



Principal statement auditing requirements for 2014-15 charges approval

Introduction

This document sets out Ofwat's auditing requirements for the principal statement that each existing appointed monopoly water only and water and sewerage company will send to us as part of the [approval of charges process for 2014-15](#).

A principal statement is a spreadsheet model that sets out a company's standard charges. This allows the average annual change in charges for a particular year to be calculated.

We require each company's principal statement to be audited under the terms of:

- condition B, paragraph 6.2 of the '[Instrument of Appointment of the Water and Sewerage Undertakers](#)'; and
- paragraph 5.3 of the '[Instrument of Appointment of the Water Undertakers](#)'.

Auditing requirements

We expect each company's auditors to perform a reasonable assurance engagement. This is defined in the 'International framework for assurance engagements', issued by the International Auditing and Assurance Standards Board.

Auditors should conduct this in accordance with international standards (ISAE 3000) This is set out in 'Assurance engagements other than audits or reviews of historical financial information', issued by the International Auditing and Assurance Standards Board. They should also have regard to the guidance contained in ICAEW technical release Audit 05/03 – 'Reporting to regulators of regulated entities'.

Each auditor should submit its report to Ofwat no later than one week after its company makes its submission. They should send their submissions to service.desk@ofwat.gsi.gov.uk. The report, which should be in **Word** or **searchable PDF** format, must contain the following

- A designated contact name, email and telephone number in case of queries.
- Details of the work that was carried out which has enabled the auditors to reach their conclusions.
- Confirmation that details of charge multipliers and chargeable supplies in the principal statement accurately reflect the customer charging base and can be traced back to appropriate billing records. Auditors should also check that figures in the 'DIFF' and the 'AI' tables are consistent with company records.
- The following statement.

“We have examined the principal statement and supporting calculations for the charging year [XXX] in accordance with condition B of the Instrument of Appointment by the Secretary of State for the [Environment/Wales] (the Licence) of [XXX] Company Ltd (the Appointee) as a Water [and Sewerage] Undertaker under the Water Industry Act 1991.

In our opinion, [subject to the above exceptions], the details set out in the principal statement plus supporting calculations are consistent with information supplied in the Regulatory Accounts and other management information of the type that was formerly submitted to Ofwat and have been correctly:

- a) extracted from the Appointee’s accounting and other relevant records;
and**
- b) calculated in accordance with condition B of the Licence.”**

Audit 05/03 sets out audit engagement arrangements for auditing regulated companies. Each auditor is required to submit a side letter or written notice for our signature. This should establish a duty of care to Ofwat on the same terms as the bi-partite engagement contract as if Ofwat had been an original addressee of the contract. This submission should be made by 1 December 2013 and addressed to Gayle Webb at Ofwat, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA.