



**Dee Valley
Water**

Your local water company

Assurance Summary

2016/17

1. About this document

Dee Valley Water supply drinking water to people in northeast Wales and northwest Cheshire. We have 126,000 customers and provide 62 million litres of water a day.

Every year we publish a diverse range of information for our customers and stakeholders about our performance, activities and assets. Providing accurate, clear and understandable information that can be trusted is important to us. This document summarises the outcome of the assurance we've carried out this year to help build confidence in the information we report.

This has been a transitional year for Dee Valley Water. In February 2017 we became part of Severn Trent and since that time work has begun, but not yet finished, to introduce the standards of risk management, internal control and regulatory compliance monitoring used within Severn Trent Plc. These changes are designed to complement existing areas of strength in our reporting and controls, for example, drinking water quality compliance.

During the year, as we've carried out assurance activities in line with our published assurance plan, we've learned more, and identified areas for further improvement in the future. And while we recognise we have more to do to build trust and confidence in our approach, we've made progress this year and want to keep improving.

Company Monitoring Framework

Our economic regulator, Ofwat, uses a 'Company Monitoring Framework' to assess the accuracy and quality of information which is provided by water companies. The framework categorises companies in one of three assurance categories: prescribed, targeted or self-assurance, depending on the level of confidence (determined by a series of objective tests) that Ofwat has in the data.

We are currently one of four (out of 17) companies that are in the 'prescribed' category of assurance. This means that, as we design our assurance plans, we consult with our stakeholders to understand if they have concerns about the data we publish. Where we identify significant risks, we must carry out independent, external assurance and report on the outcome.

Customer and stakeholder engagement

Throughout the year we've engaged with our customers and stakeholders, both through specific consultation on our assurance work and also during business as usual activities. In November 2016 we published our [Draft Assurance plan for 2016/17](#) and asked for feedback on our proposals. The report reviewed the risks associated with our reporting – set out in a statement of risks, strengths and weaknesses - and outlined a number of specific areas to target. After taking into account the comments and suggestions we received, we published our [Final Assurance Plan for 2016/17](#).

As part of our development of our assurance plan we liaised with our key stakeholders including our regulators (such as the Environment Agency and the Drinking Water Inspectorate) and customer champions (such as our Customer Challenge Group and the Consumer Council for Water Wales) to understand how they use our data and what their priorities were.

We also carried out an internal risk assessment process of the effect that poor information would have on us and our stakeholders. This review considered the inherent probability of providing poor information, the strength of our assurance framework used to mitigate this risk and the likely impact of poor information. It allowed us to identify a range of risk for our assurance to focus on. The outcome of our assurance on the highest risks we identified is set out on section 3 of this report.

2. Our assurance approach

We are committed to providing a robust governance framework around our processes and data to meet the needs of both our internal and external stakeholders. We fully recognise that reliable and accurate information is not only important to us, but also our customers and other stakeholders.

Prior to joining Severn Trent in February 2017, our information assurance regime comprised three key activities:

- internal information governance and controls including Executive Management and Board review and sign off,
- internal risk-based quality and assurance reviews, and
- external statutory and risk-based specific audits.

Following our move to the Severn Trent group in February, we retained the core tenets of the established Dee Valley approach to assurance, as well as adopting helpful practices from the Severn Trent Plc approach where it has been possible to in the timescales.

For activities related to our year end reporting (the Annual Performance Report and cost assessment tables), review and challenge has been provided by our new Executive Team, Disclosure Committee and Board. This includes the following activities:

Internal information governance and controls	We introduced the ‘licence to operate’ compliance framework used within Severn Trent to assign accountabilities for, and assess ourselves against, our regulatory and statutory obligations including those within our licence and under the Water Industry Act 1991. This process has underpinned the Board’s review of its risk and compliance statement.
Independent, external assurance	We’ve continued to employ independent, external assurance (explained in section 3 below).
Formal sign-off of information	<p>Assurance outcomes have been reviewed and the appropriate Executive Director has signed off that proper governance and assurance has been applied.</p> <p>The Severn Trent Plc Executive Committee has reviewed reporting of performance against our performance commitments.</p> <p>A Board Committee has reviewed audit outcomes and assurance reports on behalf of the Dee Valley Water Plc Board, and has approved information for publication.</p>
External challenge from our Customer Challenge Group (CCG) and CCWater Wales	At its meeting on 27 June we invited the CCG to comment on our 2016/17 performance and also review the outcome of external assurance on our performance commitments.

3. Assurance activities this year

Annual Performance Report

Our Annual Performance Report incorporates the reporting requirements of Ofwat's Regulatory Accounting Guidelines and sets out both our financial and non-financial performance against our business plan for 2015-20. The Annual Performance Report comprises four sections:

1. Regulatory financial reporting
2. Price review and segmental reporting
3. Performance summary
4. Additional regulatory information

We have varied our approach to assurance, depending on the nature of information required in each section.

Sections 1, 2 and 4

Sections 1, 2 and 4 principally comprise financial information.

Deloitte LLP ("Deloitte" our statutory auditor) undertook an independent external review of sections 1, 2 and 4.

Deloitte has provided an audit opinion on the Regulatory Accounting Statements (sections 1 and 2), which is set out in full in the Annual Performance Report.

Tables 4b to 4i include additional financial information. Assurance for these tables and the supplementary disclosures is also provided by Deloitte, who have performed a series of agreed upon procedures to confirm the accuracy of the calculation of the data, extraction from source records and calculation methodology in line with management prepared methodology statement (and RAGs where appropriate).

Section 3

Section 3 includes information about our progress against the performance commitments we made in our business plan.

Black & Veatch (B&V), our non-financial technical assurance provider, carried out an external audit of section 3 and has provided the following statement about their audit:

"As part of the audit, the processes used to produce the data were examined alongside the data reported. The following activities were undertaken:

- *Before the audits we identified with DVW the key areas, the Data Owners and information required prior to the audit.*
- *We visited the company offices and interviewed the staff responsible for the provision and accuracy of the data reported.*
- *We confirmed the methodology and systems used to provide the data and their consistency with company and industry procedures.*
- *We confirmed the extent of procedural documentation and its use in data preparation.*
- *We confirmed the sources of the base data and the methods used for processing this to provide the reported data and commented on any weaknesses.*

- *We confirmed and commented on any assumptions made in data processing.*
- *By sample checks on data in our network, we confirmed that data reported were consistent with base data and that necessary calculations had been correctly carried out.*
- *We established the audit trail from the base data to the reported data.*
- *We provided a detailed written report summarizing our findings for each PC.*

Outcome

During our audit, we did not find any material issues. We did however note a number of areas for improvement. In particular, reporting for some areas placed a heavy reliance on paper records and manual data interrogation, calculation and checking. We also found that there was room for improvement in the documentation of some procedures."

We recognise that the current period of transition presents both opportunities to address these issues, but also risks to our reporting - particularly the reliance on manual intervention. We will respond to these issues in our future assurance plans.

Further Deloitte have performed agreed upon procedures on Section 3 to confirm the items reported by us are consistent with the report received by us from B&V.

Cost assessment data

This year Ofwat has requested companies provide information that will be used to develop its cost modelling for the 2019 price review. Whilst 2016/17 is a transitional year and information is not included in Ofwat's information requirements for the Annual Performance Report itself, we have included this as part of our year-end assurance processes.

As with the Annual Performance Report, we have tailored our assurance depending on the nature of the information included in each table.

Financial and expenditure by purpose data (tables 1, 2, 2.1, 18.1, 18.2, 19, 21)

Where tables contain information that is substantially financial in its nature (select years covering tables 1, 2, 2.1, 18.1, 18.2, 19 and 21) Deloitte have performed agreed upon procedures to confirm extraction from source records and that the information has been prepared in a manner consistent with the definitions provided by Ofwat and a management prepared data collection methodology.

Our response

This year's submission requires expenditure to be reported to a higher degree of granularity than in previous years. Upon the change of ownership to Severn Trent, we found that existing processes within Dee Valley are not able to robustly report this information to such a high degree of disaggregation.

Following confirmation of Ofwat's requirements, we have worked hard to find alternative methods to provide this information. However, because we have relied on extrapolation and assumptions in some cases, we have given a number of returns a low confidence grade of DX or similar. We recognise that this creates a risk that the accuracy of the financial data provided may not yet be sufficient for the purposes which Ofwat wishes to use it.

We are now working to understand how new processes can be introduced with the aim of wherever possible improving accuracy ready for next year.

Non-financial data (tables 3, 4, 5, 6, 7)

For non-financial data, using the same audit approach as for the Annual Performance Report, B&V have audited the reported data for the six years requested.

Outcome

B&V provided the following statement about their audit of Cost Assessment Data:

“The same audit approach was used as for our audit of the Annual Performance Report. We concluded that reasonable processes were followed for all lines. All lines were substantiated from company base data or confirmed as being consistent with previously audited reported figures. The exceptions were 2011-12 and 2012-13 data for:

- *Mains lengths,*
- *Households and non-households billed,*
- *Numbers of meter optants and selective meters, and*
- *Numbers of new connections.*

While we were not able to audit figures for these lines back to base data, we confirmed that the reported figures corresponded with data prepared by the company at the time for unpublished Annual Return tables, which they continued to complete.

We concluded that appropriate confidence grades had been allocated to all table lines. We also noted that reported figures for Distribution lines 21 – 23 (Communication Pipes) have been estimated from property numbers and assumptions about the ratio of comm pipe numbers to property numbers and the ratio of different comm pipe material within the calculated number of pipes.”

The May iteration of Ofwat’s guidance on the tables noted its expectation that companies should “be able to report grades of A2, A3, B2 or better”. In the 131 lines of data covered by the five tables 15 lines do not reach this threshold. These fall into three broad groups:

- mains lengths,
- measures derived from the water balance calculation assigned the same confidence grade as leakage, and
- average pumping heads affected by small discrepancies noted in meter flow readings.

We are reviewing these areas to determine the scope for improvement (recognising that some historic data may rely on extrapolation) and will implement plans where it is possible to do so in advance of our 2018 submission.

Following the completion of the assurance process, and the view expressed by B&V above, some clarifications were issued by Ofwat that could impact reported data. We reviewed these clarifications carefully, but took a risk based decision not to include these in the assured tables, and have separately reviewed and reported any issues.

Assurance of the highest risks from our statement of risks, strengths and weaknesses

As part of our Final Assurance Plan we identified five high risk areas and set out specific assurance activities we would carry out to mitigate the risks.

The activities undertaken are detailed below. We recognise that in some areas we have more work to do in the coming year to improve the targeting, scope and completeness of our assurance. For example, our transition to Severn Trent Plc could impact our approach to cost allocation, and our water resources management plan had not, at the time of writing, reached a point of development that external third line assurance was required.

Area	Reason for inclusion	Planned activity	Actual activity
Cost allocation and segmental reporting	With the introduction of greater competition, we want to ensure retailers and our customers can continue to have confidence about the costs that are reflected in their charges between water, waste, household and non-household. This is an area of importance to customers, water retailers and regulators.	<ul style="list-style-type: none"> External third line review of methodologies and application of regulatory accounting guidelines 2 and 5 Board review and approval prior to publication 	<ul style="list-style-type: none"> This section of the Annual Performance Report provides a more detailed disaggregation of revenue and costs. Data for this section was audited by Deloitte as explained above. Deloitte's audit opinion does not extend to the appropriateness of the methodology used to allocate costs in relation to Ofwat's RAGs. We anticipate further changes will be required in the coming months following our move into Severn Trent Plc.
Additional regulatory reporting (Chapter 4: annual performance report)	This report is the principal way that we will document our annual performance and hold ourselves publicly to account. 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.	<ul style="list-style-type: none"> External third line assurance of data, performance forecasts (and methodologies) and the presentation of information. CCG review of the presentation and dissemination of information Board review and approval prior to publication 	<ul style="list-style-type: none"> Agreed upon procedures carried out by Deloitte A Dee Valley Water Plc Board Committee reviewed, challenged and approved information at a meeting in July 2017.
Water resources management plan (WRMP)	This document sets out how we plan to meet our customers' need for clean water both now and in the future, taking into account the changing impacts of climate change and population growth.	<ul style="list-style-type: none"> Engage with consultants who specialise in the field of water resources Attending regulatory and industry workshops Liaison and consultation with stakeholders 	<ul style="list-style-type: none"> Atkins have been engaged to assist us with the development of the WRMP Various meetings have been attended with stakeholders and regulators including Natural Resources Wales, Environment Agency, Chester and Wrexham Councils, Blueprint for Water

Area	Reason for inclusion	Planned activity	Actual activity
		<ul style="list-style-type: none"> • Regular management updates • Internal 1st and 2nd line assurance • External 3rd line assurance • Board review and approval prior to publication 	<ul style="list-style-type: none"> • Progress updates are provided to our Consumer Challenge Group • As the document is currently under development assurance activities are on-going - internal 1st and 2nd line assurance will take place throughout the year at appropriate stages • External 3rd line assurance will be obtained prior to Board sign off and publication • The WRMP is due to be submitted to the Welsh Government in December 2017 and will be approved by the Board prior to submission
Average Duration of Supply Interruptions (Performance Commitment B1)	Our view and that of our stakeholders is that all performance commitments are a priority area given the immaturity/complexity of some performance commitments and the potential impact on customers, environment and market confidence. Supply interruptions have been assigned a greater risk level because our customers have told us that they value a continuous supply of water and this view has been echoed by external stakeholders.	<ul style="list-style-type: none"> • Monthly review of information from field data to reporting systems • Regular management review and internal reporting • Internal audit • External assurance prior to publication • Board approval of performance commitment outcomes prior to publication 	<ul style="list-style-type: none"> • Reviews and sense checks of data were conducted by the operational department • Performance was discussed at monthly Management Team meetings • An internal review was carried out • External 3rd line assurance was carried out by B&V • A Dee Valley Water Plc Board Committee reviewed, challenged and approved information at a meeting in July 2017.
Number of Bursts (Performance Commitment B4)	Our view and that of our stakeholders is that all performance commitments are a priority area given the immaturity/complexity of some performance commitments and the potential impact on customers, environment and market confidence. Burst events have been assigned a greater risk level because our customers have told us that they value a	<ul style="list-style-type: none"> • 100 % reconciliation of all information from field data to reporting systems • Regular management review and internal reporting • Internal audit • External assurance prior to publication • Board approval of performance 	<ul style="list-style-type: none"> • A manual reconciliation of field data to reporting systems was carried out on a monthly basis • Performance was discussed at monthly Management Team meetings • An internal review was carried out • External 3rd line assurance was carried out by B&V

Area	Reason for inclusion	Planned activity	Actual activity
	continuous supply of water and this view has been echoed by external stakeholders.	commitment outcomes prior to publication	<ul style="list-style-type: none"> A Dee Valley Water Plc Board Committee reviewed, challenged and approved information at a meeting in July 2017.

4. Additional assurance activities this year

In our assurance plan for 2016/17 we set out a range of regulatory submissions and other data which we produce for our stakeholders and customers, and which we would obtain assurance on.

Charges Scheme

Independent, external assurance was carried out on our charges scheme to confirm the accuracy of inputs into our tariffs model and the outputs generated for inclusion in our charges scheme.

However, following a retrospective review upon our change of ownership, we considered that the scope of assurance was not broad enough to review if our scheme was consistent with Ofwat's charges rules. We will address this in our assurance plans for 2017/18.

Information provided to the Drinking Water Inspectorate (including water quality risk assessments, compliance data, customer contacts, notifiable events and milestone reporting)

Water Quality information, including formal submissions and on-going information provision to the Drinking Water Inspectorate were audited by B&V. Both the information itself and the processes used were reviewed. No material issues were identified.

Information provided to the Environment Agency and Natural Resources Wales (including abstraction return data, Carbon Reduction Commitment Return, Annual review of the Water Resources Management Plan)

Formal submissions to both the Environment Agency and Natural Resources Wales were audited by B&V. No material issues were identified.

Information provided to the Consumer Council for Water (including complaints, WaterSure and social tariff data)

Year-end submissions to the Consumer Council for Water were audited by B&V. No material issues were identified.

A number of other submissions and data collation processes were reviewed by B&V including RIDDOR reporting to the HSE, and developer services data to Water UK. No material issues were identified.

5. Outlook

In its November 2016 review of us under the company monitoring framework, Ofwat noted that in five areas of its assessment, we met its expectations, but in other areas it had minor concerns. This year, we believe that we've made progress to address those concerns. However, given the importance we and our stakeholders place on trusted information, we're ambitious for our assurance plans and recognise that there's more we can do to deliver a step change. We've already begun discussions with our Customer Challenge Panel about how, over the coming year, we'll continue to build on the progress made this year

