
Audit Opinion for the Annual Performance Report 2016-17

This document sets out the wording of the audit opinion that we expect all auditors to provide on the Annual Performance report of water companies for 2016-17.

We have reviewed the wording of the audit opinion for 2016-17 to take into account ICAEW Technical Release [‘TECH 02/16AAF Reporting to regulators on regulatory accounts’](#) which updates ICAEW Technical Release Audit 05/03 Reporting to regulators of regulated entities (originally issued in 2003). We also engaged with representatives from all the relevant audit firms and have taken account of their comments.

Under the Company Monitoring Framework companies’ boards are accountable for the quality and transparency of the information they provide on their performance. They need to adopt a proportionate and transparent approach to the data assurance they carry out to give confidence to customers and stakeholders in the information they publish.

The audit opinion provided on the Annual Performance Report is only part of a companies’ overall approach to assurance. Further work completed by auditors may involve lowering the materiality threshold of the audit in certain areas or undertaking agreed upon procedures over particular tables. **As a minimum the audit opinion should cover the pro forma tables in section one and section two of the annual performance report** and should be consistent with this required wording where appropriate.

The opinion wording contains several sets of square brackets to allow for companies to extend the coverage of the audit report and also to allow flexibility in the naming and structure of other documents (e.g. accounting methodology statements or other documents that detail how costs are allocated as required under RAG 3.09, appendix 3) to which the opinion must refer.

Proposed form of independent auditors' report on the Annual Performance Report

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of [Company]

Opinion on Annual Performance Report

In our opinion, [company]'s Regulatory Accounting Statements within the Annual Performance Report:

- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.07, RAG 2.06, RAG 3.09, RAG 4.06 and RAG 5.06) and the accounting policies (including the company's published [accounting methodology statement(s), as defined in RAG 3.09, appendix 3]), set out on page [XX]

Emphasis of matter - basis of preparation

Without modifying our opinion on the Regulatory Accounting Statements within the Annual Performance Report, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published [accounting methodology statement(s), as defined in RAG 3.09, appendix 3]) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounts statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of [United Kingdom Generally Accepted Accounting Practice ("UK GAAP") / International Financial Reporting Standards as adopted by the European Union ("IFRSs")]. Financial information other than that prepared on the basis of [UK GAAP/IFRSs] does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages [xx] to [xx] have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from [UK GAAP/IFRSs]. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

What we have audited

The [sections of/tables within [company's]] Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H) and the revenue analysis by customer type (table 2I) and the related notes.
- [List any additional tables covered by the audit opinion].

The financial reporting framework that has been applied in their preparation comprises Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies (including the Company's published [accounting methodology statement(s), as defined in RAG 3.09, appendix 3]) set out in the notes to the Annual Performance Report.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the [Outcome performance table (tables 3A to 3D)] and the [additional regulatory information in tables 4A to 4I].

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company

as a water and sewage undertaker under the Water Industry Act 1991 (“Condition F”). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

[Include the following three headings where the entity has chosen to follow the UK Corporate Governance Code:

Our assessment of risks of material misstatement

Insert a description of those specific assessed risks of material misstatement that were identified by the auditor and which had the greatest effect on the audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

Our application of materiality

Insert an explanation of how the auditor applied the concept of materiality in planning and performing the audit. Such explanation shall specify the threshold used by the auditor as being materiality for the financial statements as a whole.

An overview of the scope of our audit

Insert an overview of the scope of the audit, including an explanation of how the scope addressed the assessed risks of material misstatement and was influenced by the auditor’s application of materiality.]

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors’ Responsibilities [set out [on page ...]], the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company’s accounting policies (including the Company’s published [accounting methodology statement(s), as defined in RAG 3.09, appendix 3]).

Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”), except as stated in the section on ‘What an audit of the Annual Performance report involves’ below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF ‘Reporting to Regulators on Regulatory Accounts’ issued by the Institute of

Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Annual Performance Report. In addition, we read all the financial and non-financial information in the [insert name of document containing the Annual Performance Report] to identify material inconsistencies with the audited [sections of the/tables within the] Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in note [x] and its [accounting methodology statement(s) published on the Company's website on [date]]. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

[Include the following where the entity is either required by its regulatory licence or has chosen to follow the UK Corporate Governance Code:

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the [insert name of document containing the Annual Performance Report] is:

- materially inconsistent with the information in the audited Regulatory Accounting Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the [insert name of document containing the Annual Performance Report] is fair, balanced and understandable and whether the Annual Performance Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should be disclosed.]

Other matters

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March [20XX] on which we reported on [X XX 2017], which are prepared for a different purpose. Our audit report

in relation to the statutory financial statements of the Company (our “Statutory audit”) was made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company’s members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

[Auditor]

[Date]