

# Statement of Risks, Strengths and Weaknesses and Draft Assurance Plan

Our Consultation for 2018/19

Hafren Dyfrdwy

November 2018



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# 1. About this document

At Hafren Dyfrdwy we're responsible for providing water and waste water services to over 150,000 customers in North-East and mid-Wales. We strive to achieve the highest quality standards in everything we do. Whether it's the quality of our drinking water or the regulatory performance information we publish on our website, we want to make sure that our customers can trust us to deliver what matters to them most.

The quality of the regulatory information we publish is important because it helps to give our customers and other stakeholders confidence that we're being open and honest not only about where we're delivering on our commitments to them, but also where we're not.

To help to secure this confidence, we use assurance to thoroughly test information we publish in a manner that is independent and verifiable. Our Board oversees this process through our robust governance and assurance framework.

## Understanding your views

This consultation document sets out our initial assessment of where assurance will be most important in the coming reporting year (2018/19). We'd welcome views on this and in particular: what regulatory information is most important to our customers; the level of risk associated with that information; and whether our proposed assurance plans are appropriate to mitigate those risks.

### 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 on page 7.

On an annual basis, Ofwat assesses the level of trust that it has in the data we produced and assesses against three categories:

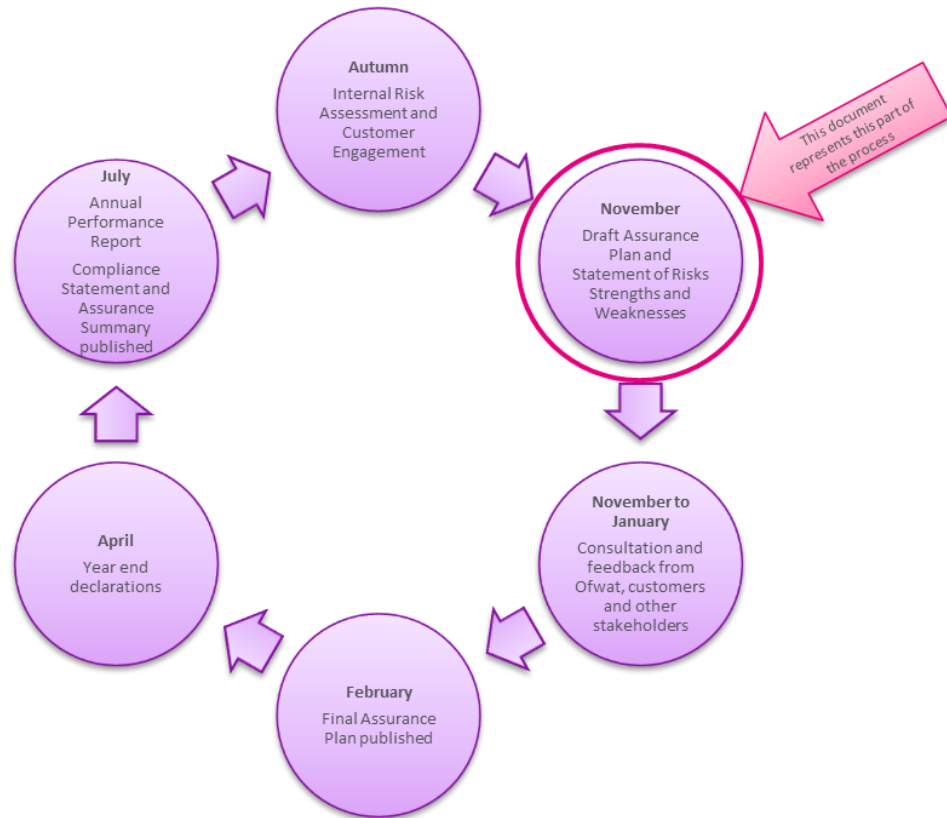
- **Self-assured** - indicating a high level of trust. Companies who are self-assured have greater levels of freedom to dictate their own assurance plans for the reporting year.
- **Targeted** – indicating a sufficient level of trust, however Ofwat dictates some areas that must receive assurance. Targeted companies must also publish an annual statement of risks, strengths and weaknesses and an accompanying assurance plan.
- **Prescribed** – indicating that Ofwat has concerns with the information provided and dictates what information should be assured by the company as well as the requirement to publish an annual statement of risks, strengths and weaknesses and an accompanying assurance plan.

This process is known as the Company Monitoring Framework (CMF). Under the CMF, we publish assurance and compliance documents throughout the year as shown in Fig. 1 below. By doing this, we make sure that our regulatory publications can be trusted by our customers and our stakeholders.

### What is the Company Monitoring Framework?

Ofwat's company monitoring framework (published in June 2015) set out its expectations for how it will oversee information that we, and the 16 other largest water companies, provide to our customers. For more information please visit Ofwat's website ([www.ofwat.gov.uk](http://www.ofwat.gov.uk))

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



This document contains two elements we are required to publish within the CMF.

The first is our statement of risks, strengths and weaknesses. It has been developed using the feedback received from our customers and stakeholders about the information we provide. It also takes into account our own assessment of risks to our ability to provide information that they trust. The second part is our draft assurance plan for 2018/19. This sets out how we plan to respond to those risks.

The document is open to consultation and we would welcome your views on it (details on how to respond can be found in section 3). Following feedback from our customers and stakeholders, we will publish a final assurance plan, and once this plan has been implemented, an Annual Performance Report and an assurance summary setting out our progress against our performance commitments.

**Changes this year**

In July 2018, we realigned the boundaries of the two regulated water companies within the Severn Trent Plc group – Dee Valley Water and Severn Trent Water – to better match the boundaries between England and Wales. Our new company - Hafren Dyfrdwy, serves customers in Wales while Severn Trent Water now serves customers in England. This realignment has necessitated a change in how we report performance data and how we operate to ensure we fairly protect the interests of customers of both companies. The focus of our assurance reflects this.

Alongside this, we submitted innovative and customer focused business plans for both companies that set out what we intend to do for our customers in the next five year AMP period (2020-25) and beyond. To ensure we can deliver our promised commitments, our PR19 assurance framework used robust assurance processes to flag up areas of risk or non-compliance.

## 2. Glossary

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

Term	Definition
AMP	Asset Management Period – this refers to Ofwat's 5 year planning period. For example, we are currently in AMP6. AMP7 will start in 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 (CCG), which includes independent experts, CCWater, our regulators including the Environment Agency and Natural Resources Wales and 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.
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.
MOSL	The market operator for England's competitive non-household market. A small number of our large user customers in Wales are eligible to change their retailer in the competitive market.
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.
PR19	Price Review 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 matrix 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	Severn Trent Plc – the parent company and ultimate controller of Severn Trent Water and Hafren Dyfrdwy.
Third Party Auditor/Assurer	An independent audit company or organisation that performs audit or assurance services.

### 3. How to respond to this consultation

We welcome the views of our customers and our stakeholders. If you would like to respond to this consultation, please answer the following questions after reading this document:

**Q1: How well have we adequately identified our areas of greatest risk?**

**Q2: Does our plan provides sufficient assurance to our identified areas of risk? If not, what improvements could we make?**

**Q3: Do you have any other comments?**

The consultation will remain open until **18 January 2019**.

Responses can be emailed to [futureconsultation@severntrent.co.uk](mailto:futureconsultation@severntrent.co.uk) or can be sent to our compliance team at:

**Compliance Team  
Strategy and Regulation  
Severn Trent Centre  
2 St John's Street  
Coventry  
CV1 2LZ**

## 4. Our governance and assurance framework

We've spent the last two years sharing best practice across Severn Trent and Hafren Dyfrdwy to continuously improve our assurance approach, but it all starts with the right behaviours and values.

### Starting with the right behaviours

Assurance alone isn't infallible, and we believe ensuring balanced reporting - that our customers and stakeholders can have confidence in - starts with the values of our company, our people and our behaviours.

We've worked to embed our code of conduct, '[Doing the right thing – the Severn Trent way](#)', across Hafren Dyfrdwy. This code of conduct is embedded throughout the wider Severn Trent organisation as a way of working that ensures every employee is accountable for upholding our values.

Every day our people have to make choices about what they do and how they do it. Most of the time it is clear what the right thing to do is, whether it is about doing what's safe, doing the right thing for customers, doing what is right ethically and indeed what is right legally.

But sometimes it's not so clear, so Doing the Right Thing - the Severn Trent way, details the five values we work by, to help guide our people through those grey areas when there are no hard rules in place:

1. We put our customers first.
2. We are passionate about what we do.
3. We act with integrity.
4. We protect our environment.
5. We're inspired to create an awesome company.

These values apply to how we report information just as much as any other area of what we do.

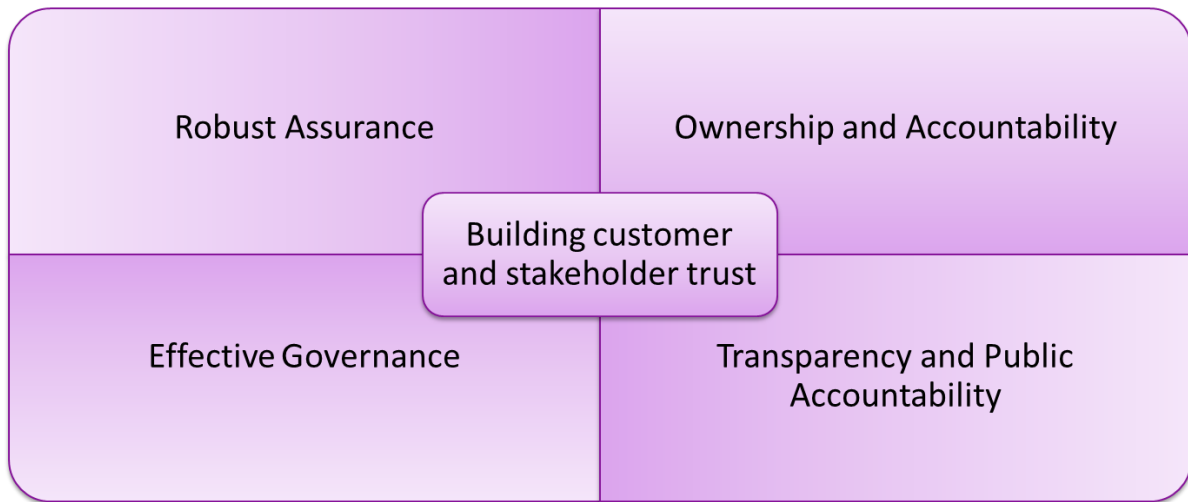
### A continuously evolving assurance approach

The assurance processes 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 in particular, we have benefited from becoming a member of the Severn Trent group who have shared their learnings and assurance processes. For example, we introduced licence to operate to Hafren Dyfrdwy in the last regulatory reporting year. Licence to operate has been operating in Severn Trent for over three years and ensures both companies understand our compliance with all of our statutory and regulatory obligations. More information on licence to operate can be found in section 6.

Our framework is underpinned by four main principles (as shown in Fig 2 below) which, while providing consistency and clarity for our people, allow the flexibility for our assurance processes to build and evolve with our company and the environment we operate in. For example:

- A risk based approach to assurance i.e. targeting areas of greatest importance with three lines of assurance at the areas that matter most or are high risk. This approach ensures that our assurance programme maintains value for money while also giving confidence to our customers and stakeholders that the information they value is trustworthy.
- Implementing a bi-annual assurance process for the areas of greatest risk to ensure that any potential areas of non-compliance are noted at the mid-year point. This gives us the opportunity to rectify the issues before year end.
- Standardised process description templates to document each of our processes, providing us with an auditable methodology from producing our data.

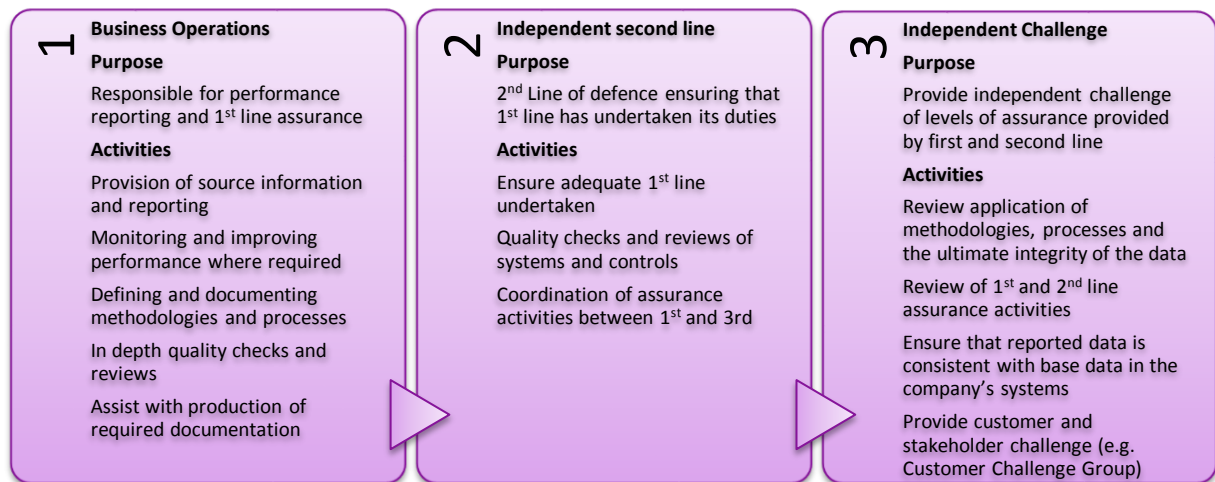
Fig 2: Our assurance principles



### 4.1 Robust assurance

To ensure we're applying an effective programme of assurance, while balancing value for money, we operate a three lines of assurance model. We target this model using a risk-based approach so areas that we know are of prime importance to customers or may have a significant financial value or operational impact receive the full three lines of assurance while other areas may be targeted with first or second line only. This approach ensures our spending on assurance is proportionate and aligns to what our customers' value most. Fig 3 below details the three lines and the typical activities that each level is responsible for.

Fig 3: Our Levels of Assurance



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

Second line activities are then conducted by a separate team that does not report into the same senior manager as the first line to ensure a level of independent checking is conducted. For elements of our APR, second line functions are embedded within the same directorate as the performance reporting. This ensures that we maintain a strong level of expertise and understanding of the source data.

Third line activities are conducted by a number of different providers depending on the specialisation required. Generally the expertise can be divided into the following categories:

- **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.

## 4.2 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, which every year assigns ownership of all 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 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.

Section 6 includes more information on our licence to operate process.

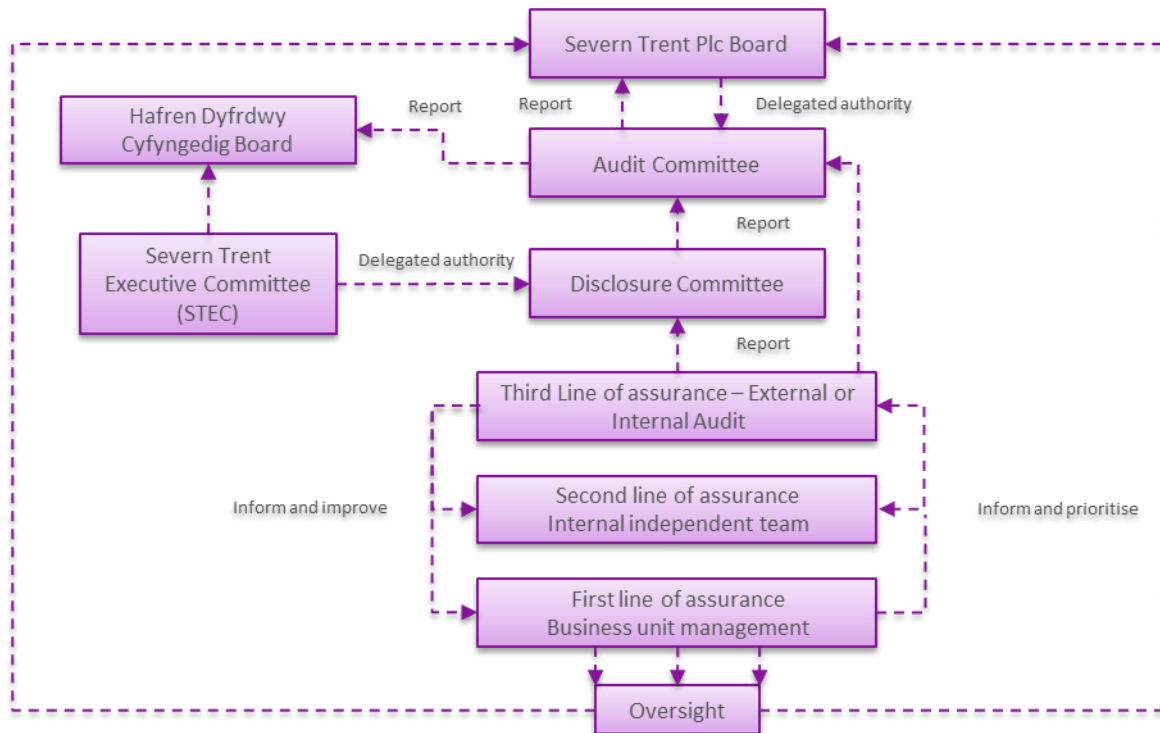
## 4.3 Effective governance

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 we appointed three new Non-Executive Directors to specifically look our business and provide independent challenge. We continue to adhere to the principles set out in Ofwat's 'updated assessment of monopoly water companies' governance arrangements' published in June 2015. Additional challenge is provided by the CCG who challenge us to evidence how the voice of the customer has been considered in our decision making processes.

Fig 4 below shows how our assurance framework interacts with our governance arrangements to ensure that all levels of the business have oversight of our assurance processes.



**Fig 4: Our governance arrangements**



We also operate an Enterprise Risk Management (ERM) system for identifying, assessing and managing our significant risks – including risks to our corporate objectives, core processes, key dependencies, stakeholder expectations and legal and regulatory obligations. A number of risk management systems feed our ERM process including water quality risks, and health and safety. Significant risks feed into our company risk profile and are reported to our Executive Committee and to our Audit Committee and Board at least every half year.

#### 4.4 Transparency and public accountability

As a public service we want to be transparent about how we balance the needs of our customers, our strategic plans as a business and a fair return for our investors. We believe we are prudent in how we manage financial risk and even-handed in the way we share the returns from our outperformance with customers and shareholders; we pay our taxes in full and on time; we pay executive salaries that are reasonable and sustainable and linked to the delivery of outcomes to customers; we avoid complex offshore financial vehicles; we publicly report on our performance, and hold ourselves to account where we do not meet our commitments.

Each year 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 have simplified the customer version of our Annual Performance Report and included our comparative performance against other companies to make our overall performance more transparent for our customers. We also publish our [company structure](#) on our website, which shows how the companies including Hafren Dyfrdwy and other associated companies are connected under the Severn Trent umbrella. And while we already include details on executive pay and our dividend payments in the [Severn Trent Plc Annual Report and Accounts](#), we will look at how we can display this information in our regulatory publications in a way that is transparent and easy to understand for our customers.

## 5. Customer and stakeholder engagement

To understand which areas matter most to our customers and stakeholders, we use our regular engagement methods and also some bespoke research specifically designed to inform this plan.

### 5.1 Customer engagement

#### 5.1.1 Focus groups (Wrexham and Powys)

We wanted to talk to our customers face to face in the areas that were primarily affected by our company boundary changes in July 2018 following the creation of Hafren Dyfrdwy. We also wanted to hear their opinions on key topics like renationalisation and executive pay.

In summary the feedback we received was:

- That the participants were aware of Hafren Dyfrdwy. All participants had received a letter from us in advance of receiving their bill informing them of the changes. Aside from this, customers knew little about Hafren Dyfrdwy.
- The majority of customers assume Hafren Dyfrdwy are making the right decisions and performing well, although most customers simply don't give the subject much thought on a day-to-day basis. They assume we are providing a good quality service to customers anyway, mainly because it is our job to be doing so. It was mentioned that Ofwat's presence in the industry as an overseeing body means that they [customers] indirectly trust HD to do our job.
- During the session, we asked participants to rank in order the elements of our proposed assurance plan in terms of importance to them. The results indicated that charges and our performance commitments were largely considered the most important elements in our assurance plan.
- The topic of renationalisation tended to divide the group with some seeing benefits in renationalising the water industry such as sharing out the water resource, perception of greater control and a belief that everybody would be paying the same rate. However, once customers were prompted with some pros and cons of renationalisation they are less passionate about renationalising the water industry. This is mainly due to prices being lower since privatisation, fewer supply interruptions and the amount spent on funding and infrastructure.
- Customers were also asked for their views of Dwr Cymru being a not for profit organisation, of which some but not all customers were aware. Views were varied dependent upon location, those customers in North-East Wales supported the not for profit status, although opinion wavered when they understood that HD bills were lower than Dwr Cymru. Those customers in mid-Wales didn't mind the fact that Dwr Cymru is not for profit and HD is part of a FTSE100 company.

#### 5.1.2 Stakeholder engagement

As well as listening to our customers, we wanted to take on board feedback from our regulatory stakeholders.

#### 5.2.1 Ofwat

Last year we were disappointed to be overall assessed as 'prescribed' in Ofwat's 2017 CMF assessment.

However, we have worked hard over the last year to address the concerns noted and have tried to go beyond the requirements identified by Ofwat. Last year Ofwat identified three main areas of concern:

1. Board leadership, transparency and governance. Earlier this year we appointed three new independent non-executive directors to the HD Board to provide additional confidence in our directors' focus on Hafren Dyfrdwy. To aid transparency we have added our group structure onto our website and plan to include a copy of this in our annual regulatory publications. We have also consulted with our customers on key topics such as renationalisation and executive pay to gain their views on how we can further engender trust.

2. Customer engagement. Under 'outcomes', Ofwat was concerned that there appeared to be *'limited evidence that the company has provided the wider assurance to demonstrate that it is listening to customers and delivering the services they want and can afford'*. As detailed in our PR19 business plan, we undertook extensive customer engagement to understand what areas mattered most to our customers. For this assurance plan we undertook further specific customer focus groups in Wrexham and Powys to support our assurance plans as described above in section 5.1.1.
3. Assurance Plan. Ofwat commented that last year our assurance plan was *'very high level with no examples of the sort of work to be performed except for the five highest risk areas.'* This year we used the same approach for Hafren Dyfrdwy as Severn Trent, which was previously rated as 'exceeds expectations' for its assurance plan. The risk areas covered in section 7 include areas subject to third line but also cover second line activities as well.

In seeking to continue to demonstrate best practice to support the legitimacy of the sector and to exceed Ofwat's expectations in this regard we've also made improvement to other areas, for example:

- Transparency on wider assurance. We made our CCG minutes available on our website.
- Leadership and governance. In our year-end reporting and PR19 plan we provided clarity on how our governance arrangements meet customer and stakeholder needs and demonstrate how our Board discharges the regulated company obligations. During PR19, Black & Veatch reviewed our governance arrangements and our processes for meeting these obligations to ensure these were appropriate.
- Ease of finding information. We have updated our website to ensure linked information can be found conveniently, for example:
  - Charges. Our charges and the related assurance statement can be found on both our domestic and business website areas to meet the needs of all our customers and stakeholders and in our library.
  - Document Library. We have a categorised library with both current and historical documents as well as links back to the content pages for the most recent documents.

As we look forward to Ofwat publishing its Company Monitoring Framework assessment in 2019, we will publish our final assurance plan after we have received this year's assessment position to ensure we can take on board any feedback provided.

## 5.2.2 Customer Challenge Group

Our Customer Challenge Group (CCG) will be continuing to represent the voice of our customers following extensive engagement during the development of our business plan.

Following this document's publication, we will again ask our CCG to comment and respond to the consultation.

## 5.2.3 Other stakeholders

We are sending this consultation document to other regulatory stakeholders to gain their input into the final assurance plan prior to publication in February 2019.

## 6 Our internal assessment – licence to operate

As well as ensuring we account for our customers' views, we use the wealth of expertise within the business to assess all of 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 and previously Dee Valley Water for over a year.

### 6.1 The process

Since joining the Severn Trent group we have implemented and continued to embed the licence to operate process within Hafren Dyfrdwy. We have continuously reviewed the process to improve it by using new tools such as SharePoint to track the assessments and approvals from all levels of management. We monitor over 350 obligations including those specific to a business now operating wholly in Wales. Licence to operate is a two stage process that operates through the mid and year-end of the annual regulatory cycle.

#### 6.1.1 Mid-year risk assessment

In September we ask our responsible managers to complete a risk assessment of their regulatory and statutory obligations. This involves assessing the following five categories as either low, medium low, medium high or high risk, which we use to indicate likelihood:

- **Purpose** – Does the responsible manager understand the purpose of the duty and what their obligations are?
- **Process** – Has the responsible manager ensured that there is an adequate process in place to comply with our obligation and is this documented?
- **RACI** – Is it clear which employees are responsible for which part of the process?
- **Competency** – Are employees suitably trained and is there a clear skill matrix defined?
- **Controls** – Are there measures in place to monitor performance and is regular quality checking undertaken?

Once this assessment has been completed, centrally the compliance team assess the impact of non-compliance in this area using six factors:

- **Customer service impact** – What would be the impact on customers of non-compliance?
- **Competition compliance** – Does the duty or obligation interact with competition law?
- **Impact on the environment** – could we damage the environment if we didn't comply with this obligation?
- **Health and Safety** – could someone be hurt as a result of non-compliance?
- **Market confidence** – would investors lose confidence in the business?
- **Financial impact** – could non-compliance result in financial fines?

By combining the likelihood assessment with the impact assessment we are able to understand the areas of compliance risk that require either management action or our assurance plan needs to target. This allows us the opportunity to put action plans in place prior to our year-end reporting of performance. For further verification, we also review these risks against our ERM register to ensure there has been a consistent assessment of risk across the two processes.

#### 6.1.2 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 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 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 annual Compliance Statement, which is published in July alongside our regulatory reporting. This document is reviewed and scrutinised by 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.

## 6.2 Changes in 2018/19

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:

- **Regulatory Accounting Guidelines 5.07 (RAG5)** – we asked all senior managers to risk assess whether they had adequate procedures in place to comply with RAG5 e.g. ensuring accurate cost allocation processes between price controls and between Hafren Dyfrdwy and other businesses in the Severn Trent Plc group including Severn Trent Water and that they were compliant with arm's length trading principles.
- **General Data Protection Regulation (GDPR)** – as GDPR came into force in May 2018 all of our colleagues have undertaken GDPR e-learning training to ensure all colleagues are aware of our procedures in case of a data breach and how to prevent one from occurring. Again we asked our senior managers who are assigned internally as 'data owners' to risk assess their compliance with GDPR legislation.

## 6.3 2018/19 risk assessment outcome

In this year's assessment, the following areas were noted as either high or medium high risk in order of importance.

- **Performance commitments** - in recognition of the potential impact our performance commitments have on our customers, the environment and market confidence, our customer ODIs continue to feature in our assurance plans as part of the Annual Performance Report. Customer ODIs remain a high priority for our stakeholders and customers because:
  - our performance commitments reflect the areas of service that our customers have told us are most important to them – we have an obligation to accurately report if we are meeting our commitments; and
  - our investors can make decisions as to whether to invest in our company based on the performance data we provide – we have a fiduciary duty to accurately report how we are performing.
- **Reservoir resilience** – our highest risk in our ERM risk management system and highlighted in our PR19 plan. There are some inherent risks with our reservoirs. In the short term, we have carried out detailed risk assessments and as a result we have increased the inspection regime carried out by trained reservoir engineers and improved the emergency plans in place. However, to ensure we address this longer term we have carried out pre section 10 inspections and developed a business case that sets out the required interventions to ensure these assets remain compliant with all relevant

legislation and to ensure they are safe and serviceable. This risk is monitored through our ERM and Licence to Operate systems.

- **Charges** - We are conscious that this may be a sensitive area for our customers in part due to the recent creation of Hafren Dyfrdwy. We want to be transparent with customers about how charges are calculated and be clear that any change in price is not a direct result of this. We will engage with CCWater and our CCG to help alleviate customer concerns.
- **Water Quality obligations** – Due to existing processes that are in place, we believe we are compliant with our obligations under the Water Quality (Water Supply) Regulations and the Water Industry Act. All of our managers are competency checked and trained, whether they are new or existing in role as part of a three year programme, however due to staff changes in the teams that carry out these duties we want to ensure that all of our managers have an up to date understanding of what their responsibilities are. Our Regulatory Performance team are conducting an internal review to ensure an appropriate RACI is in place.
- **Licence Condition L (Asset Management)** – 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 to ensure visibility of outputs and control frameworks. This work is ongoing and due to be completed by the end of November 2018, by which time we will have the visibility of plan and actual performance against the plan.

Where appropriate, action plans have been put in place to address these areas and reduce the level of risk associated.

Our internal compliance team also provides further oversight of our assurance plan to ensure that we include areas that may not necessarily score high on our internal risk assessment in the present, but that we know are subject to or could be subject to regulatory change or emphasis.

- **Cost allocation** – Cost allocation activities within our finance team are part of our established third line assurance annual processes however the following factors have meant that we wanted to place additional emphasis on this area for 2018/19:
  - Boundary realignment and the creation of Hafren Dyfrdwy meaning that we wanted to ensure costs are allocated correctly between our businesses.
  - Ofwat’s ongoing licence simplification consultation that proposes embedding RAG 5.07 into our licence.
- **Governance of regulatory and statutory duties** – As noted above, we want to ensure we can demonstrate we have good governance arrangements in place in order for us meet our regulatory and statutory obligations. During PR19, Black & Veatch reviewed our governance arrangements and our processes for meeting these obligations to ensure these were appropriate.
- **K factor and ODI Model**– Ofwat noted in its [‘in period ODI draft determination’](#) that it had found a small number of errors and inconsistencies in the spreadsheets we provided, which were used to calculate our reward / penalty for performance on our ODIs. We acknowledged that these errors had been missed by our two lines of assurance. We will conduct an internal review and consider what additional assurance is required for this year.
- **PR19 future reporting** – As part of our PR19 business plan we proposed a suite of 41 performance commitments for the next five year period (2020-2025), a number of which require new reporting processes to be developed. As such, we want to ensure we can report our data accurately before the next AMP starts. Last year we asked our regulatory technical auditor to review our plans in advance to check that we had suitable action plans in place to address any areas where we would potentially be unable to report the new measures. 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.

- **Water Resource Management Plan** – Our draft Water Resource Management Plan was published in January and open to consultation with all our customers and other stakeholders. This year we will be publishing the final plan that requires a signed Board assurance statement to be published alongside it. Given the complexity and strategic importance of managing our water resources, we wanted to make sure that our final publication was subject to third line review.

How we have targeted these areas with assurance is described in section 7.

## 7 Areas of risks and our draft assurance plan for 2018/19

Following both our external and internal engagement we believe the following areas should be categorised as either high or medium high risk and therefore should be subject to a greater level of assurance, which is detailed in the table below.

Risk Area	Why?	What assurance will we be doing?	New in 2018/19?
<b>Annual Performance Report (APR) including our Performance Commitments</b>	<p>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.</p> <p>In addition some of our performance commitments have a financial reward or penalty associated so customer bills will be directly affected by our performance.</p>	<ul style="list-style-type: none"> <li>On an annual basis all performance data is subject to third line assurance. In addition, using a risk based approach, some of our measures are also subject to half year assurance to get early sight of any potential risk areas, which we can address prior to year-end.</li> <li>For sections 1 and 2 of the APR, the data and methodology is subject to three lines of assurance with our financial auditor, Deloitte performing third line assurance.</li> <li>For section 3 of the APR, the data and methodology subject to three lines of assurance with our regulatory technical auditor, Black &amp; Veatch performing third line assurance.</li> <li>For section 4 of the APR, the data and methodology subject to three lines of assurance with our regulatory technical auditor, Black &amp; Veatch, Deloitte or Internal Audit performing third line assurance as appropriate.</li> <li>Our operational data and reporting methodology are subject to three lines of assurance with our regulatory technical auditor Black &amp; Veatch performing third line assurance.</li> <li>Financial data is subject to three lines of assurance with third line performed by Deloitte or Internal Audit.</li> </ul>	<p>Established process</p>



<b>Annual Report and Accounts (ARA)</b>	We have a statutory obligation to ensure that our financial accounts are robust, accurate and complete.	<ul style="list-style-type: none"> <li>• Methodology and data subject to three lines of assurance with our financial auditor, Deloitte performing third line assurance.</li> <li>• Methodology and data of our RORE calculations subject to three lines of assurance with our regulatory technical auditor performing third line assurance.</li> </ul>	Established process <b>New in 2018/19</b> – we have asked Jacobs to performed a more detailed review of our RORE calculations to ensure alignment with the NAV determination
<b>Annual Report to CCWater</b>	CCWater are the statutory customer representative body for our industry and a member of the Customer Challenge Group. We want to ensure the information we provide on a quarterly and annual basis is accurate. The majority of this data is directly from our performance commitments reporting.	<ul style="list-style-type: none"> <li>• Where information is derived from performance commitment data, assurance is as noted above.</li> <li>• Where information is not derived from performance commitment data, second line assurance is performed.</li> </ul>	Established process
<b>Reservoir resilience</b>	Highlighted as high risk in ERM due to potential loss of life.  Due to the nature of these assets, which are large water retaining structures, they have the potential to cause significant damage.	<ul style="list-style-type: none"> <li>• We have a trained surveillance team monitoring our assets.</li> <li>• Emergency plans in place to ensure no loss of life with a desktop exercise of an emergency situation to be conducted later this year.</li> <li>• Reviewing and where necessary responding to the regulatory assessment of the PR19 business case, which sets out the interventions that are required to manage the risks.</li> <li>• Regular monitoring of risk and compliance through ERM and Licence to Operate systems</li> </ul>	Established risk <b>New in 2018/19</b> - Captured through new HD ERM risk register.
<b>Charges including access prices</b>	We want to make sure that what we charge our customers is correct. We have established assurance processes to ensure we are within our revenue cap and compliant with Ofwat’s charging rules.	<ul style="list-style-type: none"> <li>• Methodology subject to three lines of assurance with our regulatory technical auditor, Jacobs performing third line assurance.</li> <li>• Model assurance undertaken by specialists, Numeritas.</li> <li>• An assurance statement signed by our Board demonstrating Board oversight and scrutiny.</li> </ul>	Established process

		<ul style="list-style-type: none"> <li>Engagement with customers and CCWater to ensure bill impacts are understood (particular where these are greater than 5%).</li> </ul>	
<b>Cost allocation activities</b>	Following the creation of Hafren Dyfrdwy we wanted to ensure that across the business we allocate costs correctly so that Hafren Dyfrdwy customers in Wales only pay for the services they receive, and vice versa for customers of Severn Trent in England.	<ul style="list-style-type: none"> <li>Data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance.</li> </ul>	<b>New in 2018/19.</b> While we have always performed assurance on cost allocation activities as part of our regulatory accounts, we have placed additional emphasis on this activity for this report year.
<b>Governance of regulatory and statutory duties</b>	As noted above, we want to ensure we can demonstrate we have good governance arrangements in place in order for us meet our regulatory and statutory obligations. During PR19, Black & Veatch reviewed our governance arrangements and our processes for meeting these obligations to ensure these were appropriate	<ul style="list-style-type: none"> <li>Third line review of our governance arrangements and processes for ensuring we meet our regulatory and statutory obligations during PR19.</li> <li>Monitoring of obligations undertaken through licence to operate and ERM.</li> </ul>	<b>New in 2018/19.</b>
<b>K factor and ODI Model</b>	We provide a set of data spreadsheets to Ofwat on an annual basis so that it can calculate our in year ODI reward / penalty. Following Ofwat's review, we acknowledged that a small number of errors were made in our submission and had been missed by our second line assurance process.	<ul style="list-style-type: none"> <li>We will conduct an internal review and consider what additional assurance is required this year.</li> </ul>	<b>New in 2018/19.</b>
<b>Licence Condition L</b>	Following creation of Hafren Dyfrdwy, we want to ensure that we have confidence in our programme to maintain our underground assets.	<ul style="list-style-type: none"> <li>Action plans are in place to ensure we are working towards having clear visibility of performance against plan.</li> <li>Action plan to be reviewed by the accountable senior manager and through licence to operate.</li> </ul>	<b>New for 2018/19.</b>
<b>Market information (water resources)</b>	To help these markets grow successfully, it is important that customers and potential market participants can trust our costs are accurate in these areas for activities such as demand management, treatment, transport and other 'search costs'. We will support these new market areas and	<ul style="list-style-type: none"> <li>Data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance.</li> </ul>	Process established in 2017/18.

	ensure our data is accurate and has had a third line review before publication.		
<b>Market Performance Standards (MPS) and Operational Performance Standards (OPS)</b>	On a quarterly basis, we are required to submit a number of key performance indicators to the market operator, MOSL who then publishes the information on their website. This information is used by retailers, Ofwat and MOSL to ensure that wholesalers are delivering a competitive and fair service to all customers in the market. This year, failure to meet MPS SLAs will also result in a financial penalty.	<ul style="list-style-type: none"> <li>Data and procedures subject to three lines of assurance with Internal Audit performing third line assurance.</li> <li>Performance reviewed on a monthly basis at Disclosure Committee.</li> </ul>	Process established in 2017/18.
<b>PR19 – Future reporting</b>	We want to ensure that in advance of the next reporting period (2020-25) we have adequate processes in place to be report our new measures especially for our performance commitments that have a financial reward associated with them.	<ul style="list-style-type: none"> <li>Data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance.</li> </ul>	<b>New for 2018/19.</b> While we undertook assurance on our shadow measure reporting as part of our PR19 assurance, we have formally incorporated this into the same assurance processes that our Performance Commitments undergo (i.e. half year and year end third line assurance)
<b>Water quality obligations</b>	Our internal risk assessment noted this as potentially medium high risk due to recent staff changes within the teams involved. We believe we are compliant with our obligations due to existing processes but we want to refresh our managers on their obligations.	<ul style="list-style-type: none"> <li>Where data is provided to the DWI or is part of our Performance Commitments, data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance. Other areas subject to second line assurance.</li> <li>Reporting of risks and issues through both ‘cleanest water’ and ‘upper quartile’ programmes</li> <li>Action plan to be reviewed by accountable senior manager and through licence to operate process.</li> </ul>	Established process.

**Water Resource Management Plan**

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. The EA have set out the approach they expect companies to follow in completing the submission and have outlined specific requirements for assurance, including a signed Board assurance statement.

- Data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- An assurance statement signed by our Board demonstrating Board oversight and scrutiny.
- Independent challenge from external stakeholders - Natural Resources Wales, Environment Agency

Process established in 2017/18. In the last reporting year we published our draft plans. This year, following consultation with our stakeholders we will be finalising these plans. Plus we performed external assurance on Statement of Response (our response to the key issues raised by our external stakeholders).

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