

Our Assurance Framework



Contents

■	Our Assurance Framework	
1	Governance	1
2	Purpose of this document	1
3	What is meant by an assurance framework?	1
4	Who needs it?	2
5	Why is it important?	2
6	Sources of assurance	3
7	The contribution of third parties to assurance	5
8	What information needs assuring?	6
9	The role of risk	6
10	Our risk assessment process	7
11	Using our risk assessment to determine our assurance plans	11
12	Limits to assurance	11
13	Next steps	12
14	Feedback	12

1 Governance

This document is sponsored by Anglian Water's Director of Strategy and Regulation.

We continually assess our approach to assurance, considering ways in which we can improve the effectiveness and efficiency of what we do. We update this document when we change our approach.

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2 Purpose of this document

Anglian Water provides a wide range of information to its stakeholders about its assets, activities and performance. Stakeholders have a reasonable expectation that they can rely on that information in making judgements about the company and that the information forms the basis for honest and open conversations about the company's performance. In other words, they expect assurance that the information is true.

The purpose of this document is to describe Anglian Water's assurance framework. It seeks to:

- Describe what we mean by assurance and, importantly, to explain the limits of assurance
- Set out the numerous and varied controls which provide assurance about the reliability of our information
- Describe the role of third parties as providers of an additional level of assurance
- Describe the formal risk assessment process, which determines the additional assurance activities we undertake for sections of our APR
- Provide the answer to any stakeholder who asks, 'why should I believe the information you are telling me?'
- Provide important background information to our assurance plans.

3 What is meant by an assurance framework?

Our assurance framework describes how we work to ensure the information we provide to stakeholders meets expected standards of quality. It describes how we assess the risk that a piece of information may be unreliable and how we tailor our assurance in response to those risk assessments.

We define assurance to be confirmation by a party making an assertion that the assertion is true, within the range of likely error specified. The basis of the assurance will vary and may (but not necessarily) include the involvement of an assurance provider who is independent of the party making the assertion. There is a cost to assurance, which means that a framework is required to ensure we apply assurance in the most efficient manner.

4 Who needs it?

The primary focus of our assurance framework is our stakeholders. In making judgements about Anglian Water, stakeholders need to have confidence that they can rely on the information we provide. They also need to understand the limits of the assurance we are providing.

Our list of stakeholders includes, but is not limited to,:

- Customers - ours and those of other companies seeking to make comparisons
- Bodies acting on behalf of customers, including CCW (the independent voice for water customers in England and Wales) and our Customer Engagement Forum
- Our economic regulator, Ofwat
- Our quality regulators, the Drinking Water Inspectorate (DWI) and Environment Agency (EA)
- Rating agencies, who assess the risk of investing in our company
- Owners of, and investors in, the company.

5 Why is it important?

The information we provide to customers and other stakeholders is used by them to make judgements about Anglian Water. For example:

- Customers compare the quality of our services with those provided by other utility providers and other water and sewerage companies
- Ofwat determines the rewards we have earned (or penalties we must pay) against its regulatory incentives, such as those for outcome delivery and cost performance
- Ofwat uses our regulatory accounting information to assess future costs and evaluate options for market reform
- Investors use a range of information about the company to assist investment decision-making.

These examples illustrate that the reliability of information is central to assessing legal compliance, making commercial decisions and determining the level of customer bills. The importance of reliable information is reflected in the enforcement powers given to Ofwat. These include the power to fine water companies up to 10 per cent of their annual turnover for failing to comply with their licence obligations to provide reliable information.

Our assurance framework is also important to the management of Anglian Water. The objective of management is to achieve improvements in customer service levels while improving efficiency. Doing so successfully depends on the availability of reliable data and other information.

6 Sources of assurance

Assurance about data quality comes from having in place controls which prevent the introduction of errors and knowing that those controls are operating effectively. Controls take many forms.

We recognise the concept of multiple 'lines of defence' against data error:

- **1st line of defence – Functions that own and manage risk & control:** Managers and staff are responsible for identifying and managing risk as part of their accountability for achieving objectives. By diligently checking data sources and analytical tools, experienced staff provide the first line of defence against errors. Automated controls can also be built into systems, databases and spread sheets to flag errors.
- **2nd line of defence – Functions that oversee risk & control:** The 2nd line provides policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line.
- **3rd line of defence – Functions that provide independent assurance:** Typically fulfilled by Internal Audit, 3rd line acts independently of 1st line and 2nd line to ensure that the first two lines are operating effectively and advises how they could be improved.
- **4th line of defence - External bodies such as external audit or other third party assurance providers:** These may give assurance to both the organisation and other stakeholders that appropriate controls and processes are in place and are operating effectively.

It is not necessary to deploy all four lines against every piece of data. For example, if we are satisfied that the first two lines are working sufficiently well we will not deploy lines 3 and 4. Review or audit by a party external to the Company provides an additional level of control but is not necessary if other controls are working effectively and the residual risk of error is low. Third party audit is just one tool in an extensive tool box. What determines the correct number of lines of defence to employ is our assessment of the risk that a particular piece of data may be wrong. We describe our risk assessment process later in this document.

All controls take place within a company with its own culture and governance which itself provides a blanket control for many risks.

The culture of any organisation is defined by the values stated by the organisation and the knowledge, skills and attitudes of its employees. It is evident in the way those values, knowledge, skills and attitudes are made real in the actions and behaviours of its employees. It can be described as 'the way the organisation conducts its business'.

Culture is highly relevant to the assurance process because it sets the expectations of the business for accurate information. In a positive information culture the following statements may be said:

- A high value is placed by the top leadership on accurate information and transmitted to individuals throughout the organisation

- Resources are allocated to ensuring information accuracy
- Provision of high quality information is rewarded
- Individuals at all levels have a starting assumption that information is a corporate asset that must be valued
- It is acceptable to be honest about errors.

Whereas other controls focus on checking and correcting errors, in a positive corporate culture errors are less likely to arise because individuals create, record and transmit information completely and accurately as part of the way they work. Whereas other controls are laid over the top of the information-reporting process, the cultural controls are embedded within it. Whereas other controls might be occasional or periodic, culture is ongoing and permanent. Because of these characteristics, corporate culture can be considered as part of the first line of defence against inaccurate information. Arguably it is the strongest control.

The culture of an organisation is both defined and reinforced by its governance: the framework of rules, policies, procedures and bodies the organisation has put in place to enable the smooth conduct of its business, ensure it complies with its responsibilities and manage its risks.

In the context of data assurance, we regard the following elements of Anglian Water's culture and governance as strengths:

- Our management board has approved an Information Charter – a set of statements about the value of high quality information and principles for how we will manage it in the organisation
- One of the Company's values is to 'Do the right thing'
- We maintain a stable, qualified and experienced base of employees who understand the value attached to data quality and the processes that generate the data for their area of responsibility. We ensure they have the competencies and resources to apply the processes effectively
- We encourage employees to raise concerns about inaccurate information or suggest improvements to processes which will raise information quality. Individuals can report concerns through our whistle blowing procedure
- Regular reviews of performance are conducted throughout the business from board level to individuals. Data quality is demanded by these groups for the effective discharge of their responsibilities
- Our data and processes are regularly audited by third parties, including Internal Audit, quality regulators, financial auditor and other assurance providers
- The language of risk is commonplace in the business and we assign resources according to risk levels. We maintain a comprehensive register to identify and quantify risks and document and evaluate risk mitigation measures. The top tier of the risk register is regularly reviewed by the Board Audit Committee and management board and there are regular reports to the Board which focus on our approach to the management of key risks
- A monthly financial control monitoring process provides assurance that our important key financial controls are operating properly, and that we can rely on the integrity of the financial information produced by our accounting system. We also have an annual self-certification control process which

requires senior managers to make an assessment of the adequacy of financial and operational controls for their business units, as well as certifying compliance with relevant legal requirements such as data protection and anti-bribery laws

- Following the publication of the Annual Performance Report we conduct a debrief with the principal data and internal assurance providers to review the strengths and weaknesses in the reporting process
- The covenants we have entered into with lenders to obtain competitive financing include obligations to comply in all material respects with all laws and regulations to which we are subject, including those relating to data quality. A large group of directors and senior managers provide monthly written confirmation of compliance for their areas for responsibility
- A programme of internal audits is approved and overseen by the Board Audit Committee to assess the adequacy of risk management processes. The results of these audits are reported to the Board Audit Committee, which ensures that actions arising from internal audits are completed
- Certified Business Management Systems (BMS) have been established to reinforce the management of risks associated with many areas of our business and compliance with obligations. Areas covered by BMSs include water and water recycling operations, capital investment delivery and Health and Safety management. Audits of compliance with the requirements of these systems are conducted internally and by our third party certifiers (BSI).

7 The contribution of third parties to assurance

Review of our processes, systems, governance and data by third parties constitute our third and fourth lines of defence against data error. We have a range of options where we deem third party audit of our processes and information is required to strengthen our assurance.

The options include:

- Audits by the company's Internal Audit team.
- Audits or completion of procedures by third party organisations.
- Audits by the certifiers of our Quality Management Systems.

The benefits of third party assurance include the following:

- External providers can challenge behaviours and practices that employees of the company have come to regard as normal
- They can suggest improvements to processes based on their knowledge of industry good practice
- In comparison to reviews carried out by employees of the company, they may feel more able to question and challenge
- Stakeholders are likely to place greater reliance on the assurance provided compared to that provided by the company's internal activities.

We employ a range of third parties as part of our assurance process, including the following:

- Our board appoints a financial auditor who conducts a range of audits and procedures to test the quality of our financial information. This work may be specified by company law or regulatory direction or unilaterally by the company. Our financial auditor is Deloitte.
- A programme of internal audits is approved and overseen by the Board Audit Committee to assess the adequacy of risk management processes. The results of these audits are reported to the Audit Committee, which ensures that actions arising from internal audits are completed
- We employ an external assurance provider who conducts audits of our non-financial information. Our external assurance provider is Jacobs.
- The firm which certifies our quality management systems, BSI, conducts periodic surveillance audits to ensure our certifications are still valid. Every three years they conduct an even more comprehensive audit of each system to renew the certification.

We strongly value the contribution of third party reviews in providing assurance. However we are clear that such reviews are only one way of providing assurance and our assurance plans may rely on other forms of assurance.

8 What information needs assuring?

The principles of this assurance framework apply to any information provided to stakeholders by Anglian Water. That is,

- we recognise the expectations of stakeholders that the information is reliable
- we rely on a range of controls to provide assurance, and
- our choice of controls is determined by our assessment of the risk that the information includes error.

9 The role of risk

As described above, we do not apply a 'one size fits all' approach to data assurance. We vary the assurance activities we undertake for different pieces of information, choosing from the range of options set out above. What determines the number of lines of defence we deploy for any particular data or piece of information is the risk of error associated with it. Data with high inherent risk of error will require more lines of defence than data where the risk is low. The assessment of risk is therefore a key part of our assurance framework.

Our method of assessing risk varies between different submissions. For our largest submission, the Annual Performance Report (APR), we apply the full formal risk assessment process described below. For other submissions, our risk assessment might be more informal and subjective.

We do not conduct a risk assessment for the financial information in the APR. The assurance requirements and audit opinion required of our auditor for the financial tables of the regulatory accounts is prescribed by Ofwat. Equally, the audit requirements of our statutory accounts are set out in the Companies Act.

Our risk assessment process

As described above, we rely on the first two lines of defence, including a common set of cultural controls, to provide assurance over all of our information. We deploy further lines of defence where we deem the risk of data error to be high. These further lines of defence comprise audits by an independent third party assurance provider and higher levels of managerial review and sign-off.

Our definition of risk is the established one, which calculates risk as the probability, or likelihood, of an event occurring multiplied by the impact, or significance, of its occurrence. This calculation ensures that likely events with high consequences receive greater attention than unlikely events with little impact. This can be simply described as 'Risk = Likelihood x Impact'.

Consideration of impact implies that certain pieces of data are more significant than others. We note that stakeholders do not make this distinction, and our Board is required to provide equal assurance over every piece of data it publishes without exception or prioritisation. Our risk assessment process therefore assumes that the impact of an error in our reporting is equal for all data. Accordingly, our risk assessment approach involves quantifying just the likelihood for every measure in scope.

We make a few exceptions to the assumption of equal impact. For example, where data has a significant political or reputational profile (eg. leakage data), we deploy additional lines of defence regardless of the likelihood of error.

To assess this, for each piece of data we ask three pre-questions. The three questions are detailed below.

Pre-Question	Requirement	Risk Assessment Rating
Is external assurance mandated for this line (e.g. by Ofwat)	External assurance automatically required	Assessed as Critical
Does this piece of data have exceptional political or reputational profile?	External assurance automatically required	Assessed as Critical
In reporting, are we simply reproducing data from a third party over which we have no control (e.g. a quality regulator)?	No external assurance required	Assessed as No Material Concerns

Unless the answer to any of the pre-questions is yes, we then quantify the overall likelihood of error for each piece of data. We do this objectively by providing a score to each of eight separate questions. Each question is a measure of a risk that might lead to data error.

The table below lists the eight questions we ask and the scores available to each question. Beyond the fact that some answers score more than others, there is no further weighting of the eight questions.

Score	0	1	2
Have changes been made to the process or personnel?	No changes	Small changes/ low risk	Changes introduce material risk
Is there an incentive to misreport?	No incentive	Some modest incentives	Significant and/or financial incentives
How segregated are the duties required to produce the data?	No reliance on a single individual	Some steps rely on a single individual	A material part of the process relies on a single individual
Have errors been made in the recent past?	No record of errors	Less material error in last three years or material error in last five years	Less material error in last year or material error in last three years
How complex is the process for producing the data?	Small number of steps or simple process	Large number of steps or complex process	
How large is the data set?	Small dataset or no material impact on reported figure	Large dataset with material impact on reported figure	
Are any assumptions or estimates used?	None. All data measured.	High confidence in assumptions or low impact on reported figure.	Dependence on assumptions and potential material inaccuracies.
Are third parties involved?	No third parties involved	Third party involved in collecting a small portion of data or high confidence in data accuracy.	Third party involved in collecting a large portion of data or low confidence in data accuracy.

Summing our scores against these eight questions gives a final overall likelihood (risk) score of between 0 and 14 for each piece of data. We use the matrix below to map the total score to an overall risk rating. Applying this approach, the error-risk of each piece of data is rated as Critical, High, Medium, Low or No Material Concerns.

Risk Score	Risk Rating
9 8	Critical
7 6	High
5 4	Medium
3 2	Low
1 0	No Material Concerns

The risk ratings show us where the greatest risks to final information quality lie and where we should deploy our additional lines of defence. We are particularly focussed on measures in the red zone where the greatest risk to data quality lies. We are least concerned by measures in the grey zone, because we assess the risks to data quality to be not material.

The risk assessment is performed by our regulatory assurance team. In doing so, we consult with the individuals who manage the process for producing the data. However we believe it is critical that the final assessment is made by someone who is independent of the subject matter to ensure consistency and integrity. Our assessments are also reviewed by our independent assurance providers;

Conducting the risk assessment is not a one off process. We review our assessment periodically.

A worked example following this approach is shown below for the risk of mis-reporting "Risk of sewer flooding in a storm".

Pre-Question	Answer
Mandatory assurance?	No
Politically sensitive?	No
Reproducing data?	No

Questions	Score
Changes that have been made	1
Incentive to misreport	0
Segregation of duties	2
Last error	0
Long data/process chain	1
Large data set	1
Assumptions or estimates used	1
Involvement of third parties	0

Risk Score	6
Risk Rating	High

11 Using our risk assessment to determine our assurance plans

The table below shows how we translate our risk ratings into minimum assurance requirements and requirements for governance around data sign-off.

Risk rating	Governance	Assurance
Critical	Management Board directors to sign off data when published	A minimum of 1 external audit to be carried out by an external assurance provider annually
High	Management Board directors to sign off data when published	A minimum of 1 internal audit to be carried out annually, and an external audit to be carried out at least every three years
Medium	Head of Business Unit to sign off data when published	A minimum of 1 internal audit to be carried out every 2 years; options for external audits retained
Low	Line approver to sign off data when published	A minimum of 1 internal audit to be carried out at least every three years
No material concerns	Line approver to sign off data when published	No requirement for internal or external audit unless specific concern or business need is identified

Where we do not deploy third and fourth lines of defence as part of our assurance we rely on the controls within the first two lines of defence to provide the confidence we require to submit information into the public domain.

12 Limits to assurance

Assurance is about providing a level of certainty that a piece of information is correct. While we can state some information with absolute certainty, the majority is subject to a margin of error. What matters is that the information is sufficiently good to enable stakeholders to have a fair and reasonable view of our performance. The amount of assurance activity we carry out is determined by the need to achieve this position efficiently. The risk assessment ensures that we get the most value from the assurance work that we carry out.

13 Next steps

We publish the results of our assurance activity in our APR and reports of the findings of our auditor and external assurance provider.

Our Board may publish a statement of the assurance it is providing over some published information. This statement will be supported by the assurance activities we have carried out.

Where we commission additional assurance activity in respect of other submissions, we will publish the findings of that work.

14 Feedback

We welcome feedback from stakeholders on our Assurance Framework. You can contact us in any of the following ways:

- email: Stakeholderfeedback@anglianwater.co.uk
- call: 03457 91 91 55 and ask for Economic Regulation

We undertake to share the feedback we receive and explain how we have responded to it.

