



Affinity Water
Data Assurance Summary

July 2019

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1 Scope of this summary

This data assurance summary describes the assurance procedures which Affinity Water Limited ('Affinity Water' or the 'company') has performed in order to assure the data in the following publications:

- The company's Annual Report and Financial Statements for the year ended 31 March 2019 (the 'Annual Report'), including its Annual Performance Report for the year ended 31 March 2019 (the 'APR'). The company's Tables 4P and 4Q publication for the year ended 31 March 2019 (the 'Tables 4P and 4Q Publication'), which contains non-financial data not included in the Annual Report, but is published on the company's website.
- Table 3S, which contains shadow performance metrics that will become 'live' after 1 April 2020. Ofwat has decided that, in order to avoid confusion for stakeholders, these shadow measures should not be published until after 1 April 2020.

This report also covers the Regulatory Accounting Guideline 5.07 ('RAG 5') audit which was carried out as part of the year end process.

Detail around external assurance provided is attached as Appendices One and Two. Data assurance procedures for other returns and publications are contained in separate documents.

Details of the internal and external assurance procedures undertaken in relation to the company's Methodology Statement for Accounting Separation 2018/19 (the 'Methodology Statement'), which sets out the company's approach on accounting separation ('AS') and the systems, processes and allocation assumptions used to prepare the AS tables within the APR, is provided in section 7 of the Methodology Statement. Ofwat requires this document to be submitted alongside the company's APR. The company's statement for 2018/19 can be found on the company's stakeholder website: stakeholder.affinitywater.co.uk/reports-publications.aspx.

2 Background to assurance at Affinity Water

Affinity Water is a monopoly water provider. As such, the company's Board believes that it 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 process that the company has gone through in order to produce the data for its Annual Report, including the APR, Tables 4P and 4Q Publication and Table 3S submission.

In November 2018, 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
- reviewed our Risks, Strengths and Weaknesses Statement as required by Ofwat's Company Monitoring Framework report; a revised version was published and distributed to stakeholders on 8 March 2019.

On 29 March 2019, we published our Final Assurance Plan 2018/19. Our Final Assurance Plan 2018/19 describes the main assurance activities we either carry out ourselves or engage third party providers to carry out independently, so that information we report to stakeholders is transparent, reliable, relevant, complete and up-to-date.

In our Final Assurance Plan 2018/19, we committed to reviewing our risks, strengths and weaknesses again by the end of July 2019. We are currently working on this and expect to publish an updated version in early August 2019.

3 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 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.

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 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;
- the setting and monitoring of annual budgets at a detailed level supported by a five-year forecast;
- 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.

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.

4 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 ('Atkins'; the company's Reporter), who provide assurance on engineering and technical data. These contracts are periodically re-tendered and providers may change.

In addition, we use other assurance providers, such as Deloitte, Frontier Economics, Ernst & Young, NERA and OXERA.

5 Internal controls and board oversight

For the Annual Report, including the APR, the Tables 4P and 4Q publication, and the Table 3S submission, the company's main current assurance controls in place 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): A wide variety of 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. Data included in the APR, Tables 4P and 4Q Publication and Table 3S submission is reviewed and physically signed off by data providers, responsible managers and accountable directors.

2nd Line (Regulation, Financial Control and Senior Management): Reporting experts in the Regulatory and Finance teams 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 Annual Report, including the APR, the Tables 4P and 4Q publication and Table 3S submission. The Board approves the Annual Report, including the APR, the Tables 4P and 4Q publication and Table 3S data prior to publication or submission.

3rd Line (Internal Audit/External Providers): Atkins 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 an annual audit of the Regulatory Accounting Statements contained within the company's APR. The company has a regulatory obligation for its external auditor to confirm that these statements have been presented in accordance with Condition F, the Regulatory Accounting Guidelines (the 'RAGs') issued by the Water Services Regulation Authority and the accounting policies (including the company's published accounting methodology statement) set out in the APR. These reviews also confirm whether reports are prepared in accordance with relevant guidance and regulatory requirements.

6 Company Monitoring Framework report

Ofwat's Company Monitoring Framework report (published in January 2019) had the following comments to make with regards to the company's assurance of the information presented in its Annual Performance Report for the year ended 31 March 2018 and other regulatory submissions:

- A serious concern was raised about our business plan data quality;
- Minor concerns were raised in four areas:
 - Charges engagement;
 - Cost assessment;
 - Water resources management plan and market information; and
 - Business plan consistency.

As a result of these concerns Ofwat concluded that the company has not instilled sufficient confidence in the information it publishes and provides to stakeholders. Therefore Ofwat decided to change the company's assurance status to "Prescribed". This is a significant decision by one of the company's major regulators and we are making strenuous efforts to improve Ofwat's confidence in our published information.

Each of these areas requires individual efforts to improve confidence. There is also a general theme of concern about the quality of data that the company is producing, which we are seeking to address:

- The company has adopted a strict Responsible, Accountable, Consulted, Informed ('RACI') process of data control for all data produced within the company.
- The company has employed additional project management resources in order to strengthen the process of data production.
- The CEO is sponsoring a company wide project on data improvement and consistency.
- The company is planning to produce 'interim' non-financial data for the six-month period to 30 September 2019 contained in particular tables or table lines (selected using a risk-based approach) of the Annual Performance Report, Tables 4P and 4Q, and Table 3S. This will allow the company to 'test run' improved procedures, identify opportunities for improvements on an on-going basis and implement recommendations arising from assurance work ahead of the publication and submission of data for the year ending 31 March 2020.

7 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:

assurance@affinitywater.co.uk

15 July 2019

Appendix One

Summary of external assurance

8 Appendix One – Summary of external assurance

Data	Assurance procedures performed	Results
Tables 1A, 1B, 1C, 1D, 1E, 1F, 2A, 2B, 2C, 2D, 2E, 2F, 2G, 2I, 2J and 2K	External audit by PwC.	Refer to the independent auditor's report on pages 194 to 197 ¹ .
Tables 3A, 3B, 3C, 3D, 3S, 4A, 4D, 4L, 4P and 4Q	External review by Atkins of the procedures used to collect and report the information.	Refer to the statement of risk and compliance on pages 192 to 193 ¹ .
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 the company's 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 year data where numbers do not directly extract from other tables.	The Board has considered the report provided by PwC and is satisfied with the accuracy of the data reported.
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.	PwC did not include any matters in their independent auditor's report on pages 124 to 130 ¹ in relation to the viability statement. In addition, the Board has considered the agreed upon procedures report provided by PwC and is satisfied with the accuracy of the stress testing underpinning the statement.
RAG 5 audit	PwC performed agreed upon procedures over the compliance of with RAG 5. The procedures included reviewing the Corporate Services Agreement between group entities and ensuring that the recharges are in compliance with RAG 5, checking the consistency of the disclosures in the Transactions with associated companies note of the APR, ensuring the wholesale water charges to group entities are in line with the 'settlement report' provided by the Market Operator and checking the mathematical accuracy of the charges.	No issues were reported. The Board has considered the agreed upon procedures report provided by PwC and is satisfied that the company has acted in compliance with RAG 5.

¹ Page references refer to the Annual Report.

The findings of the company's Reporter are attached as Appendix Two.

Appendix Two

Findings of the company's Reporter

9 Appendix Two – Findings of the company's Reporter

The company was advised by its Reporter that it was compliant with all of Ofwat's requirements, with one exception. Atkins found in relation to Table 4Q (line 15) that:

- **Total Population Served (line 15):**

The company uses a different approach to deriving household and business population served when the Reporter considers that good practice would suggest a consistent approach should be used, preferably the approach for deriving business population.

In this context, an 'amber' issue is one of minor concern that the assurance provider wishes to bring to the attention of a company's board. In addition to this area of concern, Atkins recommended that the methodology be improved in two other areas:

- **Table 4Q Line 11 Meter replacements:**

The Reporter considers that there are some weaknesses in the company's processes for reporting meter replacements, which means that the true level of activity is under-reported if a meter is renewed more than once in a year.

- **Tables 4A and 4Q: Properties and Voids reporting:**

The Reporter considers that there are systemic issues with reporting from the company's billing system, HiAffinity. As a result, there are some areas where the Reporter's assurance was limited to confirming that the summary figures in reports had been transposed accurately where it was not possible to interrogate the raw data, namely in relation to residential property numbers and vulnerability reporting for social tariffs.

Further information can be found in the Reporter's report, which is available on the company's stakeholder website: stakeholder.affinitywater.co.uk/reports-publications.aspx.

Management has shared with the company's Audit Committee an action plan to address these concerns, and will report progress against that plan to the Audit Committee quarterly.