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# APPENDIX A: APR ASSURANCE APPROACH AND OUTPUTS

# OUR APPROACH TO REGULATORY REPORTING

We know how important it is to our customers and stakeholders that our reporting contains reliable data and information. We set out our approach to annual regulatory reporting and assurance in our [Regulatory Reporting and Assurance Approach](#) to describe and explain our approach to assurance, what we publish, the assurance plan we follow and the level of assurance we apply.

This ensures we are open and transparent with our customers and stakeholders about the processes we follow with our publications and have an appropriate level of confidence that our submissions have been well prepared and are consistent with our robust internal processes.

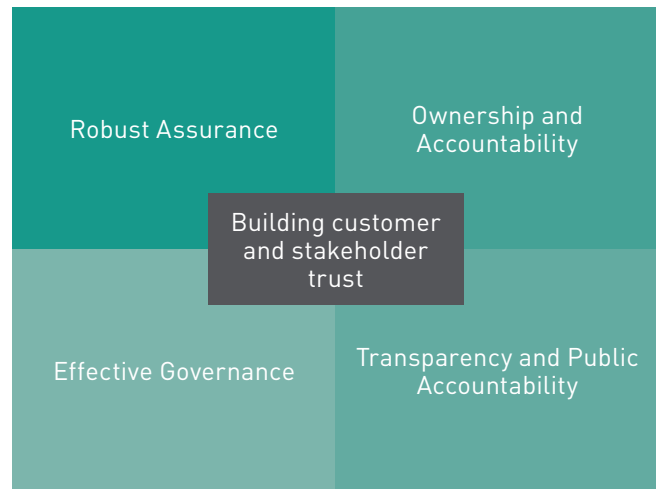
This section provides oversight of our assurance framework and compliance processes in relation to our APR. Our frameworks and internal controls support the Board to make a number of signed statements within this Report including our Board's Data and Information Completeness and Accuracy Statement and Risk and Compliance Statement from page 63.

## OUR ASSURANCE FRAMEWORK

We have an established, rigorous and robust assurance and performance reporting framework. The assurance approach builds on best practice from external organisations. It ensures that managers, leaders and Directors are responsible and accountable for delivering high quality data through robust processes and methodology.

Our established framework is underpinned by four main principles that provide 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.

- 1. Robust Assurance** – we operate a three lines of assurance model, targeted at areas of greatest risk.
- 2. Ownership and Accountability** – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- 3. Effective Governance** – provided by our Board, the dedicated Audit and Risk Committee, the Severn Trent Plc Executive Disclosure Committee and Executive Committee.
- 4. Transparency and Public Accountability** – we publicly report on our performance and hold ourselves to account where we do not meet our commitments.



## 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, are targeted with first- or second-line assurance 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 and appropriate assurance spend. Our three lines of assurance is explained in greater detail in our assurance approach at Appendix A from page 171.

### Internal Audit

Internal Audit is an independent assurance function available to the Board, Audit and Risk Committee and all levels of management, and is a key element of the Group's corporate governance framework. Support is provided by three main co-sourcing partners: PwC, EY and KPMG. Arrangements are reviewed annually and we believe this structure adds value, through greater access to specific areas of expertise, increased ability to flex resources, and the ability to challenge management independently. Co-source specialists continue to bring expertise to support the team and delivery of the audit plan where relevant.

The role of Internal Audit is to provide independent and objective assurance that the Group's risk management and internal control systems are well designed and operate effectively and that any corrective action is taken in a timely manner.

A three-year strategic audit planning approach is applied, from which Internal Audit develops an annual risk-based audit plan; this facilitates an efficient deployment of resource in providing assurance coverage over time across the whole business. The Committee's role is to review and challenge the plan, specifically where the key risk areas identified as part of our ERM process are being audited with appropriate frequency and depth. Individual Committee members also bring an external view of risks the Company may be exposed to. Once approved by the Committee, regular reporting enables the Committee to monitor delivery of the audit plan and ensure that Internal Audit performs its work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors (the 'CIIA'), with integrity (honestly, diligently and responsibly) and objectively (without conflicts of interest).

Each year, Internal Audit develops an annual risk-based audit plan for approval by the Audit and Risk Committee; this is supported by regular reporting that enables it to monitor delivery of the audit plan. Following the completion of each planned audit, Internal Audit seeks feedback from management and reports to the Audit and Risk Committee on the findings of the audit, including any action that may be required. Where any failings or weaknesses are identified during the review of internal control systems, management puts in place robust actions to address these on a timely basis. Action closure is reported to and monitored by the Audit and Risk Committee, in order to demonstrate that management places a strong focus on closing audit actions and ensuring timely completion.

An internal control system can provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. To ensure continued efficiency, we undertake an annual review of the effectiveness of the Internal Audit function in line with the CIIA Internal Audit Code of Practice and the FRC Guidance on Audit Committees. The CIIA guidance states that audit committees should obtain an independent and objective external quality assessment at least every five years, however we consider it prudent to carry out external effectiveness reviews every three years.

As planned, the Group commissioned an external review of the effectiveness of the Internal Audit function in December 2021. The review was carried out by BDO who concluded that the Internal Audit function remained fit for purpose, was operating efficiently and effectively, and in line with good practice. BDO's findings also highlighted clear evidence that the Internal Audit function operated with strategic alignment, a focus on risk and an emphasis on quality and continuous improvement, all underpinned by objectivity and integrity. The minor areas of improvement raised by BDO have been incorporated into an action plan which was shared and agreed with the Chair of the Committee.

Internal Audit has the highest level of independence within the Company and also provides third line assurance (in addition to our external assurance providers) for a number of our regulatory submissions, including our ARA and APR. This is explained in greater detail in our APR assurance approach from page 171.

## 2. OWNERSHIP AND ACCOUNTABILITY

We have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.

Our regulatory, statutory and legal obligations in our appointed business are assigned to managers, senior leaders and Directors. These managers are responsible for ensuring compliance with our regulatory duties and raising potential risks or issues of non-compliance.

### Performance reporting

Our Board understands that performance matters – to us, to our customers, and to our wider stakeholders. Our Board is fully engaged in monitoring and assessing our performance and providing challenge through our established governance arrangements. Performance is reported to and reviewed monthly by the Executive Committee, and through the Audit and Risk Committee and Severn Trent Plc Disclosure Committee. Our Board receives updates on general performance, including performance against key targets and performance commitments, environmental matters and health and safety. The Board also receives updates on financial performance and detailed deep dives at each meeting that relate to areas of strategic importance.

## Compliance processes

As a regulated company we are subject to statutory and regulatory duties and obligations, primarily set out through the Water Industry Act 1991 and our Instrument of Appointment (the 'Licence'). The Licence also requires us to perform duties imposed under other statutory and regulatory obligations as necessary to fully discharge our duties as a water and waste water undertaker. Our approach to achieving compliance with these obligations is based on our established and robust governance and systems of internal controls. We set ourselves high standards, though it is important to understand that such systems cannot provide absolute guarantees.

Our Licence to Operate process is an internal control system and a key part of our Governance Framework designed to ensure compliance against all of our regulatory obligations and duties. We monitor over 90 obligations underpinned by over 2,000 reporting lines. Each duty and obligation within our licence condition is mapped to a business area in our assurance map, to provide oversight of the compliance risk score. Responsible managers and strategic leaders are invited to complete a self-assessment twice a year. Our total risk exposure is then assessed based on the combined score of the likelihood of a non-compliance and the impact of a non-compliance. This creates a simple way to compare one risk factor to another. Our highest areas of risk receive targeted focus in our assurance plan. Where we have noted departures (as disclosed in our APR), we have additional focus on assurance.

Our Group Compliance and Assurance Team oversees the framework and ensures that managers across the Company are aware of their statutory and regulatory duties. Training and support workshops are provided to new duty owners to ensure that processes and requirements are understood, as well as providing refresher training for existing duty owners. This ensures all duty owners are equipped with the right skills and knowledge to complete their annual self-assessments confidently and accurately. The Group Compliance and Assurance Team undertakes additional checks following completion with a random sampling technique to test and challenge duty owners to ensure a consistent approach to completion of the self-assessment is undertaken.

Each duty and obligation is assigned to a responsible manager, a senior leader and a Director. The senior leaders are responsible for the development, implementation and testing of controls to ensure compliance in areas such as policy and standards, procedures, training and management information as well as completing regular reviews of these controls. An annual process of self-certification takes place and we receive a declaration from each responsible

manager, senior leader and Director to confirm compliance, or to inform us of a non-compliance (referred to as a departure from compliance).

The Group Compliance Team assesses and spot-checks declarations for consistency and accuracy, and works collaboratively with the Company to ascertain the level of materiality of any non-compliances. The Licence to Operate framework helps to inform the Board of any departures from our statutory and regulatory obligations, ahead of the Board making the annual Risk and Compliance Statement. Material departures are set out on page 64.

## 3. EFFECTIVE GOVERNANCE

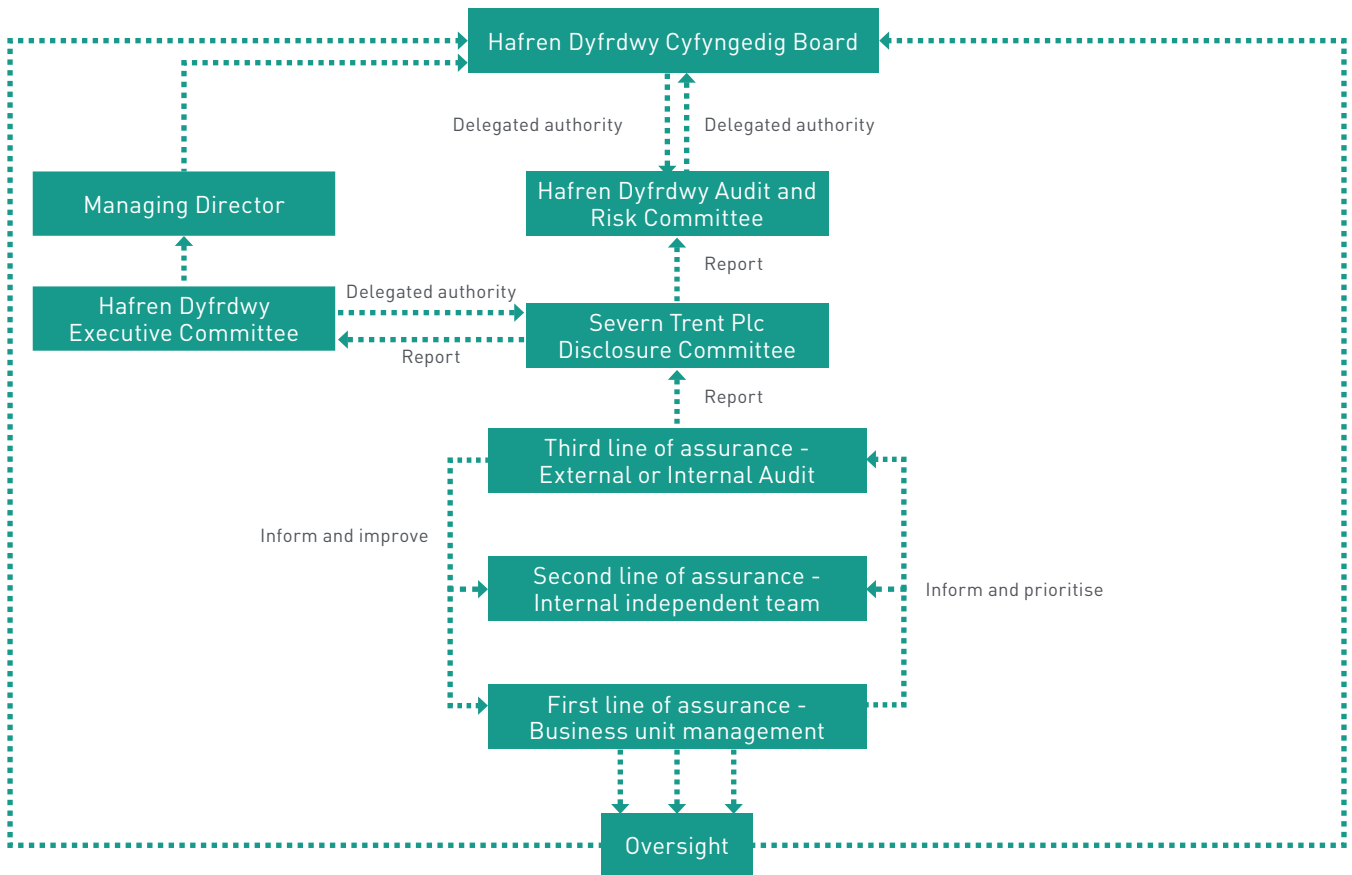
The Board is supported by the Severn Trent Plc Governance Framework, which is described in detail on page 26. In line with the 2018 UK Corporate Governance Code, the Board delegates certain roles and responsibilities to its various Committees.

To support our Governance Framework, we have a well established and robust assurance and performance reporting framework. Our governance and assurance frameworks work together, as demonstrated overleaf, to enable confidence in the information and data we report in our ARA and APR.

The Severn Trent Plc Disclosure Committee oversees the reporting obligations of the Group, considering the materiality, accuracy, reliability and timeliness of information disclosed, and reviews the level of assurance received. The effectiveness of the controls over reporting are monitored by the Audit and Risk Committee, which receives regular reports of the assurance conducted by the external auditors.

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.

## GOVERNANCE AND ASSURANCE FRAMEWORK



## 4. TRANSPARENCY AND PUBLIC ACCOUNTABILITY

As a public service provider, we want to be transparent about how we balance the needs of our customers and other stakeholders, our strategic plans as a business, and the provision of a fair return for our investors.

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 outline our performance each year within our APR and hold ourselves to account where we do not meet our commitments.

We publish our APR so that everyone can see how we have performed, and that relies on us making sure that we provide trustworthy and objective information.

We also make sure we provide information about areas where we have not performed as well as we would like to, providing insight into how we are planning to improve. Trust takes time to build so it is important to be open with our customers and stakeholders, and hold ourselves accountable where we do not meet commitments. We share this information so that comparable performance with our peers can be reviewed.

We publish additional information to ensure the Severn Trent Group structure and performance is transparent and clear 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. We demonstrate and explain how we are fair when balancing the short and long-term needs to manage our financial risk for Hafren Dyfrdwy, share returns with customers and consider long-term viability. We also provide information relating to executive salaries and bonuses and how they are aligned and linked to the delivery of outcomes to customers.

# APPENDIX A: ASSURANCE APPROACH AND OUTPUTS

In this appendix you will find:

THE APR ASSURANCE APPROACH DURING COVID-19

APR SPECIFIC GOVERNANCE APPROACH

HOW WE APPROACH APR ASSURANCE

OUTCOME OF ASSURANCE

## A.1 THE APR ASSURANCE APPROACH DURING COVID-19

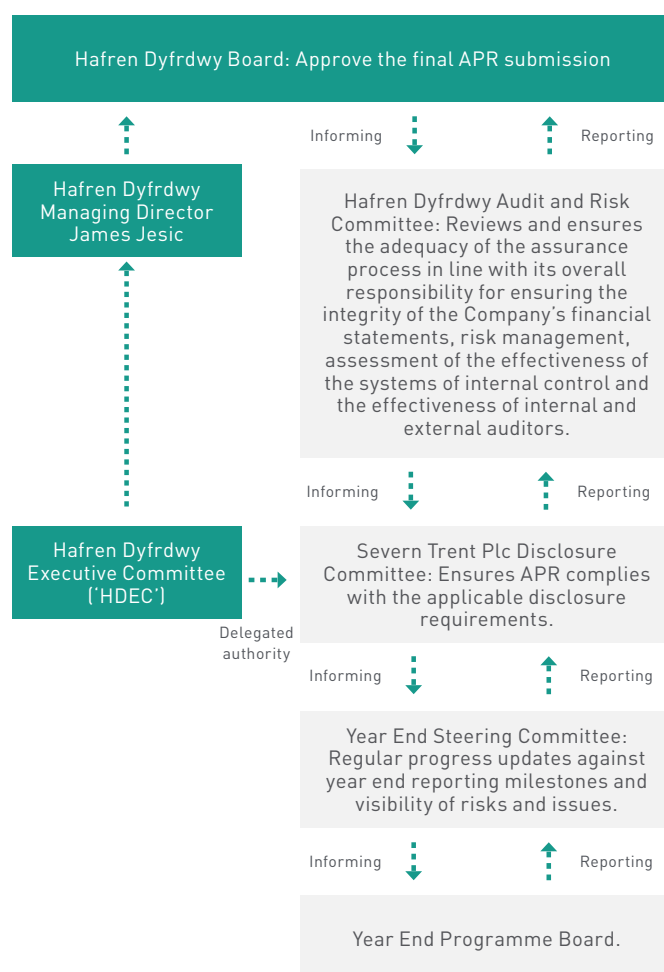
The 2021/22 APR assurance plan uses our established risk-based three lines of assurance approach to ensure it has been given the appropriate level of governance and assurance. You can read more about our Company governance and assurance frameworks in our [Regulatory Reporting and Assurance document](#).

2021/22 has been a year in which COVID-19 and its economic and societal consequences has continued to evolve. From an assurance perspective, we have worked with our internal first and second line assurance providers, and our external assurance providers. This is to ensure that we deliver our programme of assurance without any compromise to the integrity or objectivity of the assurance undertaken. Various technological tools, including Microsoft Teams and broader Office365 applications have meant that we have been able to deliver our 2021/22 assurance plan without any significant impact. That means our APR assurance this year is just as robust, despite COVID-19. We have collaborated and continue to engage across the sector to share best practice assurance approaches throughout the pandemic.

## A.2 APR SPECIFIC GOVERNANCE APPROACH

Our compliance framework incorporates Ofwat’s most recent APR and regulatory reporting requirements, the 2021/22 revised Regulatory Accounting Guidelines (‘RAGs’), and wider company duties (including Welsh Government directives such as the Well-Being Future Generations Act which has helped us to shape some of our bespoke PCs).

The below diagram demonstrates the specific assurance governance applied for the approval and publication of the APR. The below diagram demonstrates the specific assurance governance applied for the approval and publication of the APR.



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### **A.3 HOW WE APPROACH APR ASSURANCE**

Each line of the APR is risk assessed centrally using an established framework to ascertain the level of assurance required: first, second, or third line assurance. Once the level of assurance is identified, the Group Compliance and Assurance Team co-ordinates and schedules the full assurance programme throughout the year and at year end with data and methodology producers and assurance providers.

As part of the performance reporting, we are required to publish regulatory accounts that, among other things, set out financial information:

- On the allocation of cost 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 - Guideline for the classification of costs across the price controls' and 'RAG 5 - Guideline for transfer pricing'. Over and above the RAGs, our licence places an obligation on us 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. We have a number of controls in place to ensure that we apply the requirements as set out by Ofwat. Cost allocation activities within our Finance Team are part of our established third line assurance processes (the approach and outcome are explained on page 180).

#### **A.3.1 First line assurance**

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

Each line of our APR submission has been reviewed during first line assurance. This activity is undertaken by the teams 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. They are also responsible for maintaining effective internal controls and implementing corrective actions to address process deficiencies if identified.

Each reporting line in the APR is assigned to a responsible manager who reviews and approves the data, process documentation and commentaries, forming an integral part of the assurance approach. An approval process is followed with final sign off for both the data and commentary at Director level.

#### **A.3.2 Second line assurance**

For our higher risk measures, the second line assurers facilitate and monitor the implementation of effective practices, ensuring that the first line assurance is designed, implemented and operates correctly, confirming that documented processes have been followed, and complete checks and controls to ensure the integrity and reliability of the data and information we publish.

Where it is identified that third line assurance is required, the Assurance Team liaise with the reporting teams to monitor improvement activities and resolve prior outstanding actions to ensure there are not any material issues.

#### **A.3.3 Third line assurance**

Our most critical areas are subject to third line assurance. Internal Audit provide comprehensive assurance based on the highest level of independence within the Company. In addition, we use external financial and technical auditors who are independent of the Company and provide objective assurance of our data and information.

The following details the activities for each of our third line providers:

### Internal Audit

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 RAG 4 requirements (Guideline for the table definitions for the annual performance report).
- Data from the working files was aligned to the APR data tables to be submitted.
- A sample of business cases was reviewed to check the correct allocation of costs.

### Deloitte financial audit opinion

Deloitte provided financial audit procedures over sections 1 and 2 of the APR data tables. 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 2019 Final Determination.

'As in previous years, Deloitte have informed Ofwat that a number of lines in Table 1F will not be subject an audit opinion. They have carried out agreed upon procedures on the following lines: 1F.9, 1F.16, 1F.17, 1F.20 and 1F.23. Deloitte have not performed any procedures on lines 1F.4, 1F.10, 1F.11, 1F.15, 1F.18 and 1F.19 as these are not within their scope.

### Jacobs technical assurance

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. Jacobs provided a staged approach to technical assurance on the elements of the APR that are listed in the tables overleaf. Stages one and two focused on documentation and process and were undertaken on new measures or where there had been changes to processes. During stage one, Jacobs reviewed the process description templates ('PDTs') which are followed to report against PCs. Stage two included formal reviews. 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 are identified; and
- There are appropriate checks and controls identified.

Stage three focused on the data produced. Data audits were completed virtually through Microsoft Teams and data provision via SharePoint. The audits involved:

- Confirming that the data produced is consistent with the PDT and aligns with reporting guidance;
- Confirming that internal checks and controls have been completed;
- Carrying out proportionate sampling checks;
- Confirming that exclusions have been applied correctly; and
- Ensuring that any rewards/penalties and data points are calculated in line with our Final Determination requirements. This focuses on the mechanistic calculation to give the gross reward/penalty position.

The assurance approach is summarised over the next few pages.

## Regulatory Accounts

		Methodology & Process	Data
1A	Income statement	Deloitte	Deloitte
1B	Statement of comprehensive income	Deloitte	Deloitte
1C	Statement of financial position	Deloitte	Deloitte
1D	Statement of cash flows	Deloitte	Deloitte
1E	Net debt analysis	Deloitte	Deloitte
1F*	Financial flows	Deloitte / Jacobs	Deloitte / Jacobs
2A	Segmental income	Jacobs	Deloitte
2B	Totex analysis (wholesale)	Jacobs	Deloitte
2C	Operating cost analysis - retail	Jacobs	Deloitte
2D	Historic cost analysis of tangible fixed assets	Jacobs	Deloitte
2E	Analysis of grants and contributions (water resources, water network+ and wastewater network+)	Jacobs	Deloitte
2F	Residential retail	Jacobs	Deloitte / Jacobs
2G	Non-household water - revenues by tariff type	Jacobs	Deloitte
2H	Non-household wastewater - revenues by tariff type	Jacobs	Deloitte
2I	Revenue analysis	Jacobs	Deloitte
2J	Infrastructure network reinforcement costs	Jacobs	Deloitte
2K	Infrastructure charges reconciliation	Jacobs	Deloitte
2L	Analysis of land sales	Jacobs	Deloitte
2M	Revenue reconciliation	Jacobs	Deloitte
2N	Residential retail - social tariffs	Jacobs	Deloitte
2O	Historic cost analysis of intangible fixed assets	Jacobs	Deloitte

\* See note on Deloitte financial audit opinion for 1F on page 174.

## Performance Summary

		Methodology & Process	Data
3A	Outcome performance - water common performance commitments	2nd line / Jacobs	Jacobs
3B	Outcome performance - wastewater common performance commitments	2nd line / Jacobs	Jacobs
3C	Customer measure of experience ('C-MeX') table	2nd line / Jacobs	Jacobs
3D	Developer services measure of experience ('D-MeX') table	2nd line / Jacobs	Jacobs
3E	Outcome performance - Non-financial performance commitments	2nd line / Jacobs	Jacobs
3F	Underlying calculations for common performance commitments - water and retail	2nd line / Jacobs	Jacobs
3G	Underlying calculations for common performance commitments - wastewater	2nd line	Jacobs
3H	Summary information on outcome delivery incentive payments	Jacobs	Jacobs
3I	Supplementary outcomes information	2nd line / Jacobs	Jacobs

#### Additional regulatory information - service level

		Methodology & Process	Data
4A	Water bulk supply information	2nd Line	2nd Line
4B	Analysis of debt	Internal Audit	Internal Audit
4C	Impact of price control performance to date on RCV	Jacobs	Jacobs
4D	Totex analysis - water resources and water network+	Internal Audit	Internal Audit
4E	Totex analysis - wastewater network+ and bioresources	Internal Audit	Internal Audit
4F	Major project expenditure for wholesale water by purpose	Internal Audit	Internal Audit
4G	Major project expenditure for wholesale wastewater by purpose	Internal Audit	Internal Audit
4H	Financial metrics	Internal Audit	Internal Audit
4I	Financial derivatives	Internal Audit	Internal Audit
4J	Base expenditure analysis - water resources and water network+	Internal Audit	Internal Audit
4K	Base expenditure analysis - wastewater network+ and bioresources	Internal Audit	Internal Audit
4L	Enhancement expenditure - water resources and water network+	Internal Audit	Internal Audit
4M	Enhancement expenditure - wastewater network+ and bioresources	Internal Audit	Internal Audit
4N	Developer services expenditure - water resources and water network+	Internal Audit	Internal Audit
4O	Developer services expenditure - wastewater network+ and bioresources	Internal Audit	Internal Audit
4P	Expenditure on non-price control diversions	Internal Audit	Internal Audit
4Q	Developer services - non-financial information	2nd line	Jacobs
4R	Properties, customers and population - non-financial information	2nd Line	Jacobs

#### Additional regulatory information - water resources

		Methodology & Process	Data
5A	Water resources asset and volumes data	2nd line	Jacobs
5B	Water resources operating cost analysis	Internal Audit	Internal Audit

**Additional regulatory information - water network+**

		Methodology & Process	Data
6A	Raw water transport, raw water storage and water treatment data	2nd Line	Jacobs
6B	Treated water distribution - assets and operations	2nd Line	Jacobs
6C	Water network+ - Mains, communication pipes and other data	2nd Line / Jacobs	Jacobs
6D	Demand management - Metering and leakage activities	2nd Line / Internal Audit	Jacobs / Internal Audit

**Additional regulatory information - wastewater network+**

		Methodology & Process	Data
7A	Wastewater network+ - Functional expenditure	Internal Audit	Internal Audit
7B	Wastewater network+ - Large sewage treatment works	2nd Line / Internal Audit	2nd Line / Internal Audit
7C	Wastewater network+ - Sewer and volume data	2nd Line	Jacobs
7D	Wastewater network+ - Sewage treatment works data	2nd Line / Jacobs	Jacobs
7E	Wastewater network+ - WINEP phosphorous removal scheme costs	Jacobs	Jacobs

**Additional regulatory information - bioresources**

		Methodology & Process	Data
8A	Bioresources sludge data	2nd Line	2nd Line / Jacobs
8B	Bioresources operating expenditure analysis	Internal Audit	Internal Audit
8C	Bioresources energy and liquors analysis	Jacobs / 2nd line / Internal Audit	Jacobs / Internal Audit
8D	Bioresources sludge treatment and disposal data	2nd Line	2nd line

**Additional regulatory information - innovation competition**

		Methodology & Process	Data
9A	Innovation competition	Internal Audit	Internal Audit

**Carbon**

		Methodology & Process	Data
11A	Carbon	Jacobs	Jacobs

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#### A.4 OUTCOME OF ASSURANCE

Our outcomes of assurance provide oversight of the assurance and audit activities completed by our third line assurance providers, both financial and non-financial. We have included letters of assurance from our technical assurers, Jacobs on page 65 of the APR. Deloitte provide an audit opinion on the Regulatory Accounting Statements on pages 79 to 82.

##### Internal Audit outcome

Internal Audit confirmed that *“we did not find any material issues and supporting evidence and answers to queries raised were provided.”*

#### Deloitte audit opinion

Deloitte’s audit opinion confirms that:

- *“Hafren Dyfrdwy Cyfyngedig’s Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WRSA (RAG 1.09, RAG 2.09, RAG 3.13, RAG 4.10 and RAG 5.07) and the accounting policies (including the Company’s published accounting methodology statement, as defined in RAG 3.13, appendix 2), set out on pages 96 to 98.*

## Jacobs' assurance outcome

Cost Allocation	
Requirements	Assurance undertaken
<p>We are required to publish regulatory accounts that, among other things, set out financial information:</p> <ul style="list-style-type: none"> <li>• On the allocation of costs by price control and subsections of the value chain;</li> <li>• On non-appointed activity; and</li> <li>• On transactions between associated companies.</li> </ul> <p>In reporting on the above, we are required to comply with Ofwat's RAGs - in particular 'RAG 2 - Guideline for the classification of costs across the price controls' and 'RAG 5 - Guideline for transfer pricing'.</p> <p>Our licence also places an obligation on us 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. Ofwat expects transactions between STW and HD to be at arm's length.</p>	<p>We asked Jacobs to review a sample of our cost allocation processes. We selected the sample based on the associated risk. The Jacobs scope covered:</p> <ul style="list-style-type: none"> <li>• The allocation of costs by price control and subsections of the value chain;</li> <li>• Non-appointed activity; and</li> <li>• Transactions between associate companies.</li> </ul> <p>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:</p> <ul style="list-style-type: none"> <li>• The areas/activities that were being provided;</li> <li>• The costs associated with that activity which, for the PDTs we reviewed, were operating costs;</li> <li>• How those costs are recharged, allocated and why; and</li> <li>• How our approach is compliant with the RAGs.</li> </ul>
Assurance Outcome	
<p>Overall, based on our scope, we consider:</p> <ul style="list-style-type: none"> <li>• the company has a full understanding of, and meets all of its relevant statutory, licence and regulatory obligations in all material respects;</li> <li>• the company has sufficient processes and internal systems of control to fully meet its requirements; and</li> <li>• the company undertakes transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business at arm's length.</li> </ul>	

## Full-Year Performance Commitments

### Requirements

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.

### Assurance undertaken

Jacobs' scope of assurance work included reviewing the following:

- The processes used are robust, enabling risks to be identified, managed and reviewed;
- Alignment to final determination definitions (including additional reporting requirements / reporting guidance / RAG guidance)
- Methodology for applying exclusions is in line with reporting guidance
- Data is competently sourced, processed and reported and fit for purpose.
- Undertake proportionate sample checks
- Coverage and outputs of checks and controls

### Assurance Outcome

Jacobs concluded in relation to the items they reviewed:

- *"your processes and internal systems of control are sufficient to meet your regulatory obligations;*
- *your processes for reporting performance commitments are in line with the guidance and exclusions have been correctly applied; and*
- *you have appropriate systems and processes in place to identify, manage and review your risks."*

## Full-Year Non-Financial

### Requirements

We continue to develop and improve our reporting processes. Throughout the year we have been monitoring progress against our higher risk measures and, at year-end, Jacobs carried out assurance against the majority of the Section 4-11 non-financial measures.

### Assurance undertaken

Jacobs' scope of assurance work included checking the following:

- The processes used are robust, enabling risks to be identified, managed and reviewed;
- Alignment to reporting guidance / RAG guidance
- Methodology for applying exclusions is in line with reporting guidance
- Data is competently sourced, processed and reported and fit for purpose.
- Undertake proportionate sample checks
- Coverage and outputs of checks and controls

### Assurance Outcome

Jacobs concluded in relation to the items they reviewed:

- *"the processes are sufficient, demonstrating an internal system of control and are consistent with the requirements of your regulatory obligations;*
- *the data reviewed is competently sourced, processed and reported, and fit for purpose;*
- *performance commitment reporting is in line with the guidance and exclusions have been correctly applied; and*
- *you have a full understanding of, and meet, your regulatory obligations with respect to reporting."*

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