



Affinity Water
Data Assurance Summary

July 2018

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1 Scope of this Summary

This Data assurance summary describes the assurance procedures which Affinity Water has gone through in order to assure the data in the following publications:

- The Annual Report and Financial Statements, including the Annual Performance Report (APR)
- The Financial Flows Return (Table 1F)

This report also covers the RAG5 audit which was carried out as part of the year end process

The detail around external assurance is attached as Appendix 1. Data assurance procedures for other returns and publications are contained in separate documents.

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 Performance Report and its Annual Statement and Accounts.

In November 2017 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; and
- sought and received feedback from the Chair of our Customer Challenge Group (CCG) on how best to engage with CCG members as a whole.

In March 2018 we published our Assurance Plan 2017/18. Our Assurance Plan 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.

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 Customer Challenge Group (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 comprehensive 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;
- 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 Financial Statements, and the tariff setting process. The main sources of assurance are PricewaterhouseCoopers LLP (PwC), who provide assurance on financial data, and Atkins Limited, who provide assurance on engineering and technical data. These contracts are periodically re-tendered and providers may change.

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

5 Internal controls and board oversight of the APR and annual report

For the Annual Report and Financial Statements including the APR, our 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.

2nd Line (Regulation, Financial Control, Senior Management) Reporting experts in the Regulatory team 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 and Financial Statements, including the Annual Performance Report. The Board approves the Annual Performance Report prior to submission.

3rd Line – (Internal Audit / External Providers) WS Atkins (our engineering assurance providers) 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 our Regulatory Annual Performance Report. We have a regulatory obligation for our external auditors to confirm that these statements have been presented in accordance with Condition F and the Regulatory Accounting Guidelines (the RAGs) issued by Ofwat. 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 November 2017) had the following comments to make with regards to our compliance with their financial monitoring framework guidance in our Annual Report and Financial Statements for the year ended 31 March 2017:

- A minor was noted relating to the disclosure of dividends.
- A more significant error was noted in relation to RoRE where the information we published did not include the detailed analysis of the individual components of performance required by the RAGs

Both of these 'minor concerns' have been addressed in our report for the year ended 31 March 2018

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:

Trustandconfidence@affinitywater.co.uk

15 July 2018.

Appendix one

summary of external assurance
providers

8 Appendix 1 –

Data	Assurance procedures performed	Results
Tables 1A, 1B, 1C, 1D, 1E, 1F, 2A, 2B, 2C, 2D, 2E, 2F, 2G, 2I and 2J	External audit by PwC, including RAG5 compliance.	Refer to the independent auditor's report on pages 159 to 162 ¹ .
Tables 3A, 3B, 3C, 3D, 3S and 4A, 4D, 4L, 4P, 4Q,	External review by WS Atkins of the procedures used to collect and report the information.	Refer to the statement of risk and compliance on pages 157 to 158 ¹ .
Tables 4B, 4C, 4D, 4F, 4G, 4H, 4J, 4L, and 4V, transactions with associated companies, and current tax reconciliations	Agreed upon procedures performed by our 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.	We have considered the report provided by PwC and are satisfied with the accuracy of the data reported.
Viability statement	As part of their statutory audit of the company's Annual Report and Financial Statements, 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, we 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 each of the stress tests.	PwC did not include any matters in their independent auditor's report on pages 100 to 106 ¹ in relation to the viability statement. In addition, we have considered the agreed upon procedures report provided by PwC and are satisfied with the accuracy of the stress testing underpinning the statement.
Financial Flows	PwC performed an external audit on the Financial Flows table for the year ended 31 March 2018 (table 1F in the current year Annual Report and Financial Statements). PwC performed procedures over the accuracy of the data for the years ended 31 March 2016 and 31 March 2017.	No issues were reported.

RAG5 audit	PwC performed agreed upon procedures over the compliance with Regulatory Accounting Guideline 5. The procedures included reviewing the Corporate Services Agreement between group entities and ensuring that the recharges are in compliance with the “Guidance for transfer pricing in the water and sewerage sectors (RAG 5.07)”, checking the consistency of the disclosures in the notes in the Annual Performance Report of the Financial Statements, ensuring the wholesale water charges to group entities are in line with the ‘settlement report’ provided by the Market Operator and ensuring the mathematical accuracy of the charges.	No issues were reported. We have considered the agreed upon procedures report provided by PwC and are satisfied that Affinity Water Limited has acted in compliance with RAG5
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1 – page references refer to the Annual Report and Accounts

The findings of the external assurance providers are attached as Appendix 2 2018.

Appendix Two

Findings of external assurance providers

9 Appendix 2 – Findings of external assurance providers

We were advised by our assurance providers that we were compliant with all of Ofwat's requirements, with one exception. WS Atkins found in relation to Table 3A that:

WA-1, Leakage: The issues that we have highlighted for the reporting of leakage in previous years have now all been successfully addressed, however the market separation process and associated reliance on billed non-household data from MOSL has created a significant uncertainty in the non-household night use figure. Affinity Water has taken reasonable steps to quantify the uncertainty and has selected a sub-set of the data (the April to December 2017 records) that provide consistent billing data to last year. We have highlighted this issue as 'amber' because, if the full year MOSL data were taken, then it would mean that the non-household night use allowance would be much lower and hence the leakage target would theoretically be missed. That would not be logical or appropriate in our opinion, but does represent a regulatory risk that Affinity Water should be aware of.

In this context, an 'amber' issue is one of minor concern that the assurance provider wishes to bring to the attention of the board. We have shared with our Audit Committee an action plan to address these concerns.