



Your local supply, on tap

**Company Monitoring Framework  
Risks, Strengths and Weaknesses Statement  
November 2017**

---



# Contents

<b>Introduction</b>	<b>Page 3</b>
About Affinity Water	Page 3
About this document	Page 4
Regulatory Requirements	Page 4
<b>Our assessment of risks, strengths and weaknesses</b>	<b>Page 6</b>
Background	Page 6
Information that we provide	Page 7
Our approach to assurance and information	Page 8
Our assessment	Page 10
<b>Next steps</b>	<b>Page 14</b>

## Introduction

### 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. And, 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 other 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 supply;
- provide high quality water; and
- offer customers a value-for-money service.

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

## 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 risks, strengths and weaknesses of processes we have in place to provide assurance of the data we report, and how we aim to ensure trust and confidence in what we provide.

We consider it important to demonstrate to our customers, stakeholders and regulators that we report information on our performance that is accurate, transparent, reliable, relevant, complete and up-to-date. This is part of our commitment to demonstrate that we take ownership of the information we report.

## Regulatory Requirements

The water industry regulator, Ofwat, requires different 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. Ofwat are due to publish their 2017 Company Monitoring Framework reports in November 2017.

We have 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 this document, we set out the results of this preliminary assessment. At the same time, we are also publishing our draft Assurance Plan 2017/18, which describes in some detail 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 accurate, transparent, reliable, relevant, complete and up-to-date. This document should be read in conjunction with our draft Assurance Plan 2017/18.

Our preliminary assessment is designed to act as the basis for consultation with stakeholders. Following the conclusion of our consultation on this statement of risks, strengths and weaknesses, we expect to develop and publish our assurance plan by 31 March 2018, ahead of our annual reporting and assurance programme.

Our final assurance plan will set out how we support our Board in providing assurance of the information we report. It will also address any feedback received from customers,

stakeholders or regulators in respect of this Risks, Strengths and Weaknesses statement or our draft Assurance Plan 2017/18, and any concerns raised by Ofwat in their updated monitoring framework assessment due in November 2017. It will identify any areas for improvement identified through consultation.

## **Our assessment of risks, strengths and weaknesses**

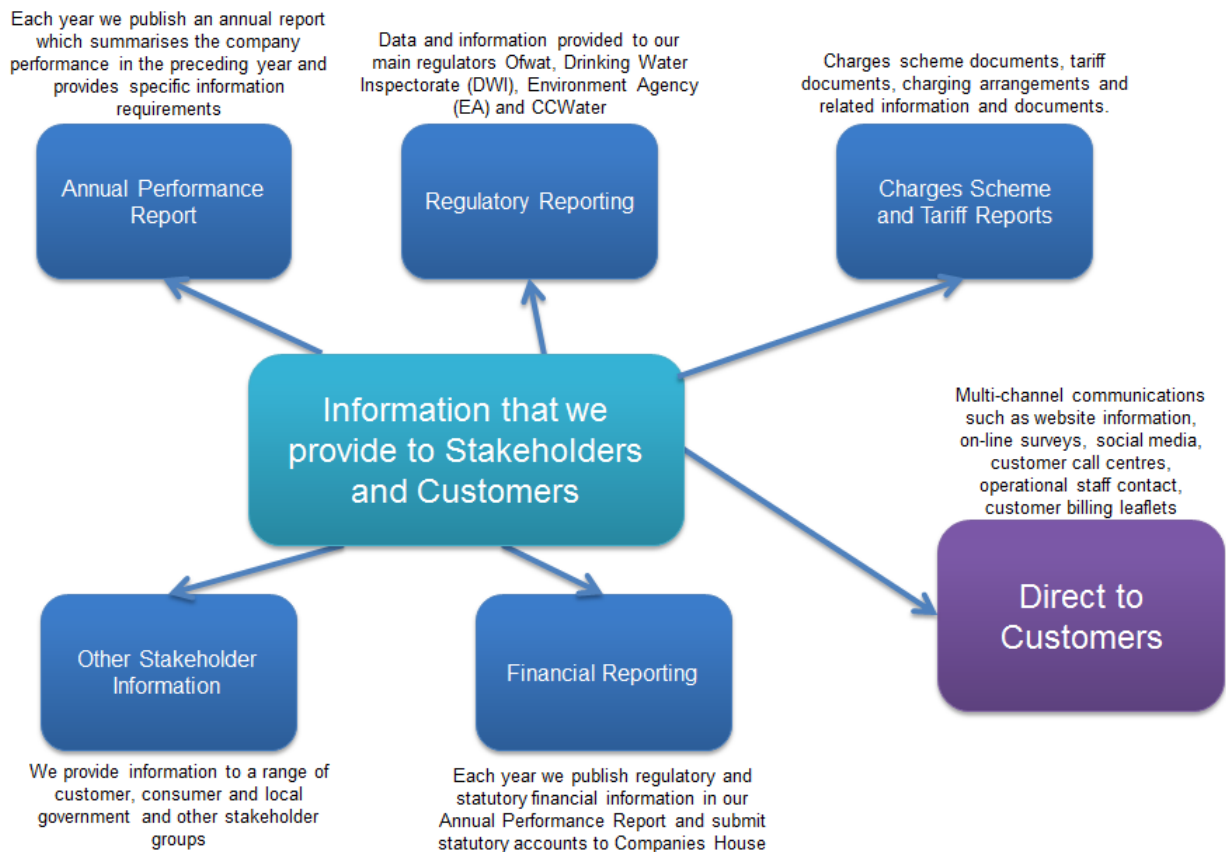
### **Background**

During the most recent price review process our Board provided strategic leadership and guidance on all elements of our Business Plan. The Board determined that, in addition to our internal assurance processes, development of the Business Plan would be supported by external assurance provided by independent expert specialists. We therefore implemented a multi-layered assurance process to review and challenge our proposals in line with industry best practice.

The support of a thorough independent assurance programme, undertaken by external specialist quality assurance providers, was a critical factor for our Board when providing assurance that our Business plan was of a high quality. We have highlighted this approach as background to this Risks, Strengths and Weaknesses assessment, as it continues to form the fundamental basis of our approach to providing assurance that information we publish is reliable and accurate.

## Information that we provide

Throughout a typical regulatory/financial year we provide information to a range of stakeholders, customer representatives and customers. The diagram below provides a summary of the six main areas where we do this.



## **Our 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 has as its primary role 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.

The strategic register 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 the risks managed at directorate level relating to the provision of inaccurate information to our 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.

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 internal assurance process.



In this model, management control constitutes the first line of defence in risk management, the various risk control and compliance oversight functions established by management are the second line of defence and independent assurance is the third.

The Board also makes use of external third party organisations to provide it 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 parties used to provide this assurance are Pricewaterhouse Coopers LLP (PwC), who provide financial assurance, and Atkins Limited (our Reporter), who provide engineering assurance. These contracts are periodically re-tendered and providers may change.

## Our assessment

We have carried out this preliminary assessment of the risks, strengths and weaknesses of our systems and processes that support our Board in providing assurance of the information we report.

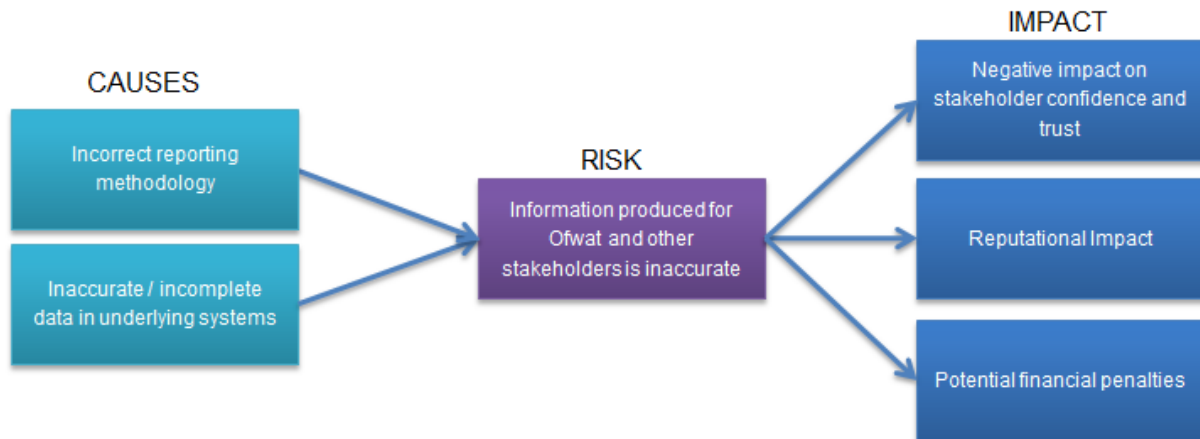
Overall, we believe that our systems and processes are effective and efficient. This assessment is based on the risks, strengths and weaknesses identified below. We consider the noted weaknesses to be relatively minor but nonetheless are working hard to address them.

### Risks

- The table below shows the detail held on our risk register in respect of two corporate risks; these risks are reviewed at least quarterly by the Regulation & Corporate Affairs team, our EMT and our Audit Committee.

Risk Description	Regulatory Reporting – mis-reporting to Ofwat	Information produced for stakeholders is inaccurate
Related Principal Risks & Uncertainties	Failure to comply with laws, our instrument of appointment and other recognised standards	Failure to comply with laws, our instrument of appointment and other recognised standards
Causes	Incorrect reporting methodology.	Incorrect reporting methodology. Inaccurate / incomplete data in underlying systems.
Potential impact	Reputational impact. Potential financial penalties	Negative impact on stakeholder confidence and trust. Reputational impact. Potential financial penalties.
Risk owner	Director of Regulation & Corporate Affairs	Director of Regulation & Corporate Affairs
Existing controls	Very well established controlled and documented process for reporting all annual regulatory performance information to Ofwat that is subject to Reporter and Auditor scrutiny in preparation for the Audit Committee meeting each year with delegated authority to approve regulatory submission on behalf of the Board.	Very well established controlled and documented process for reporting all annual regulatory performance information to stakeholders that is subject to Reporter and Auditor scrutiny in preparation for the Audit Committee meeting each year with delegated authority to approve publication of relevant information.

Our simplified 'bow tie' analysis summarises the output from our framework for identifying and evaluating risk around production of performance data



- There is a risk that Ofwat considers that the actions we have taken to address the issues raised in their November 2016 Company Monitoring Framework document are not adequate.
- There is a risk that Ofwat, in their November 2017 Company Monitoring Framework report, raises significant new issues in respect of the information we publish and how we assure it.

### Strengths

- 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.
- All identified risks are 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 reviewed by our Board and Audit Committee.
- The strategic risk register 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' that includes the risks managed at directorate level relating to the provision of inaccurate information to our regulators and stakeholders.

- Our Board provides strategic leadership and we have an on-going approach of adopting a multi-layer assurance process with external assurance from independent expert specialists in addition to our internal assurance processes.
- 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.
- Our CCG have access to assurance reports from auditors and scrutinise performance against our AMP6 Performance Commitments. They also comment on and challenge the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used.
- Internal systems and processes are designed to manage the risk of failure to achieve business objectives and provide reasonable, but not absolute, assurance against material misstatement or loss.
- 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.
- 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 internal assurance process.
- The Board also makes use of external third party organisations to provide it with external assurance that the information prepared by the management of the company is accurate and compliant. This particularly applies to major items such as the Annual Report and the tariff setting process.

## Weaknesses

- Our initial customer engagement research for PR19 planning purposes has confirmed that a “one size fits all” approach to customer communications is not effective in today’s multi-cultural, technology-aware society; we will continue to investigate the use of multiple communications channels for sharing information with customers and other stakeholders.
- We recognise that it is not always straightforward to access specific information customers, stakeholders and regulators require on our website; we are undertaking a review of the structure of the Reports & Publications section of our website to address this.
- In the past our CCG has not always had sight of external assurance reports in respect of information about to be published at the same time as the information itself is presented for review by them; we are working with the Chair of the CCG to ensure that this is addressed in respect of all relevant 2017/18 reporting.

## Next steps

We would like to hear the views of customers, stakeholders and regulators on this document, the way we assess data and information and how we present our performance.

Please contact us at:

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

We would be delighted to receive feedback at any time. For the purposes of preparing our Assurance Plan 2017/18 it would be helpful if we can have any comments before 28 February 2018. We will incorporate all feedback and consultation responses into our final Assurance Plan 2017/18, which we expect to publish no later than 31 March 2018.

Customers, stakeholders and regulators may wish to consider the following questions:

- Do you have any concerns about the information we report?
- Is the information we publish easy to understand?
- What do you consider to be the most important type(s) of information that we provide?
- Do you have any concerns about the quality of the information that we provide?
- Do you feel confident that the data we publish is robust, accurate and reliable?
- Would you value information presented in a different way?
- Is there any additional information that we don't currently publish that you would find helpful?