
APPENDIX A: APR ASSURANCE APPROACH AND OUTPUTS



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In this appendix you will find:

THE APR ASSURANCE APPROACH

APR SPECIFIC GOVERNANCE APPROACH

HOW WE APPROACH APR ASSURANCE

OUTCOME OF ASSURANCE

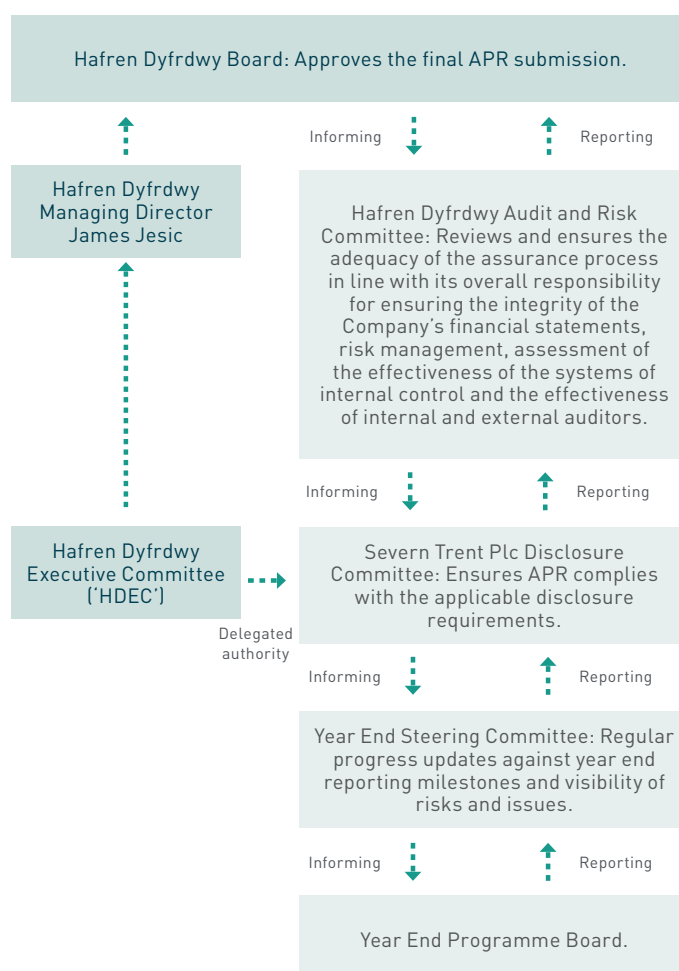
A.1 THE APR ASSURANCE APPROACH

The 2022/23 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 framework in [our Regulatory Reporting and Assurance document](#).

A.2 APR SPECIFIC GOVERNANCE APPROACH

Our compliance framework incorporates Ofwat's most recent APR and regulatory reporting requirements, the 2022/23 revised Regulatory Accounting Guidelines ('RAGs'), and wider company duties (including Welsh Government directives, such as the Well-being of Future Generations (Wales) Act 2015) which have helped us to shape some of our bespoke Performance Commitments.

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



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 151).

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 Group Assurance Team liaises 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. Group Internal Audit provides 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 APR).
- Data from the working files was aligned to the APR data tables to be submitted.

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 has informed Ofwat that a number of lines in Table 1F will not be subject to 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 Performance Commitments. 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 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 ¹	Financial flows	Deloitte / Jacobs	Deloitte / Jacobs
2A	Segmental income	Deloitte / Jacobs ²	Deloitte
2B	Totex analysis (wholesale)	Deloitte / Jacobs ²	Deloitte
2C	Operating cost analysis - retail	Deloitte / Jacobs ²	Deloitte
2D	Historic cost analysis of tangible fixed assets	Deloitte	Deloitte
2E	Analysis of grants and contributions (water resources, water network+ and wastewater network+)	Deloitte	Deloitte
2F	Residential retail	Deloitte / Jacobs	Deloitte / Jacobs
2G	Non-household water - revenues by tariff type	Deloitte / Jacobs	Deloitte / Jacobs
2H	Non-household wastewater - revenues by tariff type	Deloitte / Jacobs	Deloitte / Jacobs
2I	Revenue analysis	Deloitte	Deloitte
2J	Infrastructure network reinforcement costs	Deloitte	Deloitte
2K	Infrastructure charges reconciliation	Deloitte	Deloitte
2L	Analysis of land sales	Deloitte	Deloitte
2M	Revenue reconciliation	Deloitte	Deloitte
2N	Residential retail - social tariffs	Deloitte	Deloitte
2O	Historic cost analysis of intangible fixed assets	Deloitte	Deloitte

¹See note on Deloitte financial audit opinion for 1F on page 145.

²Assurance of input opex allocations to price control / business unit.

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
3C	Customer measure of experience ('C-MeX') table	2nd line	Jacobs
3D	Developer services measure of experience ('D-MeX') table	2nd line	2nd line / 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	2nd line	Jacobs
3I	Supplementary outcomes information	2nd line	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 – New connections, properties and mains	2nd line	Jacobs
4R	Connected properties, customers and population	2nd Line / Jacobs	Jacobs
4V	Mark-to-market of financial derivatives analysed based on payment dates	Internal Audit	Internal Audit
4W	Defined benefit pension scheme – Additional information	Internal Audit	Internal Audit

Additional regulatory information - water resources

		Methodology & Process	Data
5A	Water resources asset and volumes data	2nd line	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 / 2nd Line
6B	Treated water distribution - assets and operations	2nd Line	Jacobs / 2nd Line
6C	Water network+ - Mains, communication pipes and other data	2nd Line	Jacobs / 2nd Line
6D	Demand management - Metering and leakage activities	2nd Line / Jacobs	Jacobs / Internal Audit
6F	WRMP annual reporting on delivery	2nd Line	2nd Line

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	2nd Line / Jacobs
7D	Wastewater network+ - Sewage treatment works data	2nd Line	2nd Line / 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	2nd line	2nd Line / 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	Greenhouse gas emissions reporting	2nd Line	Jacobs

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 a letter of assurance from our technical assurers, Jacobs, on page 69 of the APR. Deloitte provides an audit opinion on the Regulatory Accounting Statements on pages 86 to 89.

Internal Audit outcome

Internal Audit confirmed that:

“The data used to complete Section 4-9 of the APR has been subject to first and second line assurance reviews and Internal Audit provided further independent data checks. Internal Audit walked through the process used by each of the relevant teams to complete the tables.

All additional supporting evidence and answers to any queries raised were provided. No material issues were identified.”

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 3.14, RAG 4.11 and RAG 5.07) and the accounting policies (including the Company’s published accounting methodology statement, as defined in RAG 3.14, appendix 2), set out on pages 103 to 105.”



Jacobs' assurance outcome

Cost Allocation

Requirements

We are required to publish regulatory accounts that, among other things, set out financial information:

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

In reporting on the above, we are required to comply with Ofwat's RAGs - in particular 'RAG 2 - Guideline for the classification of costs across the price controls' and 'RAG 5 - Guideline for transfer pricing'.

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 Hafren Dyfrdwy and Severn Trent Water to be at arm's length.

Assurance undertaken

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:

- The allocation of costs by price control and subsections of the value chain;
- Non-appointed activity; and
- Transactions between associate companies.

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

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

Assurance Outcome

"Overall, based on our scope, we consider:

- *The Company has a full understanding of, and meets all of its relevant statutory, License and regulatory obligations in all material respects;*
- *The Company has sufficient processes and internal systems of control to fully meet its requirements; and*
- *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."*

Full-Year Performance Commitments ('PCs')

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 and that they 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;
- Proportionate sample checks are undertaken; and
- Coverage and outputs of checks and controls.

Assurance Outcome

Jacobs concluded in relation to the items they reviewed:

"We conclude that in relation to the items we 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. We note that for supply interruptions (B1), leakage (B2) and per capita consumption (B3) you have made changes to the methodology based on your interpretation of the guidance. We consider that the guidelines could be open to alternative interpretation; and*
- *You have appropriate systems and processes in place to identify, manage and review your risks.*

We note that the Board intends to include issues we noted during our review as clarifications or exceptions in the APR."

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 and that they 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;
- Proportionate sample checks are undertaken; and
- Coverage and outputs of checks and controls.

Assurance Outcome

"We conclude that in relation to the items we 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. We note that for supply interruptions (B1), leakage (B2) and per capita consumption (B3) you have made changes to the methodology based on your interpretation of the guidance. We consider that the guidelines could be open to alternative interpretation; and*
- *You have appropriate systems and processes in place to identify, manage and review your risks.*

We note that the Board intends to include issues we noted during our review as clarifications or exceptions in the APR."



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