

Audit Opinion for the Annual Performance Report 2021-22

This document sets out the wording of the audit opinion that we expect all auditors to provide on Companies' Annual Performance Reports for 2021-22.

We have reviewed the wording of the audit opinion to take account of recent changes to auditing standards and comments from auditors. The wording reflects ICAEW Technical Release [TECH 02/16AAF Reporting to regulators on regulatory accounts](#) and the move from ISAs (UK and Ireland) to ISAs (UK) and in particular the content of ISA (UK) 800 (Revised) Special Considerations–Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks issued in 2016.

The opinion wording contains several sets of square brackets to allow for companies to extend the coverage of the audit report and 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 3.13, appendix 2) to which the opinion must refer.

Following the introduction of ISA (UK) 570, additional disclosure of how the auditor has evaluated management's assessment and key observations is required unless the company is listed, a UK PIE, a UK Corporate Governance Code adopter or a large unlisted company.

As the additional disclosure is not always required and because we acknowledge that due to the free form nature of reporting, there will be variability across firms, this section is in square brackets in the template.

The additional audit requirements in respect of irregularities and fraud under ISA (UK) 700 paragraph 29-1 have been included in the audit opinion wording and again square brackets have been included to allow the text to be tailored to include the procedures performed.

The audit opinion provided on the Annual Performance Report is only part of a company's overall approach to assurance. Further work performed 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.

Proposed form of independent auditors’ report on the Regulatory Accounting Statements contained within the Annual Performance Report

Independent Auditor’s report to the Water Services Regulation Authority (the WSRA) and the Directors of [Company]

Opinion

We have audited the [sections of/tables within [Company’s]] Annual Performance Report for the year ended [date] (“the Regulatory Accounting Statements”) which 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), the net debt analysis (table 1E), the financial flows (table 1F) 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 grants and 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), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.
- [List any additional tables covered by the audit opinion].

We have not audited the [Outcome performance tables (3A to 3I)] and the [additional regulatory information in tables 4A to 4U, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10E and 11A].

In our opinion, [Company]’s Regulatory Accounting Statements have been prepared, in all material respects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 3.13, RAG 4.10 and RAG 5.07) and the accounting policies (including the Company’s published [accounting methodology statement(s), as defined in RAG 3.13, appendix 2]), set out on page [XX].

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors’ responsibilities for the audit of the Regulatory Accounting Statements 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 & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council’s (FRC’s) Ethical Standard [as applied to public interest entities], and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company’s published [accounting methodology statement(s), as defined in RAG 3.13, appendix 2]) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. 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. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of [United Kingdom Generally Accepted Accounting Practice (“UK GAAP”) / United Kingdom adopted international accounting standards (“UK IASs”)]. Financial information other than that prepared on the basis of [UK GAAP/UK IASs] 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/UK IASs]. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the Regulatory Accounting Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is appropriate.

[Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Explain how we evaluated management's assessment and the key observations arising with respect to that evaluation.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.]

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

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 3.13, appendix 2]).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management [, internal audit [, etc]] about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework[s] that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included [Regulatory Accounting Guidelines as issued by the WRSA, UK Companies Act, pensions legislation, tax legislation etc]; and
- do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence, regulatory solvency requirements and environmental regulations.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- [List of procedures].

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

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.

Our opinion on the Regulatory Accounting Statements 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 20XX], 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]