

# Hafren Dyfrdwy Cyfyngedig **Assurance Summary 2019/20**

# 1. About this document

At Hafren Dyfrdwy we are responsible for providing water and wastewater services to over 100,000 customers in Wales. We strive to achieve the highest quality standards in everything we do. Whether it is the quality of our drinking water or the regulatory performance information we publish, we want to make sure that our customers can trust us to deliver what matters to them most.

## Transparency is key to trust

This is the final year of the AMP6 (2015-2020) business plan cycle and we are well underway in implementing our PR19 plans for 2020-2025. We know how important it is to identify the potential risks that could affect our regulatory reporting to ensure that we provide robust, transparent regulatory data that our customers and stakeholders trust. The quality of the regulatory information we publish gives our customers and wider stakeholders the confidence that we are being open and honest and provides visibility that we are listening to and delivering what customers want.

We use an assurance approach which thoroughly tests and challenges the information we publish in a manner that is independent and verifiable. Our Board oversees this process through our established governance and assurance framework.

## Ofwat's AMP6 Company Monitoring Framework (CMF)

Our economic regulator, Ofwat, confirmed last year that the annual CMF assessments provided by Ofwat will not be used after 2020, however Ofwat also advised that it still expects companies to follow the framework, and so we continue to publish assurance and compliance documents throughout the year. These documents outline what we have done and how we have done it so our regulatory publications can be trusted by our customers and stakeholders. Ofwat are now consulting on requirements for 2020/21 and we welcome this opportunity to help shape the reporting and assurance requirements going forward to continue to ensure trust and confidence in the information we provide.

## Understanding your views

In November 2019, we published our statement of risks, strengths and weaknesses and our draft assurance plan for consultation. In addition to publishing this document on our website, we proactively contacted our key stakeholders for their views. We produced our final assurance plan following the feedback from our stakeholders and wider industry trends to cover the 2019/20 regulatory reporting year and consider requirements for 2020/21 onwards.

This document, our Assurance Summary, provides an overview of the outcome of assurance undertaken for the 2019/20 regulatory reporting year and where we have undertaken assurance in readiness for 2020-2025. The main focus is the data assurance undertaken for our Annual Performance Report ('APR'), and it also considers the outcome of our assurance activities more broadly.

### What is assurance?

We perform 'assurance' to check that the information we provide is robust, accurate and complete. Examples of assurance may include checking that a spreadsheet has no formula errors, that a customer call has been recorded accurately on our systems, or consulting with our customer challenge group on our plans for vulnerable customers. You can read more about the levels of assurance we apply in chapter 3.

This document contains the following information:

- A glossary to provide clarity on abbreviations used in this document.
- Information on our governance and assurance framework, which covers our Board arrangements and the different levels of assurance we apply.
- An overview of our internal compliance assessment framework - licence to operate - which helps us determine our greatest areas of risk.
- Details and outcomes of the assurance undertaken for our APR.
- Outcome of assurance on other areas that we committed to reviewing in our final Assurance plan.

We recommend that this document is read in conjunction with our Board, governance and compliance section on page 9 of the APR, which includes our formal regulatory statements and our departures from compliance for this regulatory reporting year.

## The Severn Trent Group

Hafren Dyfrdwy is an operating subsidiary of the FTSE 100 Company Severn Trent Plc, which means we operate at the high standards expected of a publicly listed company. In July 2018, we realigned the boundaries within the Severn Trent Plc group and created Hafren Dyfrdwy which serves our customers in Wales while Severn Trent Water serves our English customers. This document relates to Hafren Dyfrdwy - our Welsh business.

## Changes this year

### New Values and Purpose

Over the last year we have been busy working across the Severn Trent Group to help shape and create our new values and purpose in readiness for the next five years.

Hundreds of employees from across the Group including HD have been involved in the process of refreshing our Purpose and

Values to take us into the next phase; and we have stripped it right back to two elements. Our new purpose is 'Taking care of one of life's essentials' and our values are 'having courage', 'embracing curiosity', 'showing care' and 'taking pride'. These are explained in greater detail in our Board, governance and compliance section on page 8.

### Supporting customers and communities during COVID-19

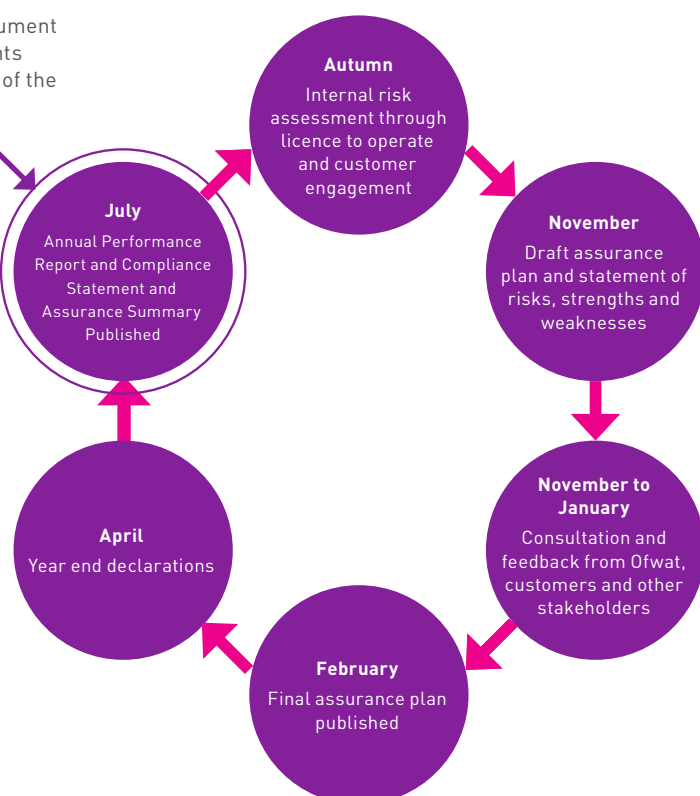
The COVID-19 pandemic that emerged over the course of the last quarter of 2019/20 is unprecedented, and rapidly developing even as this APR is being written. As a provider of an essential public service, we have a vital role to play and have first and foremost worked to protect our core services and the people who deliver them.

With established business continuity plans, we have quickly responded to government advice and our dedicated people, systems, and processes have proved adaptable to this continuously changing operating environment. Protecting our core service is vital, but there is also more we can do to support the people and communities we serve. As our customers enter uncertain times, many may be vulnerable as a result of a change in their financial or medical circumstances. We worked to promote our financial support initiatives for those struggling to pay their bills, including the WaterSure scheme for those on low incomes and our Here2Help Scheme, which offers bill discounts of 10%-90% for eligible customers. We are making sure our vulnerable customers know we are there for them with targeted communications and support through our Priority Services Register.

We also recognise that many of the third sector organisations that support our vulnerable customers are facing challenges too. So we have established a COVID-19 emergency fund to support non-profit organisations and charities helping those affected by COVID-19, with £30,000 already given to 10 charity and community groups in Wales.

**Fig 1: The Company Monitoring Framework cycle**

This document represents this part of the process



## 2. Glossary

To help to explain all the terms in this document, we've included the table below.

Term	Definition
AIM	Abstraction Incentive Mechanism - AIM encourages water companies to reduce the environmental impact of abstracting water at environmentally sensitive sites when water is scarce.
AMP	Asset Management Period - this refers to Ofwat's 5-year planning period. For example, this assurance summary is for year 5 in AMP6. AMP7 started in April 2020.
APR	Annual Performance Report - includes information about whether we've achieved our performance commitments in a given year, and our financial performance - based on the accounting conventions in Ofwat's regulatory accounting guidelines.
ARA	Annual Report and Accounts - includes our annual financial statements based on International Financial Reporting Standards
Assurance	A process that challenges the validity of our data and methodology.
CCG	Our Customer Challenge Group, which includes independent experts, CCWater, our regulators including Natural Resource Wales and other regional stakeholders.
CCWater	Consumer Council for Water - the statutory consumer representative body for the water industry.
Compliance	Our team in Severn Trent that monitors compliance with our statutory and regulatory duties in our appointed business.
ERM	Enterprise Risk Management - our system of identifying and managing risks within Severn Trent Plc.
HD	Hafren Dyfrdwy Cyfyngedig - the regulated water company within Severn Trent Plc whose area of appointment covers North East and mid-Wales, and the subject of this document.
Internal Audit	Reporting directly to the Severn Trent Plc Audit Committee, the Internal Audit team provides independent assessment of the effectiveness of our processes, controls and risk mitigation strategies.
K Factor	K Factor is the price limit that companies can increase or decrease prices charged to customers. This is reviewed and determined by Ofwat.
MOSL	The market operator for England's competitive non-household market.
NAV	New appointments and variations - Companies which provide a water and/or sewerage service to customers in an area which was previously provided by an incumbent provider. Hafren Dyfrdwy is a NAV as it provides water and waste services in an area previously supplied by Dee Valley Water and Severn Trent.
ODI	Outcome Delivery Incentives are individual performance measures, which have a financial reward or penalty attached to them. They are a sub component of our performance commitments (below).
Ofwat	The Water Services Regulation Authority - the statutory economic regulator for the water industry.
PC	Performance Commitment - the level of performance we've committed to deliver either annually or during the five-year period covered by business plans.
PDT	Process description document
PR14/PR19	Price Review 2014 / 2019 - Every five years we publish our proposals for the next five year period. Ofwat reviews this and decides whether our plans are suitable in a determination process.
RACI	Responsible, Accountable, Consulted, Informed - a RACI details who is responsible for managing a duty or obligation, who is accountable and who should be consulted or informed of any changes.
RORE	Return on Regulated Equity - the percentage amount that we are allowed to give back to our investors, which is agreed as part of Ofwat's price limits.
SLA	Service Level Agreements - we have timescales and minimum levels of performance in place both internally and with our contractors.
ST	Severn Trent Water Limited - the regulated water company within Severn Trent Plc whose area of appointment covers the Midlands.
ST Plc	The parent company and ultimate controller of Severn Trent Water and Hafren Dyfrdwy.
Third Party Auditor /assurance provider /Assure	An independent audit company or organisation that performs audit or assurance services.

# 3. Our Assurance Framework

We have an established, rigorous and robust assurance and performance reporting framework. The assurance process approaches we use come from best practice identified across many organisations and industries ensuring that managers, senior managers and Directors are responsible for delivering high quality data through robust processes and methodologies. Our assurance plan for financial year 2019/20, builds on the high standard processes we have developed and implemented in previous years to provide accurate data.

Our established framework is underpinned by four main principles (as shown below) which, provides consistency and clarity for our people, and allows flexibility for our assurance processes to build and evolve with our Company and the environment we operate in.

- Robust assurance - we operate a three-lines of assurance model, targeted at areas of greatest risk.
- Ownership and accountability - we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- Effective governance - provided by our Board, Audit Committee, Executive Disclosure Committee and Executive Committee with additional challenge provided by our Water Forum.
- Transparency and public accountability - we publicly report on our performance and hold ourselves to account where we do not meet our commitments.

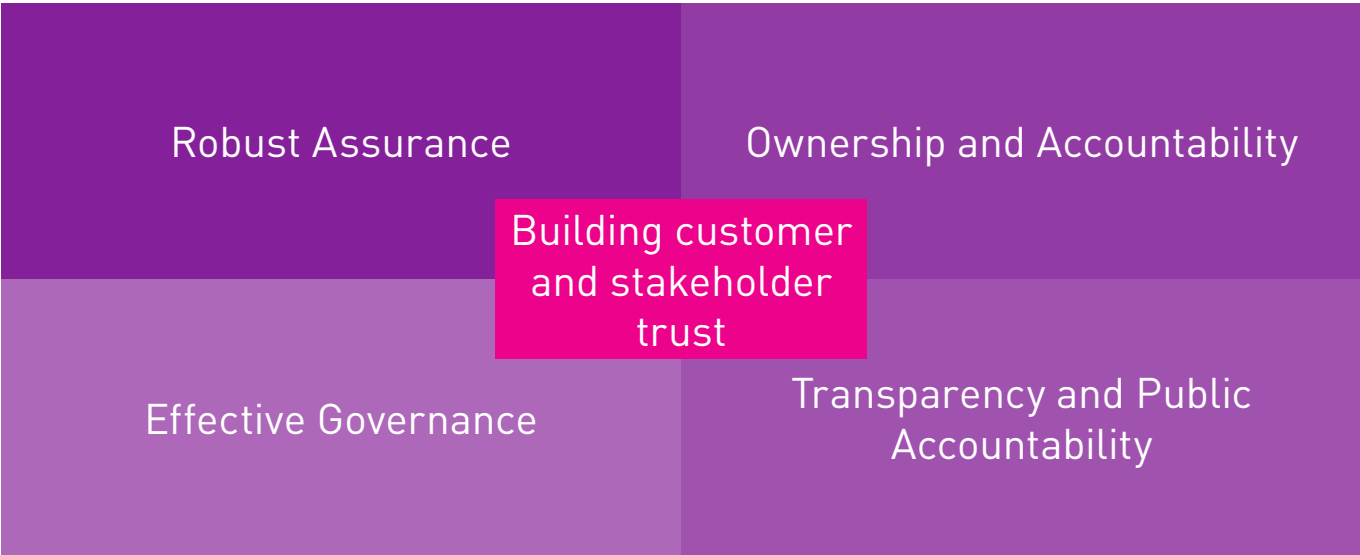


Fig 2: Our assurance principles

### 3.1 Robust assurance

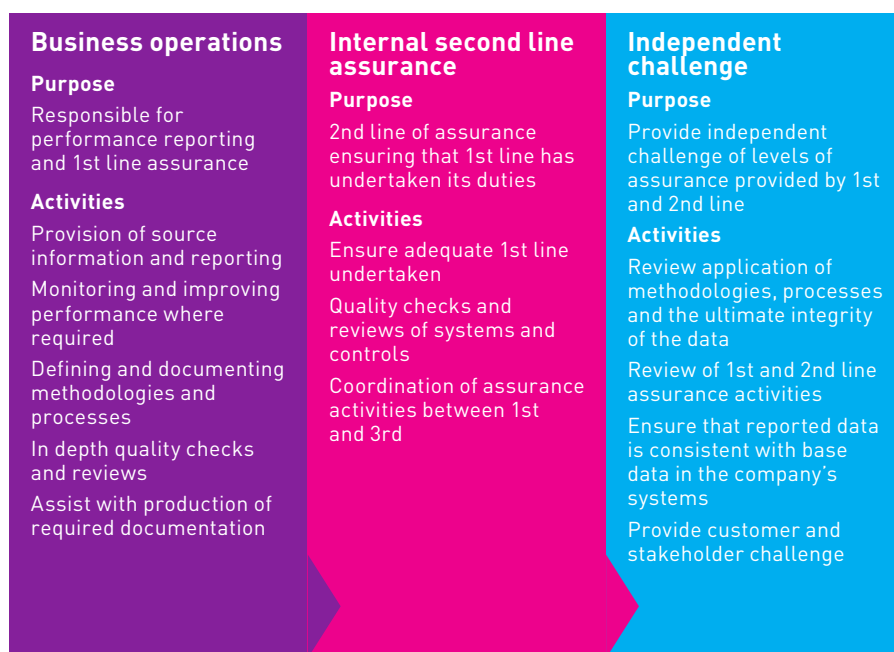
We operate a three lines of assurance model. Using a risk-based approach provides an effective programme of assurance which considers areas that we know are of prime importance to our customers and regulators; or may have a significant financial value, alongside the likelihood of reporting issues or regulatory change. Areas that are higher risk receive the full three lines of assurance while other areas, where the risk is lower, may be targeted with first or second line only. This approach ensures we can continually reassess our assurance activity as risk is reduced in certain areas, where mature and stable process exist, and increased where new risks are emerging, resulting in a proportionate assurance spend.

First line activities are embedded within the teams that are responsible for reporting the data so that colleagues, with the right expertise are conducting in depth quality checks at the time the data is produced.

Second line activities are conducted by a separate team that does not report into the same senior manager to ensure a level of independent checking is conducted. For elements of our APR, additional second line reviews are undertaken within the same directorate to ensure that we maintain a strong level of expertise and understanding of the source data.

Third line activities are carried out by internal or external providers depending on the specialisation required. The expertise can be divided into the following categories:

Fig 3: Our Levels of Assurance



- **Engineering/technical** - where assurance requires an expert engineering / water industry technical background.
- **Regulatory** - where challenge is required around the methodology used and assumptions against our regulatory requirements.
- **Data integrity and consistency** - understanding the flow of data from source through to our final publications ensuring no data transposition errors are made.
- **Financial** - used for areas requiring specific financial expertise, such as pensions.
- **Model integrity** - where a complex financial model is used and requires specialist external expertise to test and challenge.

The majority of our third line assurance is provided by the following:

- **Black & Veatch** - typically review non-financial operational performance processes and data.
- **Jacobs** - reviewing cost allocation activities, financial reporting processes and non- financial operational performance processes and data
- **Deloitte** - our financial auditors who mainly examine our statutory accounts.
- **Internal Audit** - used for financial data, process and other ad-hoc assurance.

3.2 Ownership and accountability

We have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided through our 'licence to operate' process (described in detail in section 5 below), which every year assigns ownership of our statutory and legal obligations in our appointed business to managers, senior managers and directors. These managers are responsible for ensuring compliance with our regulatory duties and raising potential risks or issues of non-compliance. Any areas that are noted as non-compliant are disclosed by the Board as departures in its annual compliance statement following review, scrutiny and remedial action by our senior leadership team and our Disclosure and Audit Committees.

Overall accountability for the preparation and production of the APR (which includes reporting of performance against performance commitments and associated

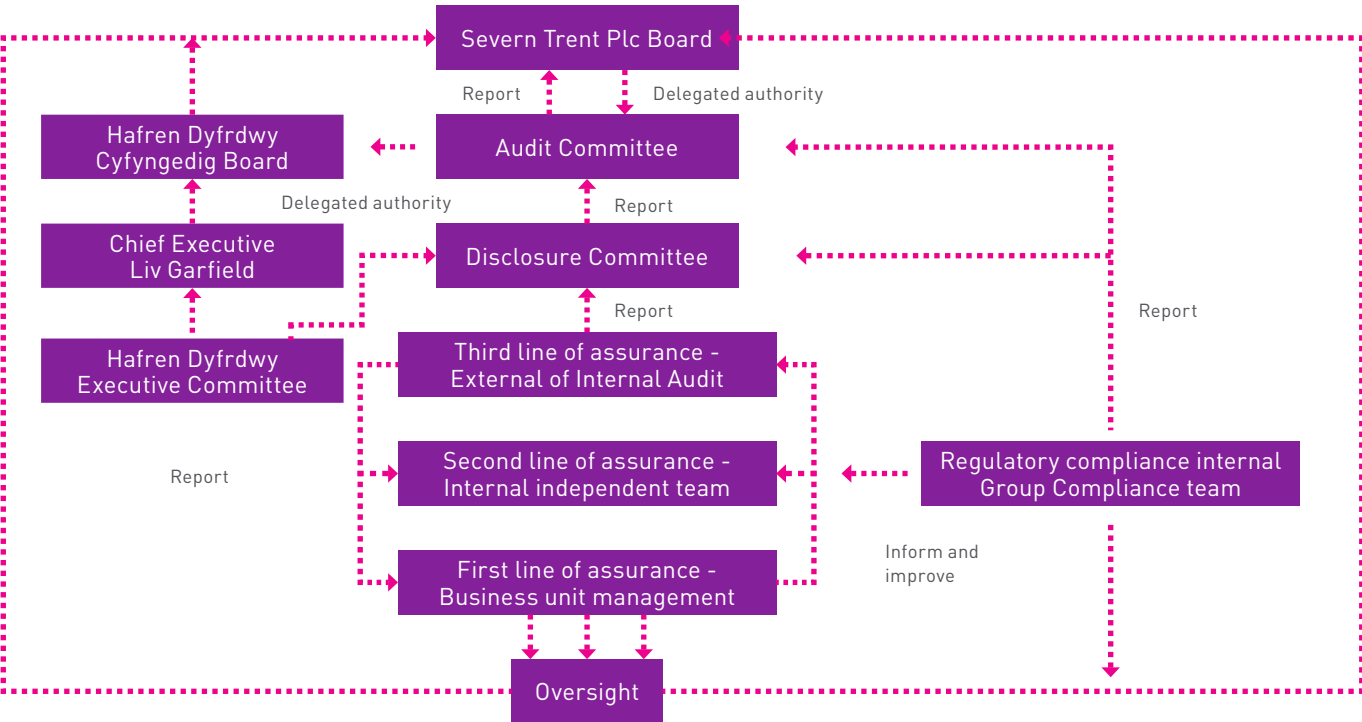
Outcome Delivery Incentives - ODIs) rests with the Chief Financial Officer. The outcome of the assurance undertaken is reviewed by the Severn Trent Plc Audit Committee (the 'Audit Committee') on behalf of the Hafren Dyfrdwy Board.

3.3 Effective governance

Hafren Dyfrdwy was created on 1 July 2018 and has its own Board, which is supported by existing Severn Trent Plc governance arrangements. To ensure a level of independence between Severn Trent Plc and Hafren Dyfrdwy's Board members, in April 2018 we appointed three new Non-Executive Directors to specifically look at our Welsh business and provide independent challenge. We continue to adhere to the principles set out in Ofwat's 2019 'Board Leadership, transparency and governance principles'. The Governance Framework comprises the Board, Executive Committee and their respective Committees, which is set out below.

In line with the 2018 UK Corporate Governance Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling its roles and responsibilities, focusing on its specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with its Terms of Reference. The Severn Trent Plc Board regularly reviews the Terms of Reference of each Committee, with the exception of the Hafren Dyfrdwy Nominations Committee (which was reviewed by the Hafren Dyfrdwy Board during the year). The individual Committee Terms of Reference are available on the Severn Trent Plc website. The Governance Framework is also subject to periodic review to ensure that it remains appropriate.

Fig 4: Our governance arrangements





The Disclosure Committee oversees the Group's reporting obligations under the Companies Act 2006, the UK Corporate Governance Code, the UKLA Listing, Rules, Disclosure Guidance and Transparency Rules; and the Company's annual and continuing regulatory reporting requirements, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

To support our Governance Framework, we have a well-established, rigorous and robust assurance and performance reporting framework. Our assurance plan for the financial year, 2019/20, continued the high standard processes we developed and implemented in prior years, for reporting our PCs in our ARA and APR. The below diagram shows how our assurance framework interacts with our governance arrangements to ensure that all levels of the business have oversight of our assurance processes.

### 3.4 Transparency and public accountability

As a public service we want to be transparent about the services we provide, our related performance and reporting, and wider adherence to regulatory requirements. We ensure we are fair when balancing the short and long term needs to manage our financial risk, share returns with customers where we outperform, and consider long term viability. We pay our taxes in full and on time, and employee bonuses are aligned and linked to the delivery of outcomes to customers. We publicly report on our performance and hold ourselves to account where we do not meet our commitments.

We evolve and update our reporting to make sure that it not only complies with our regulatory obligations but also responds to our customers' and stakeholders' feedback. We now publish an additional customer summary APR on our website after the full report is submitted to enable a simplified approach to comparative business reporting.

We publish additional information to ensure the Severn Trent Group structure and performance is transparent for our customers. Our company structure which shows how the companies including Hafren Dyfrdwy, Severn Trent Water, and other associated companies are connected under the Severn Trent Group umbrella can be found on our website.



## 4. Customer and stakeholder engagement

### 4.1 Customer Engagement

To understand which areas matter most to our customers and stakeholders, we used a variety of engagement methods and research tools to glean information to inform our plan. The draft assurance plan was put out for consultation in November 2019 and any further feedback was included prior to publishing the final plan in February 2020. Further details on the engagement we undertook can be found in our final risk and assurance plan on our website.

#### 4.1.2 Year-end declarations

Prior to publication of our annual regulatory reporting we ask our responsible managers to declare whether they have been compliant or non-compliant with their obligations. If they have been non-compliant, we ask them to complete a 'departures' form, which details what issue has occurred during the reporting year, the action taken, and what will be done to prevent it in future.

All departures are then reviewed by the accountable senior manager and Director who will assess the level of materiality. Some departures, while representing an instance of non-compliance with process may not be material or, for example, it may be within the stated confidence of the measure. All departure assessments are tracked on the departures form to ensure that we maintain a visible audit trail of all areas of potential non-compliance.

Departures that are assessed to have a material impact are included in our Board annual Risk and Compliance Statement, which is published in July within our APR. This document is reviewed and scrutinised by the Severn Trent Plc Disclosure Committee and Audit Committee before it is endorsed by our Board prior to publication,

ensuring that all levels of the business are made aware of any significant risks or issues.

### 4.2 Regular engagement

We passionately believe in engaging with our customers and wider stakeholders to understand the issues that matter to them in the information we produce and address any concerns that they may have. Throughout the year we continue to use our established channels of customer engagement:

- We have continued with our regular customer tracker, which is conducted by an independent market research company, where a sample of household and non-household customers were asked over the phone about a number of factors including trust, customer experience, value for money, and communications.
- Ongoing analysis of customer sentiment including root cause analysis of customer complaints through all channels (telephone, social media, email and written).
- Engaging with customers through existing tools; Pipe Up (Qualtrics SMS Surveys), Qualtrics Research Campaign Surveys (SMS and Email based), Qualaroo (website surveys) and Sprinklr, which helps us analyse customer interactions on social media platforms.

Our regulatory stakeholders' views are very important to us and we use the following channels to gain feedback from them:

- Regular meetings and correspondence with our regulators (Ofwat, NRW, DWI).

- Regular meetings and events with broader stakeholders (for example, partnership working on flooding issues and other stakeholder forums).

- Ongoing investor engagement, and annual announcements of interim and preliminary results.

### 4.3 Ofwat

We have already worked to remedy the issues raised in our APR19 publications and will look at further ways we can address the themes noted in Ofwat's assessment around data quality to prevent the need to restate information, and ensure we provide better commentary and explanations if we have had to restate information. In line with prior years, any material restatement will be summarised as a departure in our Boards Risk and Compliance statement which can be found in our APR and separately on our website.

Our long term viability statement provides oversight of the assessment of potential risks to our financial resilience and the mitigating actions we are taking to manage those risks. The statement considers viability for the seven year period to 31 March 2027.

We believe that the CMF gave companies a great starting point for ensuring the data we produce and publish is of a suitable high quality. We will continue to focus on this into the next AMP, and we welcome the opportunity to input into Ofwat's approach to ensure quality and assurance practices that continue to provide information customers can trust.

#### 4.4 Other stakeholders

We have continued to develop our open and honest conversations with several of our environmental regulators including the NRW and DWI. Any queries or concerns can be discussed directly, and where relevant, can help shape our targeted assurance programme. We have reviewed our licence to operate and governance frameworks to ensure that our environmental regulatory and statutory obligations receive the appropriate oversight. As a result of this review we have enhanced the environmental obligations in our licence to operate to capture oversight at a more granular level and have increased the number of reports receiving scrutiny at our Audit and Disclosure Committees.

As we look to AMP7 and the changing regulatory environment, we are reviewing how we interact with our regulators to ensure that we are able to understand common themes in the types of enquiries or casework we receive and can build this into our governance and assurance frameworks. Continuing to build on stakeholder feedback we are reviewing how we further improve our environmental data against the risk-based assurance framework.

## 5. Our internal assessment - licence to operate

As well as ensuring we account for our customers' views, we use the wealth of expertise within our business to assess all our statutory and regulatory obligations relating to provision of water and wastewater. We call this assessment licence to operate, and it has been operating in Hafren Dyfrdwy for five years.

### 5.1 The process

Over AMP6 we have continuously reviewed the process to improve it by using new technology such as SharePoint to track the assessments and approvals from all levels of management. We have expanded the assessment by including a wider range of legislation and now monitor over 1500 obligations.

Licence to operate is a two stage process that operates through the mid and year-end of the annual regulatory cycle. We describe the process in more detail in our Statement of risks, strengths and weaknesses and final assurance plan which can be found on our website.

### 5.2 Year-end declarations

Prior to publication of our annual regulatory reporting we ask our responsible managers to declare whether they have been compliant or non-compliant with each of their obligations. If they have been non-compliant, we ask them to complete a 'departures' form, which details what issue has occurred during the reporting year and what action will be taken to prevent it in future.

All departures are then reviewed by the accountable senior manager and director who will assess the level of materiality. Some departures, while representing an instance of non-compliance with process may not be material or for example it may result in the data remaining within the stated confidence grade of the measure. All departure assessments are tracked on the departures form to ensure that we maintain a visible audit trail of all areas of potential non-compliance and the correction actions taken. All departures are reviewed by the Group Compliance and Assurance team centrally before submission to ensure adequate assessment and sufficient detail has been included.

Departures that are assessed to have a material impact are included in our Board's annual Risk and Compliance Statement, which is published in July alongside our APR and other regulatory reporting. All departures regardless of materiality are reviewed and scrutinised by our Executive and Disclosure Committees before it is endorsed by our Board prior to publication - ensuring that all levels of the business are made aware of any significant risks or issues.

### 5.3 Changes in 2019/20

This year we added new obligations to our licence to operate process to respond to changes in our operating model within Hafren Dyfrdwy and our statutory obligations:

- Added a further level of granular environmental legislation into licence to operate including ISO Environmental standards, Clean Air Act and Control of Pollutions Regulations.
- Introduced a conflict of interest declaration for all responsible and accountable managers whereby managers who may have responsibility for both appointed and non-appointed activity; or between appointed entities have a responsibility to ensure they are transparent about any potential conflicts in their role. This gives us the ability to target these areas with further training, guidance and mitigation as needed.

For the next AMP we are already looking to make further streamlining improvements to the licence to operate process by using technology improvements to transition to a more frequent monitoring system for compliance, including visibility of improvement plans.

#### **5.4 2019/20 risk assessment outcome**

In this year's licence to operate assessment, a number of areas were noted as either high or medium- high risk. In addition, our internal group compliance and assurance team decided to include areas that are subject to, or could be subject to, regulatory change or emphasis. These are summarised in section 7, alongside the summary of the assurance undertaken.

## 6. Assurance of our Annual Performance Report

Our 2019/20 risk-based assurance plan provides an overview of how all data reported in the 2019/20 APR has been given the appropriate level of governance and assurance.

### 6.1 Governance

We have a well-established compliance framework, which incorporates Ofwat's APR requirements, the RAGs, and wider company duties. Each reporting line in the APR is assigned to a responsible manager. These managers review and approve the data, process documentation and commentaries, which forms an integral part of our assurance approach. An approval process is followed with final sign off for both the data and commentary provided by the relevant Director.

The APR is subject to review by the Severn Trent Plc Disclosure Committee who ensure that all publications comply with the applicable disclosure requirements. Prior to reviewing and approving the final submission, delegated authority is given by our Board to the Audit Committee to review and ensure the adequacy of the year end assurance process, in line with their overall responsibility for ensuring the integrity of the Company's financial statements, risk management, assessment of the effectiveness of the systems of internal control and the effectiveness of internal and external auditors. The Board will then approve the final submission.

In addition to the governance processes described above, we provide oversight to the Boards of Hafren Dyfrdwy and Severn Trent Plc through our established year end programme steering group and board. The Board are provided with updates of progress against year-end reporting milestones, and visibility of any risks and issues as they emerge.

Section	Governance and Assurance
Company performance and direction	<ul style="list-style-type: none"> <li>• Data providers, commentaries and methodologies</li> <li>• Risk based assurance processes</li> <li>• Internal Audit review</li> <li>• Technical auditor assurance and audit report</li> </ul>
Our Board, governance and compliance	<ul style="list-style-type: none"> <li>• Technical auditor assurance and audit reports</li> <li>• Our established licence to operate year end declaration and departures process</li> <li>• Signed and approved by the Board</li> </ul>
Regulatory statements	<ul style="list-style-type: none"> <li>• Data providers, commentaries and methodologies</li> <li>• Risk based assurance processes</li> <li>• Technical auditor assurance and audit reports</li> <li>• Statutory financial auditor statement</li> </ul>
Annual performance summary	<ul style="list-style-type: none"> <li>• Data providers, commentaries and methodologies</li> <li>• Risk based assurance processes</li> <li>• Technical auditor assurance and audit reports</li> <li>• Our established licence to operate year end declaration and departures process</li> </ul>
Regulatory accounts	<ul style="list-style-type: none"> <li>• Data providers, commentaries and methodologies</li> <li>• Risk based assurance processes</li> <li>• Statutory financial auditors and audit reports</li> </ul>
Additional regulatory information	<ul style="list-style-type: none"> <li>• Data providers, commentaries and methodologies</li> <li>• Risk based assurance processes</li> <li>• Financial and technical auditors and audit reports</li> </ul>

### 6.2 Assurance Overview

We follow our risk-based approach for the APR assurance and our three lines of assurance model targets our most critical areas with our third line assurance. In addition to Internal Audit, we use external financial and technical auditors for third line assurance. The assurance approach is summarised below.

We have included letters of assurance from our technical assurers, Jacobs and Black & Veatch on page 22 and page 23 of the APR respectively.

Deloitte provide an audit opinion on the Regulatory Accounting Statements on page 60.

A key part of our assurance framework is the first and second line assurance activities that are undertaken throughout the year.

Our first line assurance is undertaken by the teams that are responsible for reporting the data so that colleagues, with the right expertise, are conducting in depth quality checks at the time the data is produced. Each line of our APR submission has been reviewed by our first line of assurance.

For our higher risk measures the second line assurers liaise with the reporting teams to monitor improvement activities and resolve outstanding actions through a comprehensive 'Focus measures' tracking process with updates provided to Disclosure and Audit Committee. These 'focus measures' include actions created as a result of the feedback we received from our technical assurance providers in 2018/19.

**Regulatory Accounts**

		Lines	Methodology & Process	Data
1A	Income statement	All	Deloitte	Deloitte
1B	Statement of comprehensive income	All	Deloitte	Deloitte
1C	Statement of financial position	All	Deloitte	Deloitte
1D	Statement of cash flows	All	Deloitte	Deloitte
1E	Net debt analysis	All	Deloitte	Deloitte
1F	Financial flows	All	Deloitte	Deloitte
2A	Segmental income	All	Jacobs	Deloitte
2B	Totex analysis (wholesale)	All	Jacobs	Deloitte
2C	Operating costs analysis- retail	All	Jacobs	Deloitte
2D	Historic cost analysis of fixed assets	All	Jacobs	Deloitte
2E	Analysis of capital contributions and land sales	All	Jacobs	Deloitte
2F	Household revenues by customer type	All	Jacobs	Deloitte
2G	Non- household water revenues by tariff type	All	Jacobs	Deloitte
2H	Non- household waste water revenues by tariff type	All	Jacobs	Deloitte
2I	Revenue analysis	All	Jacobs	Deloitte
2J	Infrastructure network reinforcement costs	All	Jacobs	Deloitte
2K	Infrastructure charges reconciliation	All	Jacobs	Deloitte

**Performance Summary**

		Lines	Methodology & Process & Data	Methodology & Process and Data - Wrexham only
3A	Outcome performance table	All	Jacobs / 2nd line	Black & Veatch / Jacobs / 2nd Line
3B	Sub- measures performance table	All	Jacobs	n/a
3C	AIM Table	All	n/a	n/a
3D	SIM Table	All	Jacobs	Jacobs
3S	Shadow reporting of new definition data	All	Jacobs	Jacobs

## Additional regulatory information

		Lines	Methodology & Process	Data
4A	Non- financial information	All	Jacobs / 2nd Line	Jacobs / 2nd Line
4B	Wholesale totex analysis	All	Internal Audit	Internal Audit
4C	Impact of AMP performance on RCV	All	Internal Audit	Internal Audit
4D	Wholesale totex analysis (water)	All	Jacobs / Internal Audit	Jacobs / Internal Audit
4E	Wholesale totex analysis (waste water)	All	Jacobs / Internal Audit	Jacobs / Internal Audit
4F	Cost analysis (household retail)	All	Internal Audit	Internal Audit
4G	Wholesale current cost financial performance	All	Internal Audit	Internal Audit
4H	Financial metrics	All	Internal Audit	Internal Audit
4I	Financial derivatives	All	Internal Audit	Internal Audit
4J	Atypical expenditure by business unit- Wholesale water	All	Internal Audit	Internal Audit
4K	Atypical expenditure by business unit- wholesale waste water	All	Internal Audit	Internal Audit
4L	Enhancement expenditure by purpose- wholesale water	All	Internal Audit	Internal Audit
4M	Enhancement expenditure by purpose- wholesale waste water	All	Internal Audit	Internal Audit
4N	Sewage treatment- functional expenditure	All	Internal Audit	Internal Audit
4O	Large sewage treatment works- wholesale waste water	All	2nd Line / Internal Audit	2nd Line / Internal Audit
4P	Non-financial data for WR, WT and WD- wholesale	24-27, 29-43, 58-68, 72-83, 86-110	Jacobs	Jacobs
4Q	Non-financial data- properties, population and other- wholesale water	1-8, 15-17, 19, 24-30	Jacobs	Jacobs
4R	Non- financial data- waste water network and sludge- wholesale waste water	1-2, 5-7, 11-41	Jacobs	Jacobs
4S	Non- financial data- sewage treatment- wholesale waste water	All	Jacobs	2nd line
4T	Non- financial data- sludge treatment- wholesale waste water	All	Jacobs	Jacobs
4U	Non-financial data- properties, population and other- wholesale waste water	3-15, 23	Jacobs	Jacobs
4V	Operating cost analysis- waste resources	All	Internal Audit	Internal Audit
4W	Operating cost analysis- sludge transport, treatment and disposal	All	Internal Audit	Internal Audit



Through the robust second line assurance activity as part of APR20, any issues and queries were resolved prior to review by the third line assurance providers. In addition, where the risk assessment undertaken confirms a measure is low risk and does not require third line assurance, second line reviews are undertaken to confirm the documented processes have been followed to report the data and that the required checks and controls have been undertaken.

During 2019/20 this second line oversight has ensured that all the focus measures were reported without any material issues being identified through third line assurance and that low risk measures were effectively and efficiently assured.

### 6.2.1 Deloitte Scope

Deloitte provided financial assurance procedures over sections 1 and 2 of the APR. These sections provide a baseline level of historical cost financial information and are aligned to our price controls and associated regulatory performance commitments and incentives set out in Ofwat's 2014 Final Determination.

Table lines 1F.1 to 1F.9, line 1F.13, line 1F.19 and lines 1F.21 to 1F.23 are subject to audit procedures. As agreed with Ofwat, Deloitte have performed agreed upon procedures in relation to the remaining lines (to note, lines 1F.11, 1F.12, 1F.14 are considered in the agreed upon procedures as they all calculate into line 1F.15).

## Outcome of assurance

Deloitte's audit opinion confirms that:

- The company's regulatory accounting statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issues by the WRSA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement (s), as defined in RAG 3.11);
- Proper accounting records have been kept by the appointee as required by Condition F; and the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Deloitte's audit opinion is included on page 60 of the APR.

### 6.2.2 Jacobs Scope

We asked Jacobs to provide technical assurance on the following elements of the APR reporting:

- Performance against legacy Severn Trent Water and a number of legacy Dee Valley Water PCs including associated ODIs.
- Non financial data included in the APR section 4 tables
- AMP7 common PCs reporting
- RoRE and financial flows
- Cost allocation between appointee associates Hafren Dyfrdwy and Severn Trent Water, between Hafren Dyfrdwy price controls and to third parties.

## Process

Jacobs provided a staged approach to technical assurance on the elements of the APR that are tabled above. Stages one and two focus on documentation and process and were undertaken following a risk-based assessment focusing on measure where there have been changes to processes. During stage one, Jacobs review the process description templates (PDTs) which are followed to report against PCs. Stage two includes a desktop review and interviews conducted face to face. The majority of the process audits were carried out face to face, however a small number were carried out over WebEx as our assurance approach has been adapted in response to COVID-19 for reporting year 2019/2020. The reviews ensure that:

- Processes are in place to produce data that is consistent with the RAGs, PC definition or non-financial data definition.
- Improvements and changes in processes from previous assurance rounds are clearly stated.
- Accountability and responsibility for each stage of the process is clear with dependencies, assumptions, risks and mitigations identified.
- There is appropriate quality and controls identified

Stage three focuses on data produced and this year the data audits were carried out over WebEx rather than in person due to COVID-19 adjustments to ways of working. The audits ensure:

- Data produced is consistent with the PDT and any deviations are identified and evidenced.

The technical assurance applied by Jacobs complements our risk-based assurance framework, which is in part, informed by previous assurance findings, as well as emerging risk, and stakeholder feedback.

## **Outcome of Jacobs' assurance**

### **APR Section 2 - Cost allocation**

As part of the industry's annual performance reporting, Ofwat requires companies to publish regulatory accounts that, among other things, set out financial information:

- On the allocation of costs by price control and subsections of the value chain;
- On non- appointed activity; and
- On transactions between associated companies

In reporting on the above, we are required to comply with Ofwat's RAGs- in particular 'RAG 2.07 - Guideline for classification of costs across the price controls' and 'RAG 5.07- Guideline for transfer pricing in the water and sewerage sectors'.

Over and above the RAGs, companies' licences also place an obligation on them to ensure that every transaction between the appointee and any associated company is at arm's length, so that neither gives to nor receives from the other any cross subsidy (Condition F). This also applies to the appointed and non- appointed activity within the appointee. Following the acquisition of Dee Valley and subsequent geographical border realignment between England and Wales to create HD, Ofwat expects transactions between HD and STW to be at arm's length.

Ahead of our year-end financial reporting, we asked Jacobs to review a sample of our cost allocation processes. We selected the sample based on the risk associated with them. In total, Jacobs reviewed six PDTs and processes which covered:

- Allocations across price controls within HD and STW
- Allocations between appointed and non-appointed activity within HD and STW
- Allocations and recharges of costs between the associate companies HD and STW.

Consistent with previous work in this area, Jacobs reviewed the documentation and processes with a focus on the consistency of the allocation approach with the RAGs. To that end, Jacobs sought to understand:

- The areas/activities that were being provided.
- The costs associated with that activity- which for the PDTs we reviewed were operating costs.
- How those costs are recharged, allocated and why.
- How our approach is compliant with RAGs.

Jacobs acknowledged that 'there have been improvements in the standard of the documentation and the processes reviewed' and 'the Company's Process Description Templates (PDTs) adequately explain the methodologies for cost allocation and outline dependencies, assumptions, risks and associated mitigation measures'.

## **APR Section 3 - Performance Commitments**

### **Full year**

Jacobs reviewed the vast majority of PCs set out in our Final Determination and the processes that were used to produce the figures. This approach is in line with our risk-based approach assurance framework to ensure that Jacobs reviewed our higher and medium risk areas, and those which are customer focused.

### **Outcome**

Jacobs noted 'for the legacy PCs we reviewed we consider there are no outstanding material weaknesses in the 2019-20 figures in relation to HDD reporting'. We are pleased that Jacobs remain satisfied with our reporting of the PCs.

## **APR Section 4 - non financial APR**

We have continued to improve our reporting processes and throughout the year we have been monitoring progress against our higher risk measures as described above through our 'focused measures'. At year end Jacobs carried out assurance against the majority of the Section 4 non-financial measures.

Jacobs notes 'For the non-financial APR section 4 lines we reviewed we note that whilst there are no outstanding issues from our data audits that should have a material impact on your overall APR reporting for 2019-20, there are some lines where you will be monitoring reporting risk more closely, or implementing improvements, due to issues we identified during our work.'

Where non-material recommendations have been noted by Jacobs, progress against these actions will be monitored through the year.

Overall, Jacobs noted: 'For the legacy PCs, non-financial APR section 4 tables and lines we reviewed and RoRE we observed robust processes and reporting procedures. For the 2019-20 data we reviewed we note there are no remaining material issues'.

### AMP7 Shadow PCs

In preparation for AMP7 reporting Ofwat developed a suite of common PCs and although we are not required to formally report on these measures until 2020/21, Ofwat has included these measures in Table 3S of the APR. We asked Jacobs to use its three-stage assurance approach to review our processes, methodology and data.

Jacobs confirmed that 'for the AMP7 Shadow Common PCs no material issues were found with the reported data'. We have plans in place to move towards full compliance for 2020/21 reporting.

Jacobs' summary of assurance in included on page 22 of the APR.

### 6.2.3 Black & Veatch

#### Scope

Black and Veatch provided technical assurance for the legacy Wrexham and Powys areas. The assurance scope included performance reported against selected annual PCs and against common measures.

#### These reviews ensure that:

- Processes are in place to produce data that is consistent with the PC definition
- Improvements and changes in process from previous assurance undertaken is clearly stated
- Accountability and responsibility for each state of the process is clear, with dependencies, assumptions, risks and mitigations identified.
- There is appropriate quality assurance with checks and controls identified.

The data audit focused on the data produced and associated commentaries which explain our performance in more detail. Audits were carried out by WebEx as a result of COVID-19 alterations to ways of working.

- Data produced is consistent with the PDT and any deviations from this are identified and evidenced.

#### Outcome

Black & Veatch noted they are 'satisfied that for the topics we covered, the information reported in and supporting the APR20 was compiled using appropriate data and methodologies and provides a realistic representation of actual company performance. We identified no material weaknesses or deviations from established procedure'.

In addition, Black & Veatch noted the following during its audits:

- 'ODIs are well defined and consistent with Business Plan obligations and the targets for HD were stated in the NAV agreement.
- Data collection and analysis are in place to allow performance to be reported against all of the company ODis covered by our audits.
- Procedural documentation exists covering the reporting of all relevant data for the topics we covered and is followed.
- We had no material concerns arising from our audits. We found no material weaknesses or deviations from established procedure in reporting.
- The assurance framework of three lines of assurance provides a good level of confidence that assurance is robust.
- The reporting process and the information for reporting is scrutinised and approved by the Disclosure Committee and Audit Committee. Performance is reviewed by the Board.'

### 6.2.4 Internal Audit

#### Process

Internal Audit performed several checks as part of its assurance to ensure that:

- Processes followed were appropriate to produce the data required for our APR submission.
- Historical data used in the tables could be traced back to source or previously published information.
- Data was produced in line with the methodology documents and RAG4 requirements.
- Data from the working files was agreed to the APR data tables to be submitted.
- A sample of business cases were reviewed to check the correct allocation of costs.

#### Outcome

Internal Audit confirmed that no material issues had been found and that 'all additional supporting evidence and answers to any queries raised were provided'.

## 7. Outcome of assurance in other areas

Our 'Statement of risks, strengths and weaknesses' that we shared for consultation in November 2019 was republished in February 2020 alongside our final assurance plan. The documents set out our key risks and included our approach to addressing these with our assurance this year in our final assurance plan. The table below summarises the outcome of assurance on these key risks.

Risk Area	Why?	Summary of assurance undertaken
PR14 performance commitments	<p>This report is the principal way that we will document our annual performance and hold ourselves publicly to account. The report is divided into the following sections:</p> <p><b>Section 1: Regulatory financial reporting</b>  <b>Section 2: Price review &amp; other segmental reporting</b>  <b>Section 3: Performance Summary</b>  <b>Section 4: Additional regulatory information</b></p> <p>The report will include inputs from other areas covered by this assurance plan (e.g. financial accounts) and require some forecasts of performance. It is important that we present information in a fair and balanced way that is accessible to our broad range of customers and stakeholders.</p> <p>In addition some of our PCs have a financial reward or penalty associated so customer bills will be directly affected by our performance.</p>	As described in section 6 above.
APR- sections 1-4	<p>This report is the principal way that we will document our annual performance and hold ourselves publicly to account. The report is divided into the following sections:</p> <ul style="list-style-type: none"> <li>• Section 1: Regulatory financial reporting</li> <li>• Section 2: Price review &amp; other segmental reporting</li> <li>• Section 3: Performance summary</li> <li>• Section 4: Additional regulatory information</li> </ul> <p>The report includes inputs from other areas covered by this Assurance plan (e.g. financial accounts) and require some forecasts of performance. It is important that we present information in a fair and balanced way that is accessible to our broad range of customers and stakeholders.</p>	As described in section 6 above.
PR19 Performance Commitments	<p>In the next AMP, the PR14 obligations will expire and be replaced with the new PR19 performance commitments. Now that we have received the outcome of the final determination and know the performance commitments for the next five years, we are ensuring that we can fulfil and accurately report on them. This year we're using the same process that we use for our performance commitment data in 'shadow' i.e. half year and full year audits to ensure we get a snapshot of risk areas prior to year-end</p>	<p>Our PR19 commitments are assessed through the three lines of assurance as described in section 6 in 'shadow'.</p> <p>Further information relating to our assurance approach for AMP7 and beyond is described in section 8.</p>
Cost allocation / RAG5	<p>Cost allocation activities within our finance team are part of our established third line assurance annual processes. While we have made a big improvement in this area, we are still on a journey of continuous improvement following the boundary realignment of our two appointed entities to ensure that our processes are thoroughly documented within both Hafren Dyfrdwy and Severn Trent Water; and other non-appointed businesses within the Severn Trent Group.</p>	<p>We have established controls including licence to operate and ERM. Our RAG5 Steering Committee are responsible for overseeing RAG5 compliance and reporting directly to the Disclosure Committee. We have introduced a RAG5 compliance framework to support the business which has been externally assured by EY.</p> <p>Our Internal Audit team has reviewed our RAG5 governance framework, including our licence to operate, and actions are being tracked and reported through ERM.</p>

Risk Area	Why?	Summary of assurance undertaken
Licence Conditions E1 and M1	These licence conditions were implemented in January 2019 and relate to the provision of information in Ofwat's designated 'new markets' i.e. bio-resources, water resources, demand management and leakage services. Our existing policies such as 'doing the right thing' and our 'level playing field' do cover these obligations, however, we need to ensure that we have suitable processes in place to document where receive an information request relating to these markets ensuring we have a sufficient audit trail to demonstrate our compliance.	Data and methodology is subject to second line assurance with third line process assurance undertaken by Internal Audit on any new areas.
Licence Condition L	Following creation of Hafren Dyfrdwy, we want to ensure that we have confidence in our programme to maintain our underground assets. Following integration of the two companies we have merged our programmes of work in Powys and Wrexham to ensure visibility of outputs and control frameworks	Governance and associated processes are in place, and cost plans are reported. Asset Health dashboards are in the process of being produced to give visibility of performance and how it relates to the health of our assets, to give further reassurance that maintenance and investment are proportionate to the service needed.
Water quality obligations	We are currently in the process of making improvements to our drinking water safety plan to ensure that all of our required risk assessments are completed on time and to suitable standard.	Water quality measures form part of our ODIs and are subject to three lines of assurance as described in section 6. The risk has been reduced through a rigorous review of our RACIs relating to these measures and obligations.
Annual Report and Accounts (ARA)	We have a statutory obligation to ensure that our financial accounts are prepared in accordance with the relevant financial reporting framework and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.	Our ARA has been subject to our established assurance and governance framework with the majority of data being subject to three lines of assurance. Deloitte provide the financial audit opinion in line with statutory and regulatory guidelines. Any data that is included in both the APR and ARA is subject to the assurance described in section 6. Our Internal Audit team have also carried out additional checks of the data used to ensure consistency.
Annual Report to CCWater	CCWater are the statutory customer representative body for our industry and a member of our Water Forum. Any information we provide to them must be accurate (most of this data is directly from our PCs reporting).	All submissions are subject to internal first- and second-line assurance. Any data use for a PC is subject to our assurance approach as described in section 6.
Charges including draft wholesale charges, final charges and access prices	Our charges for customers must be correct to ensure that customer bills reflect the commitments we have made in our business plan. The charges process is split into two parts: Draft- We publish draft wholesale charges in October each year to give retailers early sight of charges for the next financial year. Access prices are also reviewed at this stage. Final- We publish our final charges in January each year for the following financial year. These include non- household, household, retail, wholesale and non- primary charges.	We have established assurance processes to ensure we are within our revenue cap and are compliant with Ofwat's charging rules. Our scheme of charges is subject to three lines of assurance: Numeritas reviewed our financial model. Jacobs reviewed our methodology, processes and data outputs. Internal Audit conducted final consistency checks on the model outputs, published documents and action tracking where applicable. The outcome of the assurance was reported to the Audit Committee and a Board statement published alongside the charges.

Risk Area	Why?	Summary of assurance undertaken
End of AMP6 reconciliation	We provide a set of data spreadsheets to Ofwat on an annual basis so that it can calculate the in- year ODI reward / penalty and reconcile our past performance with our forecasted targets. Following Ofwat's review, we acknowledged that a small number of errors were made in similar submissions previously which had been missed by our second line assurance process.	Our end of AMP6 reconciliation has been subject to our risk- based three lines of assurance. Internal Audit completed the third line activities and no material concerns identified.
Market information (bio-resources and water resources)	These are new markets, and to encourage growth for the benefit of customers, and to encourage potential market participants, we must present information and costs that are accurate to enable consideration of market entry.	Our bioresources market information is subject to our three lines of assurance, and no material issues were found. Much of the process, data and assurance for water resources information is derived from the WRMP. This was published last year and was subject to assurance at the time and received Board oversight. Consistency checks are carried out internally between publications.
Market Performance Standards (MPS) and Operational Performance Standards (OPS)	We submit monthly key performance indicators to the market operator, MOSL. This information is then published on their website. The information is used by retailers, Ofwat and MOSL to ensure that the wholesalers are delivering a competitive and fair services to customers in the market. If we fail to meet our SLAs we can receive a financial penalty.	Performance is reviewed throughout the month by the responsible manager and monthly with the accountable senior manager. Assurance is completed on all OPS submissions with third line assurance provided by Internal Audit throughout the year. The Disclosure Committee reviews performance quarterly and actions for improvement noted and reported. Any issues and actions are notified to MOSL.
New connections charging	The new connections charges process must align to our company wide Scheme of charges process, which is subject to third line assurance.	New connections charging was approved by the Board ahead of publication. External assurance was undertaken by Jacobs and the outcome was reported to the Audit Committee. All previous recommendations from Jacobs for 2018/19 have been implemented. A Board assurance statement was published with our charges and can be reviewed on our website.
Natural Resources Wales submissions	We take our role and its impact on the environment seriously. It is important that information we share with the NRW is accurate and reflective of our performance. If we fail to meet our environmental commitments we can receive financial penalties.	Submissions are subject to three lines of assurance on a risk-based approach. Submissions are subject to our governance processes.
Drought plan and other drought obligations	The Water Act (2003) made it a statutory requirement for water companies to produce and maintain a drought plan. We update these every five years. Our drought plan sets out how we will manage our resources and supply systems in dry years to maintain our service to our customers.	Our final drought plan has been subject to our three lines of assurance on a risk based approach.
Water Resources Management Plan	The WRMP is produced every five years and sets out how we plan to meet our customers' needs for clean water now and in the future, taking into account the changing impacts of climate change and population growth.	External assurance has been undertaken by Jacobs with no material issues noted. Our WRMP was approved by the Board in line with our governance process and the assurance process was reviewed by the Audit Committee. Our Board provided a statements of assurance with the published WRMP.



## 8. Our Approach to Assurance for AMP7 and beyond

As a regulated company we are subject to statutory and regulatory duties and obligations, for example through the Water Industry Act 1991 and our Instrument of Appointment. We will continue to use our established processes, controls and governance routes to continue to meet these obligations. Our AMP7 specific obligations were developed and defined through our PR19 Business Plan 2020-2025 described below.

### 8.1 Accountability rests with the Board

Our Business Plan 2020-2025 set out the performance we have committed to deliver for our customers over that time. It looks to the future of our service to 2025 and beyond. Our Business Plan, already now in motion, will deliver operational, financial, corporate and reputational resilience over the next five years and long term, through our well established, robust and independently assured governance and assurance processes. The entire HD team are responsible for delivering our ambitious plan, but ultimate accountability rests with our Board.

Resilience goes beyond traditional risk management, and we continue to take a holistic view of our business resilience and operating environment. We are committed to being transparent about the areas of our business that matter most to all our stakeholders - including executive pay, corporation tax and dividend payments. We continue to use both ERM and our licence to operate framework to ensure that we manage our company wide risks and statutory obligations both now and in future. We believe that the combination of our established

assurance process, our governance approach, ERM systems and our licence to operate framework, and our external assurance providers review of these, enables our Board to have confidence in delivering our 2020-2025 plan.

### 8.2 Meeting our AMP7 specific commitments

For our performance commitments, which we consider to be a customer critical area, we are continuing to use our risk based three lines of assurance approach. To ensure we spot potential issues early, we have focused on making sure our reporting methods for the new measures are robust. In January 2020 we undertook reviews of the PDTs which will be used to report against our AMP7 performance commitments. These reviews were undertaken at first, second and also third line assurance through Jacobs. Process assurance, and where applicable, data assurance reviews are also underway. This gives us a good understanding of where our focus needs to be to ensure accurate data is reported over the year ahead, in our annual reporting for 2020/2021, and beyond.

We have already updated our established licence to operate framework with our PR19 commitments. Following this year's year-end assessment, we noted that the risk scoring for several of our commitments has reduced following the efforts of teams across the business to establish and embed robust processes for them.



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