

23 August 2020

Deloitte LLP response to Ofwat consultation on regulatory reporting for the 2020-21 reporting year.

Dear Sirs,

Our response is limited to Question 10: **Is there scope to rationalize the number of areas where we ask for specific assurance?**

Deloitte Response:

As a provider of assurance in respect of the APR, it is not appropriate for us to comment on which areas Ofwat or the licensees should seek assurance. However, we refer you to our previous discussions relating to the nature of the assurance sought, specifically with reference to the inclusion of Table 1F within the audit opinion. In our view International Standards on Auditing (the ISA's) do not provide the appropriate framework against which to audit the non-financial data included within that table, (specifically Lines 1F.12 to 1F.15 inclusive).

We also note the consultation proposes that an additional non-financial data table (Table 2N: Developer services non-financial data) be included within Section 2, typically covered by our audit opinion. We will review the sources of the data for this on a company by company basis and engage with Ofwat if we become aware of similar difficulties in response to assurance over this table.

An example of the areas previously raised with Ofwat includes Line 1F.13 'ODI out/under performance' which is reliant on operational data, which is non-financial data. The calculation to derive the amount reported as 'ODI out/under performance' does not comprise values that we would audit as part of the normal course of an audit for the statutory accounts. As this is non-financial data the ISA's are not designed for such a purpose and we do not typically have the expertise within our existing engagement team to audit many of the judgements taken by management in relation to these non-financial areas. Examples of such areas might include leakage levels, successful catchment management schemes, non-delivery risk of key capital projects, size of carbon footprint, biodiversity, resource efficiency, sustainable sewerage treatment etc.

If these measures were to be audited this would be a significant increase in the scope of work required to issue an audit opinion, for which we would be required to do the following:

- Identify the appropriate additional specialist resource within Deloitte to perform this work
- Audit the underlying processes and controls surrounding the non-financial data
- Audit the underlying data through a combination of re-performance and agreement to third party sources.

Given the tables in Section 3 (where ODI out/under performance is considered in more detail) are not subject to mandatory assurance, but are already assured by other firms with expertise in his area, any work we perform would have a significant impact on the scope of work, and therefore would also have an associated cost to the companies.



Deloitte LLP