



# **Company Monitoring Framework**

---

## Risks, Strengths and Weaknesses Statement

March 2019

## Table of Contents

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

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.

In their initial assessment, published on 31 January 2019, Ofwat have concluded that our business plan is subject to “significant scrutiny”. They consider that our plan falls significantly short in a number of areas, although there are some high-quality elements. We are now 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.

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. We published the original version of this statement in November 2018 for consultation. To date we have had no feedback from stakeholders other than Ofwat. 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 have revisited this Risks, Strengths and Weaknesses Statement 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 2019. The final Assurance plan will address the specific concerns raised by Ofwat in their CMF report. Our final Assurance Plan 2018/19 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 2018/19 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 the concerns raised by Ofwat in their updated monitoring framework assessment published in January 2019. It will identify any areas for improvement identified through consultation.

This document should be read in conjunction with our draft Assurance Plan 2018/19 published on 30 November 2018.

## Our assessment of risks, strengths and weaknesses

### Background

---

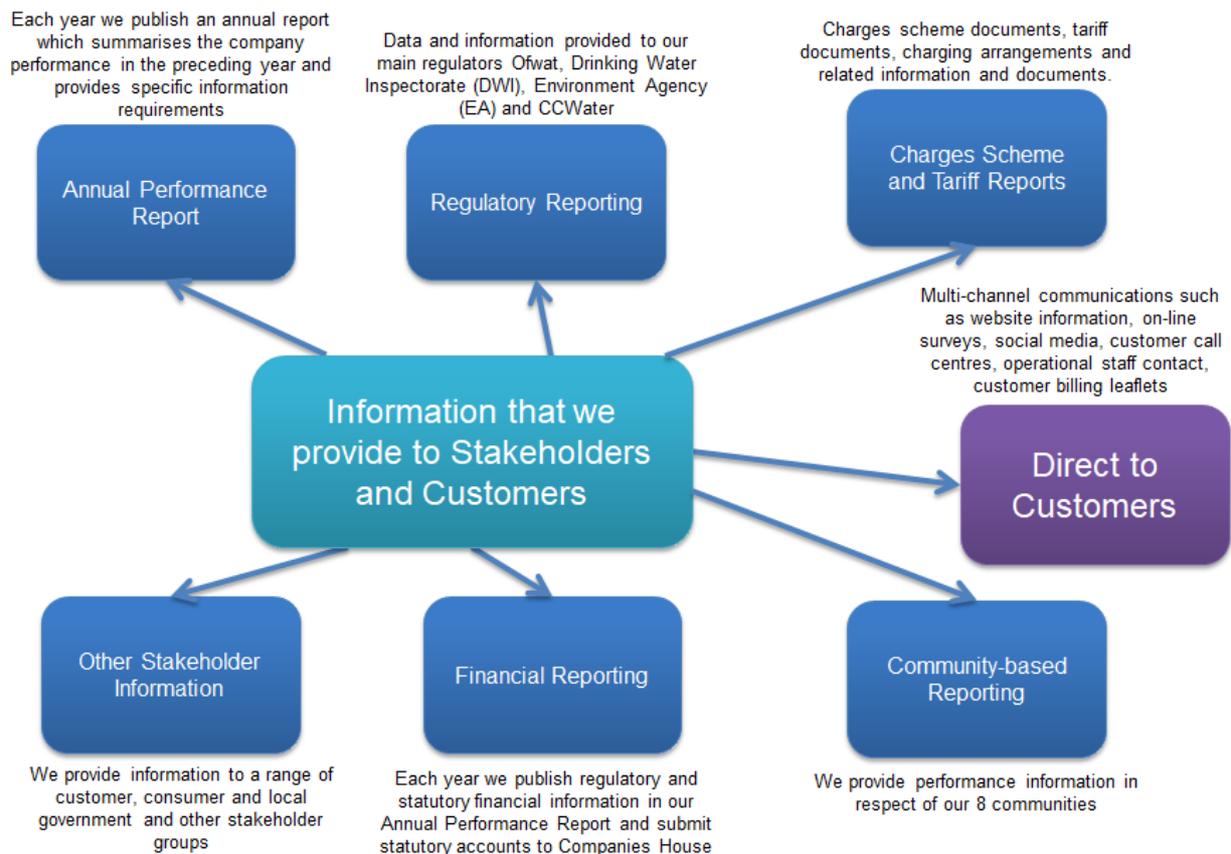
During the most recent price review process our Board provided strategic leadership and guidance on all elements of our Business Plan. The Board determined that, in addition to our internal assurance processes, development of the Business Plan would be supported by external assurance provided by independent 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 concluded that our business plan data was low quality. They identified a number of data quality issues and considered that some of the requested Board Assurance statements had not been provided in full.

It is against this background that we have carried out this reassessment of our risks, strengths and weaknesses.

## 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 will be resubmitting our plan and associated tables on 1 April 2019.

Also, we have recently published our revised draft Water Resources Management Plan (rdWRMP) 2020 – 2080 and will be seeking further feedback on this in Spring 2019 with a view to publishing a final version in May 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 will continue to provide this independent challenge in respect of our resubmission.

### **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 (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 in respect of our PR19 business plan were critical in seeking to submit 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 reassessment of the risks, strengths and weaknesses of our systems and processes that support our Board in providing assurance of the information we report.

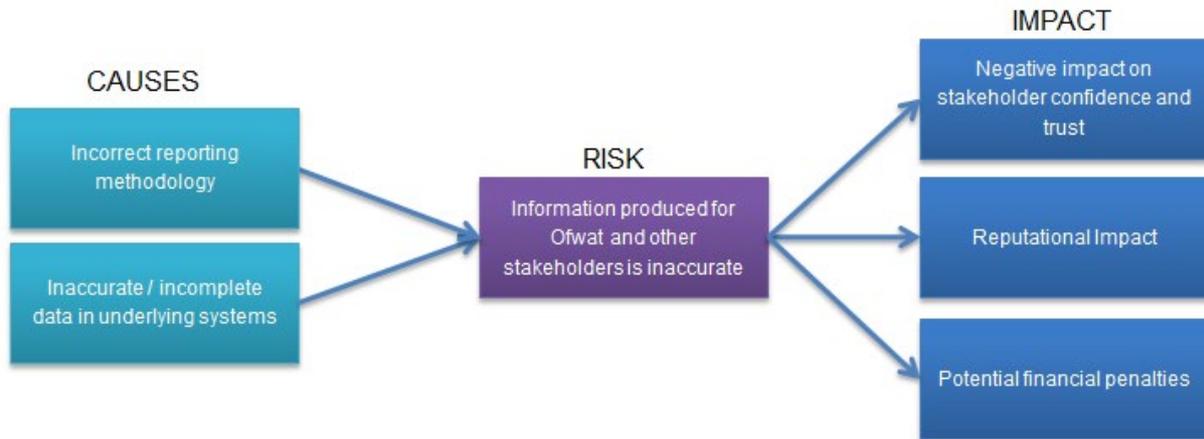
Overall, we still believe that our systems and processes are effective and efficient. This assessment is based on the risks, strengths and weaknesses identified below. However, in their CMF report Ofwat “consider that Affinity Water has not instilled sufficient confidence in the information it publishes and provides to stakeholders”. We acknowledge the concerns raised by Ofwat in their CMF report. In particular, we are 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 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 & 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 & Strategy	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.

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



- On the basis of Ofwat's Initial Assessment of our Business Plan 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 are taking all necessary steps to provide effective assurance of all aspects of our PR19 Business Plan resubmission. However, there remains a risk that, following their review of our resubmission, 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: Overall, we met Ofwat's expectations regarding the transparency and consistency of the information published in relation to financial monitoring. We followed Ofwat guidance, and the quality of data and the transparency of published information met their expectations in many areas.
- Outcomes: We met Ofwat's expectations for this assessment. They considered that there is sufficient evidence that our reporting is transparent and accessible to customers and other stakeholders. We published performance information in our 'Annual Report and Financial Statements for 31 March 2018' available on the 'Investor Library' page of our website; accessed using the 'Investors' link on the

homepage. Ofwat considered that this document contains clear and easy to understand performance information. From mid-August 2018 this report was also available on the 'Our Performance' page, accessed using the 'About us' link on the homepage. Publication of the community performance report 'Our Year in Review 2017/18' provides customers with an easy to understand summary of the company's performance.

- Long-term viability statement: Overall, we met Ofwat's expectations for the long-term viability statement included in the Annual Performance Report. 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 five years to 31 March 2023, 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.
- Financial Flows: We met Ofwat's expectations in this area. All data tables were complete and we published our data for 2017/18 with high level narrative. The data was also assured by our external auditors. Ofwat identified some data errors in our submission but were satisfied with our responses to the issues they identified.
- 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.
- Assurance Plan: Our assurance plan met Ofwat's expectations. It had been updated from the previous year to include our Customer Challenge Group (CCG) and Risk Management in addition to the Role of the Board and internal systems and processes. It sets out the report categories, the main risks associated and the subsequent controls and assurance procedures in place. There is strong evidence of engagement with stakeholders with a sound description of the feedback process.
- Casework: Ofwat opened one case concerning the company in the assessment period. This was an eligibility determination. Ofwat consider that we met their

expectations in this case as the information we provided to them was complete, accurate, provided on time and of a quality that enabled them to rely on it to progress the case.

## 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 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.
- Customer feedback has indicated occasional difficulties in accessing performance information on our website, in particular, community-focused information.
- 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.

- 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 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”.

## 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 24 March 2019. We will incorporate all feedback and consultation responses into our final Assurance Plan 2018/19, which we expect to publish no later than 31 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 do not currently publish that you would find helpful?