they relate to technical matters and ensure that they provide a full explanation of any differences between assumptions underlying our business plan and actual figures reported.</li> </ul>

Data assurance summary	
<ul style="list-style-type: none"> <li>The company published a brief summary of the data assurance carried out for the annual performance report. It lacks context and purpose of the data assurance summary or a clear statement about the company's responsibilities for providing/reporting robust information to all stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Our 2016/17 Annual Performance Report will refer readers to this Assurance Plan document which we believe provides transparency with regards to our responsibilities for publishing robust information and how we discharge those responsibilities.</li> <li>We will also review how we can best evidence to our regulators and stakeholders the work of our Audit Committee and independent non-executive directors in scrutinising the effectiveness of our systems of control in respect of the integrity of the information and data we report and the work of our internal and external assurance providers.</li> </ul>
<ul style="list-style-type: none"> <li>The data assurance summary is written in a technical style that assumes the reader is knowledgeable and well informed about assurance practices and the water sector context. Being bound in the annual performance report, it is not prominent on the company's website and there are no search results for "data assurance".</li> </ul>	<ul style="list-style-type: none"> <li>We have sought to write this document in a non-technical style such that it assumes no detailed knowledge of assurance practices.</li> <li>This document will be prominent on our website and easily found through relevant internet search tools.</li> </ul>

## **Future Assurance Plans**

In future years, our timetable will be as follows:

By the end of November in each financial/regulatory year:

Publication of a draft assurance plan, incorporating descriptions of our risks, strengths and weaknesses.

Stakeholders will be requested to provide feedback and responses by the end of the following January. However, we will continue to encourage and welcome feedback at any time on our assurance documents, the way we assess data and information, and how we present our performance to customers and other stakeholders.

By the end of March in each financial/regulatory year:

Publication of our final assurance plan, incorporating feedback from stakeholders in respect of our draft plan.

## **Feedback**

We would be pleased to hear from you at any time with your views on our various performance and assurance documents, how we assess data and information and how we present our performance to customers and other stakeholders.

Please contact us at:

[Trustandconfidence@affinitywater.co.uk](mailto:Trustandconfidence@affinitywater.co.uk)