



Affinity Water: Data Assurance Summary



Affinity Water is a monopoly water provider. As such, the Company's Board has an obligation to inform customers and stakeholders about the performance of the company and to assure them that the data which we publish is accurate. This document describes the data assurance processes that the company has undertaken in order to produce the data for its Annual Performance Report (APR) and Annual Report & Financial Statements (AR&FS).

Background to Assurance at Affinity Water

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 assure data and how we report information our performance to customers and other stakeholders.

Following publication of our Risks, Strengths and Weaknesses Statement, we:

- 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.

In March 2017 we published our Assurance Plan 2016/17. Our Assurance Plan describes the main assurance activities 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. In our Assurance Plan we also addressed (a) feedback received from stakeholders in respect of our Risks, Strengths and Weaknesses Statement, and (b) the "minor concerns" raised by Ofwat in their Company Monitoring Framework report, published in November 2016.

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 our 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.

Assurance over the APR and AR&FS

Our main current assurance controls in place for the APR and AR&FS are described below. These are designed to ensure that all information reported is transparent, reliable, relevant, complete and up-to-date.

1st Line (Data providers and management) 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 frequent self-assessment and independent review by Internal Audit on a cyclical basis.

2nd Line (Regulation, Financial Control, senior management) Reporting experts in the Regulatory team carry out regular detailed reviews of underlying data and information to ensure accuracy and completeness. Executive / Senior Management review all information prior to publication or submission. The Audit Committee oversees all processes required to produce the AR&FS, including the APR. The Board approves the APR prior to submission.

3rd Line (External Providers) WS Atkins (our engineering assurance providers) carried 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. PwC carried out their annual audit of the Regulatory Accounting Statements contained within our 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. PwC found no material issues during the audit, their full report can be found on pages 151 to 157 of the AR&FS.

We engaged PwC to perform independent assurance procedures on the financial information disclosed in Section 4 of the APR to ensure compliance with guidelines issued by the Regulator. These procedures included checking application of the guidance in the Regulatory Accounting Guidelines, checking application of the methodology statement, checking consistency with other tables within the APR and reviewing the calculation of current and prior year data where numbers do not directly extract from other tables. For further details, see Appendix 1 of this report.

We also engaged WS Atkins to perform independent assurance procedures on the non-financial information disclosed in the APR and AR&FS, to ensure compliance with guidelines issued by the Regulator.

Both WS Atkins and PwC presented detailed reports to our Audit Committee covering:

- the work they carried out, including confirmation of their respective terms of reference;
- the conclusions they reached based on their work; and
- minor exceptions they noted and ways in which we could further enhance our underlying methodologies and processes.

Company Monitoring Performance report

In their Company Monitoring Performance report (published November 2016) Ofwat made the following comments about the data assurance summary contained in our AR&FS 2015/16:

“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.”

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".

This statement is designed to address these concerns. In particular:

- we have done our utmost to ensure that this document is written in non-technical terms wherever possible;
- this statement will be prominent on our website and will appear in Internet search results; and
- this document clarifies the purpose of our overall assurance activity and within that context describes in detail the assurance work carried out in respect of our APR and AR&FS.

Appendix 1

Data	Assurance procedures performed	Results
Tables 1A, 1B, 1C, 1D, 1E, 2A, 2B, 2C, 2D, 2E, 2F, 2G and 2I	External audit by PwC.	Refer to the independent auditor's report on pages 151 to 157.
Tables 3A, 3C, 3D and 4A	External review by WS Atkins of the procedures used to collect and report the information.	Refer to the statement of risk and compliance on pages 149 to 150.
Tables 4B, 4C, 4D, 4F, 4G and 4H, 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, checking consistency with other tables within the APR and reviewing the calculation of current and prior year data where numbers do not directly extract from other tables.	The directors have considered the report provided by PwC and are satisfied with the accuracy of the data reported.
Viability statement	<p>As part of their statutory audit of the company's AR&FS, 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.</p> <p>Separately to these procedures, we 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 each of the stress tests.</p>	<p>PwC did not include any matters in their independent auditor's report on pages 96 to 102 in relation to the viability statement.</p> <p>In addition, the directors have considered the agreed upon procedures report provided by PwC and are satisfied with the accuracy of the stress testing underpinning the statement.</p>

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:

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