



# **Company Monitoring Framework**

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## Risks, Strengths and Weaknesses Statement

November 2018

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## Introduction

### About Affinity Water

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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.

On 3 September 2018, we submitted our five-year business plan for 2020 – 2025 to our regulator. This sets out our path for continuing to meet this growing challenge. In developing our plans we undertook an extensive and multi-phased programme of customer and stakeholder engagement to ensure our plan focuses on the things that matter most to customers. We engaged with over 15,300 customers and stakeholders and took account of over 5 million day-to-day customer contacts as part of a combined engagement programme.

As a result of what our customers told us, we set out 19 key commitments. These commitments are designed to ensure that we:

- have enough water to meet demand, whilst leaving more water in the environment
- minimise disruption to customers and their communities;
- provide high quality water that customers trust; and
- offer customers a great service that they value.

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

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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

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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 2018 Company Monitoring Framework reports in January 2019 at the same time as their initial assessments of companies' 2020 – 2025 business plans.

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 2018/19, 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 2018/19.

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 final assurance plan by 31 March 2019, 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 2018/19, and any concerns raised by Ofwat in their updated monitoring framework assessment due in January 2019. It will identify any areas for improvement identified through consultation.

## Our assessment of risks, strengths and weaknesses

### Background

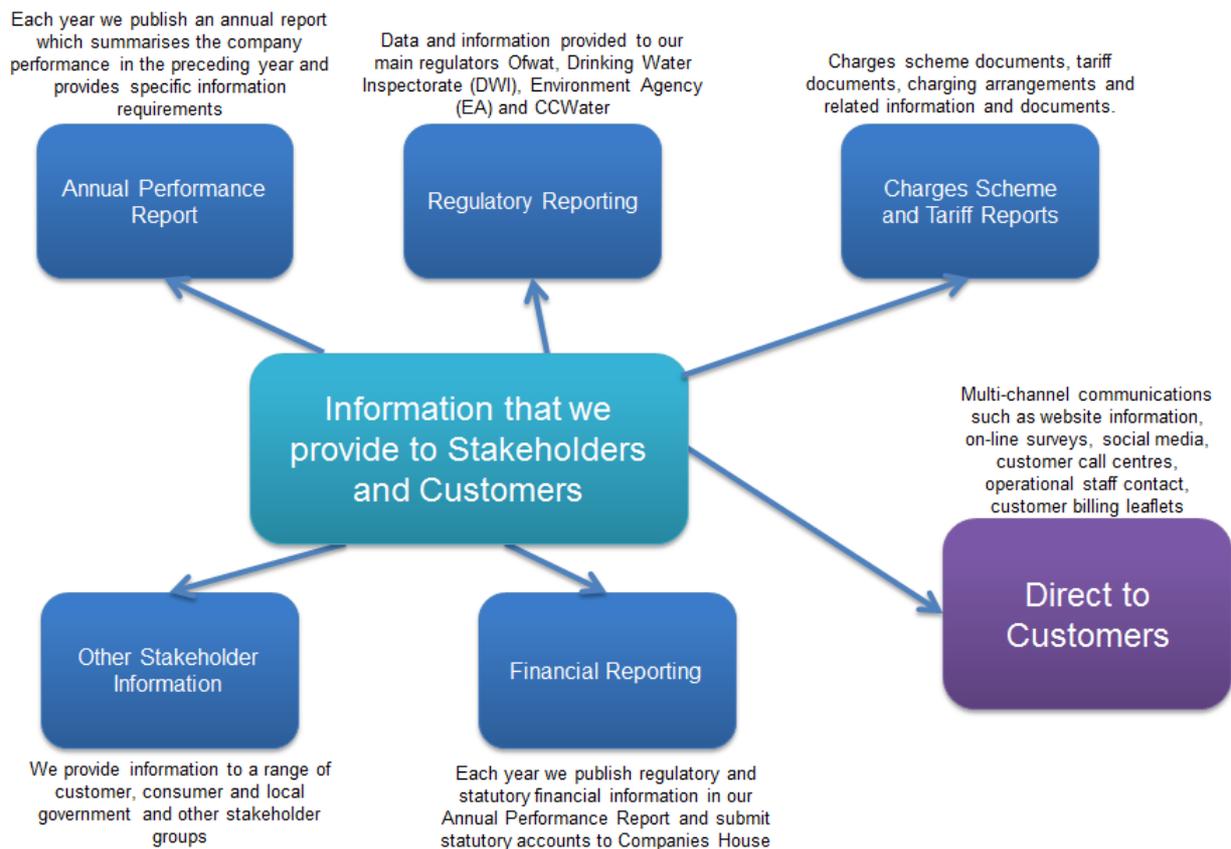
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During the most recent price review process our Board provided strategic leadership and guidance on all elements of our Business Plan. The Board determined that, in addition to our internal assurance processes, development of the Business Plan would be supported by external assurance provided by independent specialists. We therefore adopted 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.



In addition to all of the above, on 3 September 2018, we submitted to Ofwat and published our 2020 – 2025 Business Plan and a number of detailed supporting appendices. On the same date, we also submitted to Ofwat a significant number of data tables and supporting commentaries. These tables included data in respect of historical performance and forecast future performance for the remainder of AMP6, all of AMP7 and, in some cases, further into the future.

Also, we are currently working on our revised draft Water Resources Management Plan 2020-2080 and will be seeking further feedback on this in Spring 2019 with a view to publishing a final version in May 2019. We are currently finalising our assurance approach for this work and will detail this in our final Assurance Plan.

## **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.

The CCG also played a significant role in our PR19 business planning programme. The CCG was required by Ofwat to provide “independent challenge to the company and independent assurance to Ofwat on the quality of the company's customer engagement for PR19, and the degree to which this is reflected in its business plan”.

### **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 comprises 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.

The assurance requirements in respect of our PR19 business plan were critical in ensuring we submitted a plan of high quality which we can deliver. PwC and Atkins took leading roles in this respect and we also contracted with ChandlerKBS and Frontier Economics Limited to provide assurance on specific aspects of our plan.

## 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.

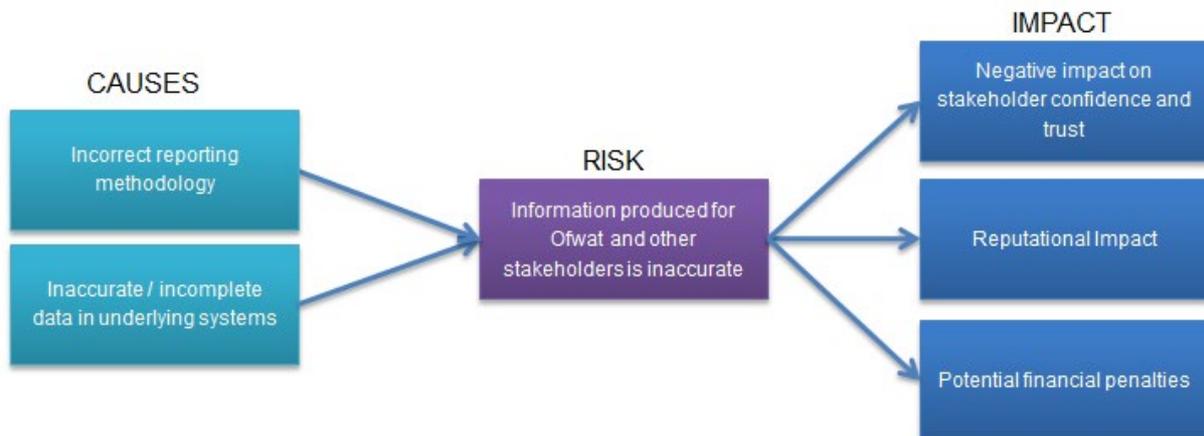
Overall, we believe that our systems and processes are effective and efficient. This assessment is based on the risks, strengths and weaknesses identified below. We consider the noted weaknesses to be relatively minor but nonetheless are working hard to address them.

## 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	Controlled and documented process for collating and 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.	Controlled and documented processes for reporting regulatory performance information to stakeholders that is subject to Reporter and Auditor scrutiny; authority is delegated to Audit Committee or EMT as appropriate 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 2017 Company Monitoring Framework document are not adequate.
- There is a risk that Ofwat, in their January 2019 Company Monitoring Framework report, raises significant new issues in respect of the information we publish and how we assure it.
- We believe that we have taken all reasonable steps to provide effective assurance of all aspects of our PR19 Business Plan. However, there remains a risk that, following their review of our plan and associated submissions, Ofwat will consider our assurance processes to have been inadequate.

## 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 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 has 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 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.

- For our PR19 business planning programme, we adopted a multi-layer assurance approach. This is described in detail in Appendix 11 to our Business Plan – Governance and Assurance

## Weaknesses

- Every month our Developer Services team submits to Water UK its self-certified performance against a number of metrics. Water UK publishes quarterly league tables comparing performance across all water companies. Our Internal Audit team recently carried out a review of this area and recommended that these monthly submissions are subject to independent assurance.
- Over the course of our PR19 business planning programme we became aware that our internal assurance processes were not operating as effectively and efficiently as planned and that there was an over-reliance on our external assurance providers; whilst we took some steps to address this during the programme, we are also carrying out a post-programme review to identify appropriate actions to improve our own internal assurance processes where required.

## 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 2018/19 it would be helpful if we can have any comments before 28 February 2019. We will incorporate all feedback and consultation responses into our final Assurance Plan 2018/19, which we expect to publish no later than 29 March 2019.

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?