



Company Monitoring Framework

Risks, Strengths and Weaknesses Statement

November 2019

Table of Contents

	Page
Introduction	3
About Affinity Water	3
About this document	5
Regulatory Requirements	5
Our assessment of risks, strengths and weaknesses	7
Background	7
Information that we provide	8
Our approach to assurance and information	10
Our assessment	12
Next steps	17

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.

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 were 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.

In their initial assessment, published on 31 January 2019, Ofwat concluded that our business plan was subject to “significant scrutiny”. They considered that our plan fell short in a number of areas, although there were some high-quality elements. Since 31 January 2019 we have been working closely with Ofwat to address their concerns and improve the overall quality of our plan and, therefore, the service we intend to provide to our customers.

On 1 April 2019, we submitted a Revised Plan and set out our responses to Ofwat's initial assessment. We carefully listened to Ofwat's feedback and worked hard on improving our plan in a range of specific areas to deliver even more for our customers and communities. In particular, we revised some of our performance commitments and increased the overall number from 19 to 28, providing more granular commitments to our diverse range of stakeholders. In the course of our customer engagement we established that clear accountability for performance was strongly supported by our customers.

On 18 July 2019 Ofwat published their Draft Determinations for Slow Track and Significant Scrutiny companies. Ofwat determined that our 1 April Revised Plan had not fully addressed their concerns and further interventions were proposed. We have accepted the majority of interventions, responded to actions where requested and represented on key areas where we believe a different balance of risk, cost and performance is required to deliver good outcomes for customers. Ofwat's Final Determination will be published 16 December 2019. We submitted our response and representations on 31 August 2019.

We want to be open with our customers and other stakeholders about our performance against our 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 are 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

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. At the same time as their initial assessments of companies' 2020 – 2025 business plans, Ofwat published their 2018 Company Monitoring Framework (CMF) reports on 31 January 2019, re-categorising us as "prescribed". As a result, we published a revised Risks, Strengths and Weaknesses Statement on 31 March 2019 as a first step towards developing wider and more detailed assurance plans.

We have revisited our assessments 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 reassessment, which is designed to act as the basis for consultation with stakeholders.

In the coming weeks we will be reviewing our Assurance Plan with a view to publishing the final version by 31 March 2020. Our final Assurance Plan 2019/20 will describe 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.

Our final Assurance Plan 2019/20 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 2019/20. It will identify any areas for improvement identified through consultation.

This document should be read in conjunction with our draft Assurance Plan 2019/20 published on 30 November 2019.

Our assessment of risks, strengths and weaknesses

Background

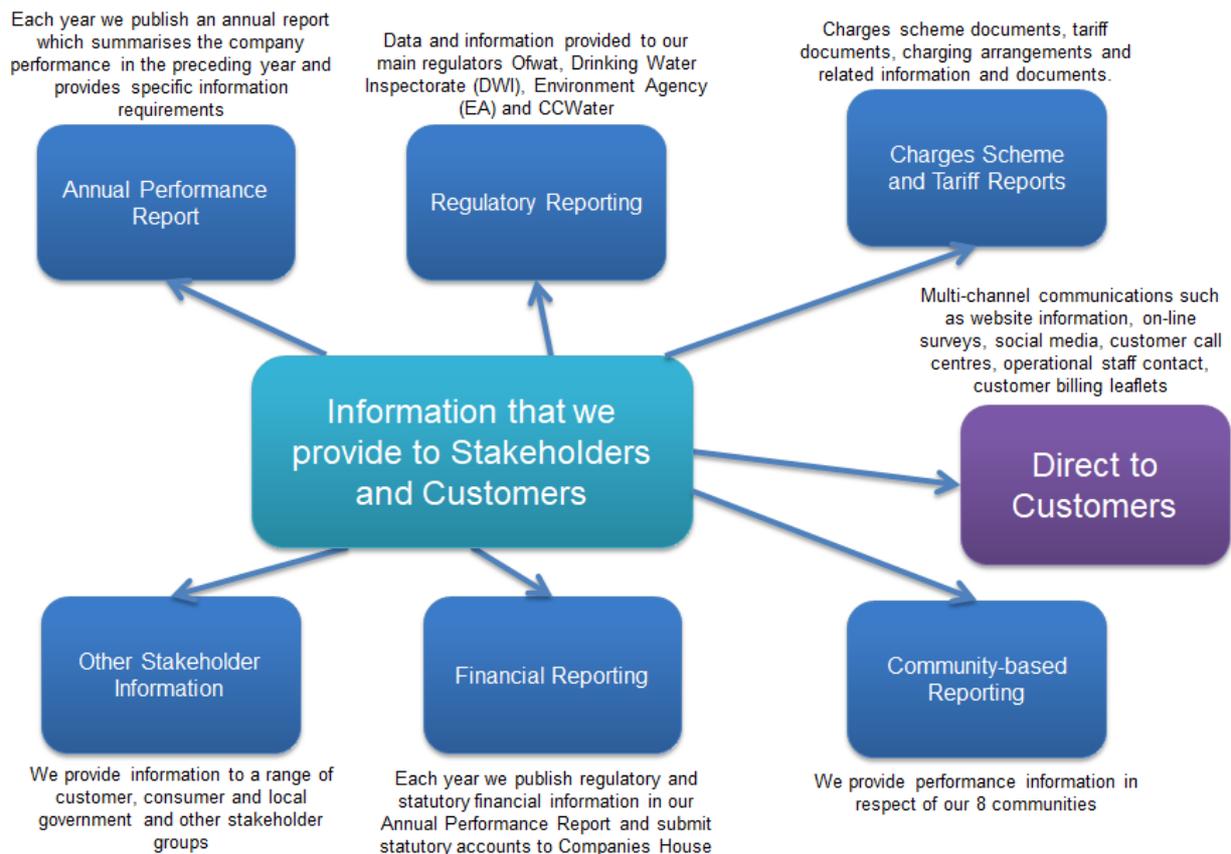
During the most recent price review process our Board provided strategic leadership and guidance on all elements of our Business Plan. The Board determined that, in addition to our internal assurance processes, development of the Business Plan would be supported by external assurance provided by independent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

We operated a thorough, independent assurance programme, undertaken by external specialist quality assurance providers, to support our Board in providing assurance that our Business Plan was of a high quality. Despite expending considerable time and effort on this aspect of our business plan, Ofwat identified a number of data quality issues and considered that some of the requested Board Assurance statements had not been provided in full.

Since publication of our final Assurance Plan 2018/19, we have been working hard on delivering the commitments we made in response to Ofwat's Company Monitoring Framework assessment. In particular, for our Business Plan re-submission, we significantly strengthened the assurance of our data and supporting commentaries, reinforcing the three lines of defence approach and providing support to individuals responsible for providing data and preparing commentaries.

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 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. On the basis of Ofwat’s Initial Assessment of our plan, we submitted our Revised Business Plan and associated tables on 31 March 2019. Ofwat published their response to our Revised Business Plan on 18 July 2019 in the form of a Draft Determination. We responded on 31 August 2019 and await their Final Determination on 16 December 2019.

We published our revised draft Water Resources Management Plan (rdWRMP) 2020 – 2080 on 1 March 2019 and ran a further consultation until 26 April 2019. We published our draft final WRMP on 7 June 2019 and expect to publish our final plan in late 2019. In developing our rdWRMP we adopted an extensive assurance approach including a Water Resources Management Plan Committee; technical assurance from Atkins Limited and Ricardo Energy & Environment; and internal legal assurance.

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”. The CCG have continued to provide this independent challenge in respect of our resubmission and representations.

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 processes.

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 (principally internal audit) 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 associated with the various versions of our PR19 Business Plan were critical in seeking to submit a plan of high quality which we can deliver. PwC, KPMG 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 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 continue to believe that our systems and processes are effective and efficient. This assessment is based on the risks, strengths and weaknesses identified below. In their January 2019 CMF report, Ofwat considered that we had not instilled sufficient confidence in the information we publish and provide to stakeholders. We acknowledge the concerns raised by Ofwat in their CMF report. In particular, we were disappointed with Ofwat's feedback in respect of data consistency and data quality in our PR19 Business Plan submission.

Risks

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

Risk Description	Regulatory Reporting – mis-reporting to Ofwat	Information produced for stakeholders is inaccurate
Related Principal Risks & Uncertainty	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 & Strategy	
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.

- On the basis of Ofwat’s Initial Assessment of our Business Plan and subsequent Draft Determination, there is a risk that customers and other stakeholders will not have trust in our service or have confidence in the information we publish about our performance.
- We believe that we have taken all necessary steps to provide effective assurance of all aspects of our PR19 Business Plan resubmission including responses to Ofwat’s Draft Determination. However, there remains a risk that, following their

review of our resubmissions and representations, Ofwat will consider our assurance processes to have been inadequate.

- There is a risk that in spite of our best endeavours, the assurance activities adopted with regards to our rdWRMP will not be deemed by stakeholders to have been adequate.

Strengths

- **Financial Monitoring Framework:** We are confident that in 2018/19 we met Ofwat's expectations regarding the transparency and consistency of the information published in relation to financial monitoring. We continue to follow Ofwat guidance, and we are confident that the quality of data and the transparency of published information continues to meet their expectations.
- **Outcomes:** We believe that we continue to meet Ofwat's expectations in this area. We will continue to publish performance information in our Annual Report and Financial Statements available on the 'Investor Library' page of our website; accessed using the 'Investors' link on the homepage. From mid-August 2018 this report was also made available on the 'Our Performance' page, accessed using the 'About us' link on the homepage.
- **Long-term viability statement:** Overall, we believe that we met Ofwat's expectations for the long-term viability statement included in the Annual Performance Report for 2018/19. The directors provided a statement that they have a reasonable expectation that the company will continue to operate and meet its liabilities, as they fall due, for a period of ten years to 31 March 2029 and we set out the approach to the assessment and the basis for the period reviewed.

We clearly set out the risk management process and principal risks facing the company, describing each risk and the potential impacts on the company and our obligations, the link to our strategy, the movement in the current risk exposure, as well as mitigation and management actions taken.

- **Risk & Compliance Statement:** Our Board provided a clear statement confirming that we have an understanding of, and are meeting, our obligations. We also confirmed that we have sufficient processes and internal systems of control to meet those obligations and have systems and processes in place to identify,

manage and review our risks. The statement was appropriately signed off on behalf of our Board.

- Data Insight Programme: We have begun a programme of work to address data quality and consistency issues that we have identified over the past 12 months. The programme requires a long term shift in strategy for Data Governance in the organisation but there will be some workstreams which will yield benefits in the shorter term.

Weaknesses

- 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 also initiated a post-programme review to identify appropriate actions to improve our own internal assurance processes where required; in their initial assessment of our business plan and CMF report, Ofwat have raised significant concerns with regards to business plan data tables consistency and quality. We considerably enhanced the assurance processes with regards to re-submission of our Business Plan in March 2019 and responses to the Draft Determination in August 2019. We await Ofwat's Final Determination, due on 16 December 2019.
- Customer feedback has indicated occasional difficulties in accessing performance information on our website, in particular, community-focused information.
- The CCG's review of our PR19 Business Plan raised a concern that our engagement with customers on future and long-term issues (such as water scarcity) only partly met requirements (registering an Amber rating). Particular reference was made to our draft Water Resources Management Plan and the materials used for customer engagement. Here, greater customer understanding is needed to allow them to properly influence plans.
- In the same review of our PR19 Business Plan the CCG felt that we had not "engaged with customers in any depth to inform (our) resilience strategy". It is further noted that this is a complex and challenging area but that engagement is necessary, especially when considering resilience strategies which would impact on customer billing. Subsequent to Ofwat's feedback on 31 January 2019, we

undertook six further pieces of customer research, engaging with over 3,800 customers.

- In addition, the CCG identified the customer engagement around our overall Performance Commitment Framework as a weakness in our PR19 Business Plan. Although 7 of our 19 performance commitments in our initial plan had specific customer engagement around them it was still considered that more could have been done on some of the other commitments. Furthermore, our methodology employed a very “top - down” approach thus removing opportunities for customers to indicate choice beyond “acceptable” or “not acceptable”. In the further research in February / March 2019 referred to above, one of the areas of particular focus was performance commitment incentives and rewards.

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:

assurance@affinitywater.co.uk

We would be delighted to receive feedback at any time. Our next publications on this topic will be our Final Assurance Plan 2019/20, to be published by 31 March 2020.

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 do not currently publish that you would find helpful?