



Your local supply, on tap

Company Monitoring Framework Final Assurance Plan 2017/18

March 2018



Contents

| | |
|---|----------|
| Introduction and Background | 3 |
| About Affinity Water | 3 |
| About this document | 4 |
| | |
| Our Assurance Plan | 6 |
| General approach to assurance and information | 6 |
| Assurance of reported information | 10 |
| Ofwat's Assessment | 20 |
| Feedback | 21 |

Introduction and Background

About Affinity Water

We treat and supply over 900 million litres of water every day 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 and businesses across our region. It is what drives our ambition to be a 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 performance commitments for the period 2015 – 2020 (AMP6). These commitments are designed to ensure that we:

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

We aim to be open with our customers, stakeholders and regulators about our performance against those commitments. We want them to have trust in our service and confidence in the information we publish about our performance. We welcome feedback at any time about how we're performing against our commitments.

About this document

We regularly publish information on our performance to demonstrate to customers, stakeholders and our regulators the extent to which 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 customers, stakeholders and regulators is accurate, transparent, reliable, relevant, complete and up-to-date. We consider it essential to demonstrate 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.

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 aim to provide transparency around how we support our Board in providing assurance 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. As part of its Company Monitoring Framework, Ofwat require us to publish an assurance plan each year.

In November 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. In writing our Risks, Strengths and Weaknesses Statement and draft Assurance Plan, we engaged directly with the Chair of our Customer Challenge Group (CCG). This was invaluable in ensuring both those documents and this Final Assurance Plan adequately reflect the perspective of our customers.

Following publication of our 2017/18 Risks, Strengths and Weaknesses Statement, we have:

- consulted with our key regulators and offered meetings to discuss the statement;
- sought feedback from the Chair of our CCG on how best to engage with CCG members as a whole in respect of the statement; and
- asked customers, stakeholders and regulators to give us their views on the way we assess data and information, and how we present our performance to them.

We have received no feedback from our stakeholders in respect of either our Risks, Strengths and Weaknesses Statement or draft Assurance Plan.

Ofwat published their Company Monitoring Framework 2017 Assessment Report in November 2017. We “met expectations” in all but one category, Financial Monitoring Framework, where Ofwat raised two minor concerns. These are detailed on page 20 of this document together with how we are addressing them.

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.

Role of the CCG

Our Customer Challenge Group (CCG) has an independent chair and its primary role is to "comment on how well Affinity Water considers customers' views and their priorities and how well customer risks are managed in relation to the achievement of the AMP6 Performance Commitments". In particular, the CCG's terms of reference include a requirement for them to have access to assurance reports from auditors and scrutinise performance against our AMP6 Performance Commitments. They are also expected to comment on and challenge the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used.

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 three 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"
- Directorate Risks – those risks which potentially have a material adverse effect on the achievement of directorate-level business objectives
- Operational Risks – those risks which potentially have a material adverse effect on the effectiveness or efficiency of day-to-day business processes.

All of the above risks are recorded on our Risk Repository, 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.

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.

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 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 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 Accounts and the 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.

In addition, from time to time we may also use other 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.

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.

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 accurate, transparent, reliable, relevant, complete and up-to-date.

| Report Categories | Main Risks | Controls / Assurance in Place | | |
|--|---|--|---|--|
| | | 1 st Line (Data providers and management) | 2 nd Line (Regulation, Financial Control, senior management) | 3 rd Line (Internal Audit and External Providers) |
| <p>Regulatory Annual Performance Report (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> | <ol style="list-style-type: none"> 1. A wide variety of day-to-day operational controls is operated to ensure that all transactional data is accurately and completely recorded. 2. 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. | <ol style="list-style-type: none"> 1. Reporting experts in the Regulation team carry out regular detailed reviews of underlying data and information to ensure accuracy and completeness. 2. Executive / Senior Management review all information prior to publication or submission. 3. The Audit Committee oversees all processes required to produce the Annual Report and Financial Statements, including the Annual Performance Report. 4. The Board approves the Annual Performance report prior to submission. | <ol style="list-style-type: none"> 1. 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 2. 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. These reviews also confirm whether reports are prepared in accordance with relevant guidance and regulatory requirements. 3. CCG comment on and challenge the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used. <p>N.B. the assurance work carried out in respect of our Regulatory Annual Performance Report is detailed in the "Data Assurance Summary", published on our website.</p> |

| Report Categories | Main Risks | Controls / Assurance in Place | | |
|---|--|---|---|--|
| | | 1 st Line (Data providers and management) | 2 nd Line (Regulation, Financial Control, senior management) | 3 rd Line (Internal Audit and External Providers) |
| <p>Other Regulatory Reporting</p> <p>Data and information provided to our main regulators Ofwat, DWI and EA, and to CCWater.</p> <p>In particular: Guaranteed Standards Scheme (GSS) information, written complaints data, annual data tables, annual tariffs and charges, quarterly reports to CCWater.</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> | <ol style="list-style-type: none"> Day-to-day operational controls are operated 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 frequent self-assessment and independent review by Internal Audit on a cyclical basis. | <ol style="list-style-type: none"> Reporting experts in the Regulation team carry out regular detailed reviews of underlying data to ensure accuracy and completeness. Executive / Senior Management review all information prior to publication or submission. Our Audit Committee reviews and our Board approves our annual data tables submissions. | <ol style="list-style-type: none"> Atkins carry out reviews of methodologies and processes by which certain 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. These reviews also confirm whether reports are prepared in accordance with relevant guidance and regulatory requirements. CCG comment on and challenge the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used. |

Specific reports in this category

| Reports | Description | Assurance |
|-----------------------|---|---|
| CCW Quarterly Returns | We submit operational performance data to CCWater each quarter. Areas covered include supply interruptions, per capita consumption and complaints. This data is used by CCWater to compile and publish reports comparing water companies' performance. Therefore, it is important that it is complete and accurate. | Quarterly returns are subject to the 1 st and 2 nd line of defence controls as described in the above table. 3 rd line of defence assurance is carried out by Atkins on the annual return. |

| Reports | Description | Assurance |
|--------------------|--|--|
| Delving into Water | <p>We also submit “Delving into Water” reports to CCWater each quarter. These submissions are used by CCWater to compile their annual “Delving into Water” reports to highlight how the various water companies are performing in areas that “really matter to consumers”. Again, in order to support the comparability of performance between companies it is vital that the information we provide is complete and accurate.</p> | <p>Quarterly returns are subject to the 1st and 2nd line of defence controls as described in the above table. 3rd line of defence assurance is carried out by Atkins on the annual return.</p> |
| Discover Water | <p>Discoverwater.co.uk is a dashboard bringing together key information about water companies in England and Wales in one place for customers. The dashboard aims to be a clear and simple source for trustworthy and factual information. Much of the data underlying the dashboard is provided by water companies and it is vital that this data accurately reflects our performance.</p> | <p>Data provided are subject to the 1st and 2nd line of defence controls as described in the above table.</p> |
| PR19 Business Plan | <p>We are required to submit our business plan for 2020 – 2025 to Ofwat by 3 September 2018. We are also required to submit various supporting data tables, some by 3 May 2018 and others by 15 July 2018. The Company and its Board are responsible for submitting high-quality business plans which include good assurance and have been put together using good governance processes.</p> <p>In Ofwat’s PR19 methodology they have described six Confidence and Assurance tests that companies should consider when seeking and delivering assurance.</p> | <p>We are adopting a multi-layer assurance process to review and challenge our proposals and develop a final business plan that is in line with industry best practice.</p> <p>We are operating a variety of 1st and 2nd line of defence controls including internal team peer reviews; specialist technical support; and PR19 SteerCo oversight.</p> <p>By way of 3rd line of defence controls we are using (a) Atkins for technical assurance of non-financial data; and (b) PwC as our overall assurance partner; in this capacity they will report to our Board to provide the evidence and information necessary to allow the Board to provide an assurance statement to Ofwat that will meet its key tests and expectations. Our Internal Audit team will also work closely with PwC to support their work.</p> |

| Report Categories | Main Risks | Controls / Assurance in Place | | |
|---|--|---|---|--|
| | | 1 st Line (Data providers and management) | 2 nd Line (Regulation, Financial Control, senior management) | 3 rd Line (Internal Audit and External Providers) |
| <p>Financial Reporting</p> <p>Regulatory and statutory financial information, submitted to Companies House.</p> | <p>Financial position or performance mis-reported.</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>1. Day-to-day financial controls over financial transaction recording. Verification applied through delegated authority by managers.</p> <p>2. 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>3. 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>1. The Finance team produces monthly management accounts which are reviewed by Executive / Senior Management and the Board.</p> <p>2. 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>1. As required by the Companies Act, PwC conduct annual audits of our financial statements in accordance with International Standards on Auditing (UK and Ireland). The objectives of these audits are to confirm that the 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> <p>N.B. the assurance work carried out in respect of our Annual Report and Financial Statements is detailed in the "Data Assurance Summary", published on our website.</p> |

| Report Categories | Main Risks | Controls / Assurance in Place | | |
|---|---|---|---|---|
| | | 1 st Line (Data providers and management) | 2 nd Line (Regulation, Financial Control, senior management) | 3 rd Line (Internal Audit and External Providers) |
| <p>Direct Customer Communications</p> <p>Multi-channel communications such as website information, on-line surveys, social media, customer call centre data, operational staff contact, customer billing leaflets, etc.</p> | <p>Information provided is inaccurate, incomplete or unclear.</p> <p>Information provided does not meet the needs of customers.</p> | <p>1. 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>2. 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>3. All materials used to communicate directly to customers are developed jointly by our Customer Relations and External Communications teams.</p> | <p>1. Reporting experts in the Regulation team carry out regular detailed reviews of underlying data pertaining to regulatory submissions to ensure accuracy and completeness.</p> <p>2. Executive / Senior Management review information prior to publication or submission.</p> | <p>1. 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> <p>2. CCG comment on and challenge the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used.</p> |

| Report Categories | Main Risks | Controls / Assurance in Place | | |
|---|---|--|---|---|
| | | 1 st Line (Data providers and management) | 2 nd Line (Regulation, Financial Control, senior management) | 3 rd Line (Internal Audit and External Providers) |
| <p>Other Stakeholder Information</p> <p>Information provided to a range of customer, community, consumer and local government and other stakeholder groups.</p> | <p>Information provided is inaccurate, incomplete or unclear.</p> <p>Information provided does not meet the needs of relevant stakeholders.</p> | <p>1. 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>2. 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>3. 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>1. Reporting experts in the Regulation team carry out regular detailed reviews of underlying data pertaining to regulatory submissions to ensure accuracy and completeness.</p> <p>2. Executive / Senior Management review information prior to publication or submission.</p> | <p>1. 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> <p>2. CCG comment on and challenge the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used.</p> |

Specific reports in this category

| Reports | Description | Assurance |
|-----------------------------|---|---|
| Customer Performance Report | Our annual customer performance report is designed to update customers on our various performance targets and measures. | The contents of the performance booklet are reviewed in detail by our Audit Committee and members of our executive and senior management teams. All numbers reported are based on data which has already been subject to detailed review by our external auditors PwC and Atkins. |

| Report Categories | Main Risks | Controls / Assurance in Place | | |
|--|--|--|--|---|
| | | 1 st Line (Data providers and management) | 2 nd Line (Regulation, Financial Control, senior management) | 3 rd Line (Internal Audit and External Providers) |
| <p>Charges scheme documents, tariff documents, charging arrangements and related information and documents.</p> | <p>Information provided is inaccurate, incomplete or unclear.</p> <p>Information provided does not meet the needs of relevant stakeholders.</p> <p>The Company does not properly comply with its legal and regulatory obligations.</p> | <p>1. We have in place well-established responsibilities and accountabilities, policies, methodologies and processes covering development of charges, charges schemes and charges arrangements; these are all subject to annual self-assessment.</p> <p>2. Various detailed controls are operated as an inherent feature of processes to develop charges, charges schemes and charges arrangements, designed to ensure the veracity of calculations and compliance with regulatory requirements.</p> | <p>1. A Board sub-committee is formed every year to review, on behalf of the Board, the development of tariffs, charges schemes and charges arrangements, and approve any submissions to be made to Ofwat.</p> | <p>1. Internal Audit carry out an annual review to provide assurance that documented processes and procedures are designed to ensure compliance with all regulatory and legal obligations, and that charges schemes and charges arrangements are developed in line with those processes and procedures.</p> <p>2. Atkins, our Reporter, review forecasts of customer numbers and charges volumes in order to provide assurance that these have been prepared on a reasonable basis.</p> <p>3. PwC assess the computational accuracy of charges forecasts and provide assurance that expected revenue from our charges is in line with the price controls set out in our licence conditions.</p> |

Specific reports in this category

| Reports | Description | Assurance |
|--|---|---|
| <p>Charges Scheme</p> <p>Wholesale Tariff Document</p> <p>Charging Arrangements for New Connections</p> <p>Indicative Charging Information Statement of Significant changes</p> <p>Statement of significant Changes – Charges Scheme Charges</p> | <p>Each year we publish a number of documents which set out our wholesale charges to water supply licensees who operate in our supply areas; charges for services provided to household customers; and charges to developers for providing new water mains and for connecting to water mains.</p> <p>There are various legal and regulatory requirements covering these documents, summarised by Ofwat in Information Note 17/09.</p> | <p>We established a Board sub-committee to oversee development of the various 2018/19 charges and tariff documents, and the assurance activities operated to ensure compliance with the various legal and regulatory requirements.</p> <p>To support the sub-committee in making its Board Assurance Statement that we had complied with all our relevant legal and statutory obligations, we carried out extensive audit work to support the charges setting process, as follows:</p> <ul style="list-style-type: none"> • Atkins carried out an audit of the information used to provide the “charge multipliers” for the Charges Scheme calculations; they concluded that “we can provide assurance on the processes that have been used to derive the base customer information and charge multipliers...and do not consider there are any material risks for the report year”. • PwC reviewed our forecast revenue figures and concluded that “we agreed the total forecast revenue as being no more than the price control revenue as notified to Affinity Water by the Regulator on 12 December 2014” and further that “we found no exceptions”. • Our Internal Audit team focused on reviewing written procedures and the operation of those procedures; they concluded that “we are able to provide assurance as to the adequacy of documented procedures for setting charges and the practical application of those procedures”. |

Ofwat's Assessment

The table below shows the “minor concerns” raised by Ofwat in their Company Monitoring Framework report, published in November 2017 and our responses designed to ensure that these concerns are addressed in future reports and submissions.

| Assessment | Response |
|--|--|
| Financial Monitoring Framework | |
| <ul style="list-style-type: none"> Our review identified a minor error relating to the disclosure of dividends which resulted in further errors in the dividend cover and dividend yield metrics provided. | <ul style="list-style-type: none"> We acknowledge that table 1A of our Regulatory Annual Performance report incorrectly showed total dividends paid when it should have only reflected appointed dividends. An amended table 1A was provided to Ofwat. We have introduced further peer / management control checks to prevent such errors occurring in future. |
| <ul style="list-style-type: none"> A more significant error was in relation to RORE where the information published by Affinity Water did not include the detailed analysis of the individual components of performance which was required by the RAGs. When the company provided this to us we also identified an error in their calculations which required correction. | <ul style="list-style-type: none"> We did not take full account of Ofwat guidance on Return on Regulatory Equity (RORE) or seek clarification where we were unsure on said guidance. We have introduced further peer / management control checks, including confirmation of compliance with Ofwat and other relevant guidance. We will ensure we raise queries with Ofwat in the event of a lack of clear understanding of any guidance on completion of any aspects of Regulatory Annual Performance reporting requirements. |

Feedback

We would be pleased to received feedback at any time with regards to our various performance and assurance documents, how we assess data and information and how we present our performance to customers, stakeholders and regulators.

Please contact us at:

Trustandconfidence@affinitywater.co.uk