

Risk and compliance statement

July 2019

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Risk and Compliance Statement

Purpose and scope of the risk and compliance statement

The uninterrupted supply of sufficient clean, safe drinking water and removal of waste water is an essential service we provide for our customers. To make sure this is achieved in a way that is safe and compliant for all our customers, whilst protecting and enhancing the environment, we need to comply with a range of regulatory and legal obligations. We recognise the importance of openly reporting our level of compliance with these obligations and how this has been achieved in building customer confidence.

This statement sets out how we have complied with all of our relevant statutory obligations and our Instrument of Appointment (licence), regulatory and performance obligations, where Ofwat is our regulator. It allows us to demonstrate our accountability to our customers and demonstrates to Ofwat how we are complying with its obligations.

This statement covers the reporting year 1 April 2018 to 31 March 2019 for all obligations, except for environmental compliance and water quality parameters which covers the calendar year, 1 January 2018 to 31 December 2018.

The statement is in three sections:

- **Section 1:** The Board assurance statement confirms the extent of our compliance with our obligations. It is signed by the Yorkshire Water Services Limited Company Secretary on behalf of the Board.
- **Section 2:** Outlines the processes and assurance we have in place to achieve compliance and meet our obligations.
- **Section 3:** Assurance letter from our independent technical advisor Jacobs.

Section 1

Board Assurance Statement

As the Board of Yorkshire Water Services, we are satisfied that we have sufficient processes, systems of internal control and assurance in place to allow us to confirm that:

- We have a full understanding of all our statutory, regulatory and licence obligations
- Subject to the exceptions noted in Table 1, we are meeting all these obligations
- We have taken appropriate steps to understand and meet the expectations of our customers
- We have designed our services to meet those expectations, including the value of water bills our customers are willing and able to pay
- We have sufficient processes and internal systems of control to fully meet our obligations
- We have appropriate systems and processes in place to allow us to identify, manage and review our risks
- Our risk management process identifies and escalates risk to be managed to the level reported.

We confirm that we achieve Ofwat's ambitions for transparency by:

- Providing information to customers in line with Ofwat's information principles
- Involving customers and their representatives in improving our approach to providing information.

We confirm that we have:

- Provided Ofwat with assurance that we have sufficient financial and management resources to enable us to carry out our regulated activities (licence condition I)
- Considered the financial impact of a range of severe but plausible risk scenarios materialising to enable us to provide reasonable assurance that the Company will be able to continue in operation and meet its liabilities as they fall due over the next 11 years, to 2030, as set out in our long-term viability statement which can be found in Appendix 4 of our Annual Performance Report
- Sufficient rights and assets available to enable a special administrator to run the Company if such an order was to be made (licence condition K3.1)
- Made sure that all trade with associate companies in the year has been at arm's length (licence condition I)
- Maintained the investment grade credit rating Baa2 (licence condition I)
- Explained how we link Directors' pay to standards of performance which can be found in our Annual Report and Financial Statements and Appendix 4 of our Annual Performance Report (section 35A of the Water Industry Act 1991)
- Reported in Table 1 of this Risk and Compliance Statement where we have not achieved the level of performance agreed in our final determination.

The Board confirms that, over the period covered by this statement, it has complied in all material respects with its relevant statutory, licence and regulatory obligations that have not been confirmed by other processes, and that it is taking appropriate steps to manage the risks it faces.

Our independent technical advisor, Jacobs, has reviewed the approach and processes we follow in assessing compliance with our obligations. A copy of their Assurance Statement is provided in section 3 of this Risk and Compliance Statement.

Principles of Corporate Governance

The Board is committed to achieving the highest standards of corporate governance in accordance with the requirements of company law, current best practice, the UK Corporate Governance Code (the Code) and Ofwat's guidance.

The Board is pleased to confirm that by 31 March 2015, it had fully implemented the principles which Ofwat expected companies operating in the water sector in England and Wales to apply, as set out in its document entitled "Board leadership, transparency and governance principles" published in January 2014 "the Ofwat Principles", and we have continued to comply throughout the year ended 31 March 2019. The largest single group of directors on the Board are the independent non-executive directors, led by an independent non-executive Chairman. Since September 2017 we have had investor representatives present on the Board but we have continued to comply with the Ofwat Principles.

The matters reserved to the Board, together with the Terms of Reference of the Board's principal Committees are published on the Company's website: www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure. In accordance with the Ofwat Principles the Board adopted its own "Board Leadership, Transparency and Governance Code" ("the Yorkshire Water Code") in February 2014. This is available on the Company's website www.yorkshirewater.com/sites/default/files/Yorkshire%20Water%20transparency%20code.pdf. The Yorkshire Water Code sets out how the Company has complied with the Ofwat Principles.

The Board also notes the changes to the Ofwat Principles, with effect from 1 April 2019, and the revisions to the UK Corporate Governance Code which also come into effect for Yorkshire Water from the same date. Changes have been implemented to ensure that we comply with these new Principles and Code provisions and we will report on this in our next Annual Performance Report.

Further information on our governance is contained within section 7 of the Annual Performance Report. Additional detail is also provided within the Annual Report and Financial Statements. Both reports can be viewed on our reports webpage: www.yorkshirewater.com/reports.

Exceptions

The following exceptions to achieving our obligations have been shared with Ofwat.

Table 1

Obligation	Yorkshire Water position	Action being taken to improve
<p>Water Industry Act: maintain maps of their sewers. Clause/section 199.</p> <p>Subject to subsections (6) to (8), it shall be the duty of every sewerage undertaker to keep records of the location and other relevant particulars.</p>	<p>The Water Industry Act places an obligation on waste water companies to maintain maps of their sewers.</p> <p>In common with all other waste water companies in England and Wales not all our sewers are mapped.</p>	<p>We continue to improve our maps as we perform work on our waste water networks.</p>
<p>Performance commitments.</p> <p>For 2018/2019 we have met or exceeded 21 of our 26 Performance Commitments.</p>	<p>For 2018/2019 we have not met the target for the following five performance commitments:</p> <ol style="list-style-type: none"> 1. Drinking water quality compliance 2. Drinking water quality contacts 3. Category 1 and 2 pollution incidents 4. Energy generation 5. Quality of customer service (SIM) <p>Drinking water quality compliance</p> <p>In 2018/2019 we managed to achieve an improvement in the overall compliance figure from 99.953% to 99.962%, however we did not achieve our target of 100% compliance.</p> <p>Drinking water quality contacts performance commitment.</p> <p>In 2018/2019 our customers contacted us 7,964 times about the quality of their drinking water. This was a marginal decrease from 8,100 contacts in 2017/2018 however, we did not achieve our target of 6,108 contacts.</p> <p>Category 1 and 2 pollution incidents</p> <p>We are disappointed that we were above target for Category 1 and 2 incidents with 11 performance commitment impacting incidents against a target of no more than 2. However, we achieved our performance commitment for Category 3 pollution incidents (188 versus a target of 211 or fewer).</p>	<p>Detailed action plans to improve our performance are monitored by our Asset Delivery Assurance Groups.</p> <p>You can read more about our performance and any actions we are taking in section 4 of our Annual Performance Report.</p> <p>www.yorkshirewater.com/reports</p>

Exceptions - continued

Obligation	Yorkshire Water position	Action being taken to improve
<p>Performance commitments continued.</p> <p>For 2018/2019 we have met or exceeded 21 of our 26 Performance Commitments.</p>	<p>Energy generation performance commitment.</p> <p>In 2018/2019, we supplied 11.3% of our needs through self-generated energy. However, this falls short in achieving our performance commitment of generating 12% of our energy needs from renewables.</p> <p>Quality of customer service (SIM)</p> <p>Our overall score this year was 84.0, compared to 84.3 points last year which means we have not achieved our performance commitment which is to improve year on year.</p>	
<p>Environment Agency Environmental Performance Assessment.</p>	<p>The Environment Agency annually completes an Environmental Performance Assessment (EPA) of the water companies in England, examining performance on a range of environmental compliance matters such as pollutions incidents and waste water treatment works compliance.</p> <p>Six of our 611 waste water treatment works did not meet their discharge permit conditions in 2018. This was a slight reduction in performance compared to 2017 when we had five failing waste water works. It is our continued aim to achieve high levels of performance and drive towards 100%.</p>	<p>We have continued to deliver our programme of environmental investment and investigation needs to 2020. This programme focuses on the investment required to enhance our waste water treatment capabilities and protect the environment.</p> <p>The programme also includes investigations to understand and inform future investment needs.</p>

In addition to these known exceptions to achieving our obligations, our annual Control and Risk Self-Assessment process, by which all senior leaders across the Company confirm their awareness and compliance with our highest risk obligations, has identified a risk of non-compliance. Our process identified 91% awareness and compliance across all relevant obligations. We have a clear company-wide action plan in place to improve awareness of our processes to ensure compliance with the obligations showing the highest risk of non-compliance: Working Time Regulations and Market Abuse Regulations. We have agreed 193 actions to improve our overall awareness and compliance. Progress in delivering these is monitored by the Yorkshire Water leadership team.

Board Signatures

Signed by the Yorkshire Water Services Limited Company Secretary on behalf of the Board of Directors



Kathy Smith
Company Secretary

This statement was approved at a meeting of the Yorkshire Water board on 9 July 2019 and signed off on its behalf by Kathy Smith, Company Secretary.

Section 2

Assurance to confirm compliance

We have a full understanding of all our obligations

Our activities are governed by a range of legislation as well as the requirements of our licence, regulations set by various stakeholders and the performance commitments we make to our customers. It is important that we understand the detail of all these obligations and respond to any changes. To make sure we achieve this, we employ relevant subject matter experts called Legislation Champions to identify new or amended obligations and to translate the requirements into compliant policies and procedures for colleagues to follow. The subject matter experts include, but are not limited to, Legal Services, the Regulation team, Company Secretariat, Financial Services, Health and Safety, Asset and Process Engineers and Human Resources. If needed, these teams draw on deeper external expertise to ensure that any changes to our obligations are appropriately applied.

We understand the extent to which we meet those obligations

Compliance with the approved policies and procedures to make sure we achieve our obligations is monitored through our three lines of assurance. This assurance is mapped to make sure effective coverage and dynamic escalation of risks and issues. Corrective actions are raised and monitored where weak controls or non-compliance is identified.

To support and test this approach, all senior leaders are required to provide personal assurance over their team's awareness and compliance with relevant obligations by completing an annual Control and Risk Self-Assessment (CRSA). The Legislation Champions set out the obligations each team needs to be aware of and comply with. Where senior leaders identify weaknesses, they are required to detail the actions they are taking to improve awareness and achieve compliance, including a reasonable timescale. The achievement of these actions is monitored by business unit leadership teams, the Risk Committee, the Yorkshire Water Leadership Team and the Board. The results of the CRSA exercise is triangulated with other sources of assurance: independent technical advisors (Jacobs) assess the adequacy of the process and Internal Audit tests individual judgements on the level of compliance to supporting evidence.

The CRSA outturn for 2018/2019 indicates a high level of compliance within Yorkshire Water at 91%. The obligations with the highest levels of compliance and awareness are environment (95%), data and security (93%), human resources (93%), and health and safety (90%). Work to improve company-wide awareness of and compliance with the Working Time Regulations and the Market Abuse Regulations is our key focus during the first six months of 2019/2020, as well as maintaining our momentum on General Data Protection Regulation compliance.

We have taken appropriate steps to understand and meet the expectations of our customers and we have designed our services to meet those expectations, including the value of water bills our customers are willing and able to pay

The 5.4 million people who live in Yorkshire and the millions of people who visit Yorkshire each year, rely on our services for their basic health needs and lifestyles. There are more than 140,000 businesses who use our water to provide goods and services that support the economy, not just in Yorkshire, but the whole of the UK.

Our ongoing customer and stakeholder research programme has informed and developed both our long-term strategy and business plan 2020-2025. Based on feedback from over 34,000 customers and stakeholders, 88% of household and 82% of non-household customers supported our plan. 78% of our customers we surveyed also said the plan was affordable. The Yorkshire Forum for Water Customers also recognised that the programme of activity undertaken for PR19 has been much greater in both scope and scale, than previous price reviews.

"The level of innovation and the extent and reach of the customer research programme is commendable and has meant that Yorkshire Water now has an expanded depth and understanding about its customers to shape its services around their preferences."

Yorkshire Forum for Water Customers, PR19 Assurance Report, September 2018

Our conversations with customers have informed the development of our ambitious 'upper quartile' customer service targets for the business. Throughout the research programme, our customers told us that when compared to the rest of the industry, they wanted to see improvements in three specific areas of service; leakage, pollution and internal sewer flooding. We have therefore set ambitious targets to achieve this expectation which our customers support. We have committed to reducing leakage by 40%, reducing pollution by 40% and reducing internal sewer flooding incidents by 70%.

We also recognise that our customers lifestyles are changing, and therefore the way they expect to contact us is changing with it. They expect to be able to contact us 24 hours a day, seven days a week whether for a service related query or to pay a bill. We have over the last couple of years developed digital channels which allow our customers to contact us 24/7, including live chat, web self-serve and call back options. We are also tailoring our service offering to customers through intelligent personalisation, ensuring the customer receives a level of service which meets their lifestyle needs.

We also have a much better understanding of the role water plays in the lives of our customers, particularly when considering the diverse needs of our customers. We have

appointed a Safeguarding Officer (the first of its kind in the water sector) to make sure that the welfare of our colleagues and customers is protected. We will identify households which could be deemed vulnerable, e.g. households which may require a consistent supply of clean water to care for sick relatives, or a household who may be struggling to pay their bill.

Along with announcing our intention to become 'dementia friendly', we have also launched an ambitious approach to support our most vulnerable customers through the development of both a social tariff and a 'best tariff' initiative. We are currently proactively contacting 50,000 customers who would be financially better off by moving on to a meter.

We continue to strengthen our online community which has over 1,000 customers who regularly comment on and take part in research and discussions on a host of different subjects related to topics like customer service, reporting, our plans or even just the way in which we communicate with them. This engagement, alongside our regular interactions with customers and stakeholders has given us much-improved insights into the diverse and changing needs of our customers and stakeholders.

"It's been an absolute pleasure to be involved in a project that has involved the customer so much and given feedback on all our contributions. How lovely and refreshing. Many organisations could learn from your example."

**Customer (Leeds)
Your Water online community
September 2018**

We have also developed our long-term strategy through consultation with our customers and stakeholders. Customer support for our five Big Goals and the approach we are taking is extremely high: Customers (94% support), Water Supply (96% support), Environment (95% support), Transparency (92% support) and Bills (95% support).

Both the long-term strategy and PR19 business plan have been co-created and co-developed with our customers (and stakeholders) and the high level of customer support demonstrates they reflect customers wants and needs in the medium and long-term.

We have sufficient processes and systems of internal control to meet our obligations

The Audit Committee monitors the effectiveness and operation of Yorkshire Water's system of internal control on behalf of the Board. Our controls are designed to achieve compliance with obligations and manage the risk of failing to achieve the business objectives we have agreed with our customers and our regulators. The operational policies and procedures which set out these controls are housed in the Integrated Management System or similar repositories and achieve international quality standards for Environmental Management, Quality Management, Occupational Health and Safety and Asset Management.

Three lines of assurance work together to provide confidence to senior leaders and other stakeholders over the adequacy of the design and operation of the controls. Each year, the Head of Risk and Internal Audit summarises this assurance in a single conclusion on the systems of internal control, risk management and governance. In 2018/2019 the Head of Risk and Internal Audit provided 'Significant Assurance' that there is generally an effective system of internal control which is designed to meet the Company's objectives and that, generally, there is an appropriate level of control for managing the majority of risks to the Company's objectives to a reasonable level.



The findings from the external audit of our 2018/2019 CRSA process are shown in full in section 3 of this Risk and Compliance Statement. This confirms that apart from the exceptions noted above, we have a full understanding of the Company's relevant obligations and appropriate systems and processes in place to run the business and identify and manage risks in a way that meets its relevant obligations. Jacobs made four recommendations, three of which are already addressed. We will include the action taken to address these in next year's statement. Last year Jacobs made four recommendations which we have worked hard to implement during the year. The recommendations from Jacobs and our response can be seen in Table 2.

Table 2

	Jacobs recommendation	The action we have taken	Position
1	Handover processes between Legislation Champions need to be improved.	We have created role statements which outline the responsibilities expected of Legislation Champions to improve continuity and improve the handovers between Legislation Champions.	Complete
2	In certain specialist areas it may be necessary to widen the source of expertise beyond Legal Services and the Legislation Champion, to ensure there is a comprehensive understanding of the obligations.	In addition to using external technical advice, Legislation Champions are encouraged to use peer support and in-house advisory services such as the Internal Audit, Company Secretariat and Asset Standards. Champions can also seek clarification and support through the Regulatory Issues Group.	Continuous improvement
3	Additional checks and controls should be put in place to monitor progress in achieving actions to introduce controls.	<p>We have an integrated assurance map, which records all the second and third line assurance carried out across Yorkshire Water. From this assurance map we can see that assurance is provided across all obligations.</p> <p>The Risk and Compliance team is working with Internal Audit on a gap analysis to identify missing controls. Actions to improve control will be agreed with Legislation Champions. The actions will be tracked weekly to make sure they are completed.</p>	On-going
4	The assessment of the range of teams needing to be aware of, and comply with, each obligation should be strengthened to ensure it is comprehensive.	<p>All Legislation Champions were reminded of their role to identify all teams needing to comply.</p> <p>The format and language of the CRSA process has been made clearer to make it easier for Legislation Champions to identify all teams needing to comply.</p>	Continuous improvement

We seek to continually improve the approach to assessing our compliance. In addition to the assurance processes noted above we have an annual “lessons learned” cycle. This involves all Legislation Champions, senior leaders and the teams providing assurance. The key action from the 2017/2018 lessons learned review was to introduce a risk-based CRSA process. The Head of Legal Services worked with key Legislation Champions, using the Yorkshire Water risk assessment matrix, to identify those obligations which pose the greatest risk to the Company from non-compliance. This allows for proportionate control, assurance and sign-off across all obligations.

We have appropriate systems and processes in the place to allow us to identify, manage and review our risks. Our risk management process identifies and escalates risk to be managed to the level reported

Effective risk management is central to achieving our objectives. It improves our ability to prepare for challenges and protects the value of the Company. Risk management is embedded in our normal business process and culture and is overseen by the Risk Committee. It provides a standard approach to make sure that risks, including potential non-compliance with our obligations, are identified and escalated in a timely way to be managed to an appetite at the right level of the business. Our risk management framework and the principal risks to achieving our objectives are detailed in our Annual Report and Financial Statements.

Regulatory obligations at risk

Based on 2018/2019 performance, and using our performance commitments as indicators of compliance, the Board has identified the following material risks to achieving specific performance commitments in future years:

- Drinking water quality compliance
- Drinking water quality contacts
- Energy generation
- Discharge permit compliance
- Pollution serious incidents (Category 1-2)
- Measure of customer service (SIM)

Drinking water quality compliance

Customers in Yorkshire expect that the drinking water we supply is of the highest possible quality. In 2018 we managed to achieve an improvement in the overall compliance figure from 99.953% to 99.962%. We have identified a risk of achieving the target of 100% compliance required.

Drinking water quality contact

In 2018/2019 our customers contacted us 7,964 times about the quality of their drinking water. This was a marginal decrease from 8,100 contacts in 2017/2018 however, we did not meet our 2018/2019 performance commitment target of 6,108 and there is a risk that we will not meet this target in 2019/2020. We have continued our programme of flushing water mains to remove sediments that may have built up over time. This programme as well as other initiatives has contributed to a further reduction in the number of times customers contact us about the quality their drinking water. The improvement wasn't enough to meet the extremely challenging target, but our initiatives continue to reduce the number contacts we receive.

Energy generation

We did not meet our 2018/2019 performance commitment of 12% and there is a risk that we will not meet this target in 2019/2020. Our consumed electricity increased in 2018/2019, from 598 gigawatt hours to 620 gigawatt hours from the previous year. 2018/2019, has seen a four-year high with over 70 gigawatt hours of electricity being generated. We continue to grow our use of renewable energy with another substantial investment in anaerobic digestion underway at the treatment works in Huddersfield. We are also embracing solar power and have recently completed the installation of solar panels on one of our offices as part of our programme to create an exemplar headquarters.

Discharge permit compliance

While it is our aim to achieve high levels of performance and drive towards 100% compliance, six of our 611 waste water treatment works did not meet their discharge permit conditions in 2018. This is a slight reduction in performance compared to 2017 when we had five failing waste water works. We will continue to manage the growing challenges to our compliance from population growth and more extreme and prolonged rainfall events.

Pollution Serious Incidents (Category 1-2)

There is a risk that we will not achieve our zero-incident target by 2019/2020. We recognise the need to go further and we are working to achieve the ambitious performance commitment for zero serious incidents by 2020. However, we also recognise that reducing the number of pollution incidents and consistently achieving this performance commitment will be challenging.

Quality of customer service (SIM)

Our overall score this year was 84.0, compared to 84.3 points last year which means we have not achieved our performance commitment which is to improve year on year. The SIM measure has ceased as of the 1st April 2019 as a regulatory measure and will be replaced with C-Mex in 2020. However, Ofwat have provided a proxy calculation for us to use to continue calculating our SIM performance.

Assuring our performance

We always want to provide our customers and stakeholders with information that they can trust and have confidence in. We understand that when we don't get this right we risk losing their trust and confidence. Our annual reporting processes are accredited to the British Standard ISO 9001:2015 Quality Management System. Compliance with the ISO 9001:2015 is externally verified.

To achieve confidence over the accuracy of the information we publish we apply 'three levels of assurance'. This best practice approach means that we gain more assurance in those areas with a higher risk of error associated with the information or with the publication. In addition to the routine assurance over our operational processes

and systems of internal control, we have two assurance processes to confirm the accuracy, consistency and transparency of our annual reporting:

- A data assurance process is in place to make sure that the data supporting the information we publish is accurate
- A wider assurance process ensures that the overall publication meets any guidance and that the publication is accessible and easy to understand.

Our assurance processes are detailed further within our Final Assurance Plan, which can be found here:

www.yorkshirewater.com/reports

We can confirm that we have followed these processes for the Annual Performance Report.

Each year we consult on, and publish our Risks, Strengths and Weaknesses Statement (www.yorkshirewater.com/reports). This provides information about the quality of the performance information that we publish from our customers and stakeholders and any risks they have identified. It also sets out any reporting risks we have identified from our own processes and controls or through our own internal and external audits. We then commit to actions to mitigate these risks and give confidence to our customers and stakeholders that we are responding to their concerns and they can trust the information we report.

In 2018/2019 we identified the following areas as high risk for reporting and we made sure these had additional focus through targeted assurance. You can read more about our targeted areas of assurance in section 5 of our Annual Performance Report. Our targeted areas are listed below.

- Performance commitments where the target was missed in the previous year
- Performance commitments where we are forecasting a financial incentive reward (at September 2018)
- Price control cost allocation
- Customer understanding and awareness of the information we provide
- Effect of our internal SAP programme on our reported information
- Meeting regulatory guidance
- Accuracy of information

Taking responsibility for resilience: managing our obligations

Our customers have told us that they expect us to deliver safe, affordable water and waste water services, and for us to play our part in protecting and enhancing the natural environment. Our ability to deliver on the commitments we have made to our customers is dependent on our business being resilient. We need the ability to cope with, and recover from, disruption and to anticipate trends and variability to maintain services for our customers and the environment, now and in the future.

As part of our long-term planning we have reviewed how we maintain and further enhance the levels of resilience we provide, and to ensure we meet our resilience duty. We are developing our approach to ensure that we can keep things running well and are responding to future challenges in the most sustainable way.

We do this through:

- Understanding the nature of customer expectations and the future level of demand
- Embedding systems and controls to understand the risks to achieving these expectations, including changing environmental factors, and using this information to manage our risks effectively
- Improving our ability to deal with the consequences of unplanned failures or crises
- Performing a long-term review of our financial resilience as reported in our Annual Report and Financial statements. Here is a link to our reports www.yorkshirewater.com/reports

In August 2018 we published our new whole-business resilience framework to help us further enhance our approach. This was supported by resilience experts at Arup and brings together a range of international best practice tools and processes to develop a system which enables quantification of our resilience over time, and which complements our existing approach to risk management. We have used the framework to complete a business-wide assessment of past, current and future practice against the British Standard. We are embedding the regular and ongoing use of our new framework within our standard business governance arrangements to support the process of continual improvement.

To make sure that we are following a best practice approach to resilience across all parts of the business and the essential services we provide, we have aligned our approach to British Standard 65000:2014 Organisational Resilience. We were the first water company to ask the experts at the Cabinet Office Emergency Planning College (EPC) to complete an independent maturity assessment against the standard in Spring 2018 to measure the effectiveness of our current practice and make recommendations for further improvements.

Section 3

Jacobs assurance letter

JACOBS[®]

Yorkshire Water Technical Assurance Framework

Yorkshire Water Services

2018-19 Risk & Compliance

5 June 2019

Final



Yorkshire Water Technical Assurance Framework

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Project Manager: Helen Twelves
Author: Helen Twelves

Jacobs U.K. Limited

7th Floor, 2 Colmore Square
38 Colmore Circus, Queensway
Birmingham, B4 6BN
United Kingdom
T +44 (0)121 237 4000
F +44 (0)121 237 4001
www.jacobs.com

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Letter of Assurance

5 June 2019

Attention: The Board
Yorkshire Water
Western House
Western Way
Halifax Road
Bradford
BD6 2SZ

Subject: 2018-19 Risk and compliance statement – assurance statement

As set out in IN 19/06, Ofwat requires companies to publish an annual risk and compliance statement. The purpose of this is for the Board to confirm that the company:

- has a full understanding of all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- is meeting all its relevant statutory, licence and regulatory obligations; and
- is taking appropriate steps to identify, manage, mitigate and review any risks they face.

Companies are required to do this within the context of the Company Monitoring Framework (CMF).

In preparing the statement companies are required to consider their obligations in both legislation and their licences. As with other company information, it is important that stakeholders can have trust and confidence in your risk and compliance statement and to support this you have asked us to provide assurance in this area. Building on our approach from last year, we have reviewed the processes that support the declarations in your statement.

Our review focused on the approach and processes you follow to assess your compliance with your obligations, in particular we concentrated on your Control and Risk Self-Assessment (CRSA) process and documentation. You have continued to develop the process and have made changes in response to your annual internal lessons learned process. You have introduced a risk-based process allowing for proportionate control, assurance and sign-off informed by identifying those obligations which pose the greatest risk to the Company from non-compliance.

You have made changes to the process in response to the opportunities for improvement we noted in our 2017-18 assurance letter. These improvements include creating role statements which outline the responsibilities of Legislation Champions, and putting in place gap analysis supported by weekly action tracking to identify and address missing controls. We noted last year that there are some obligations, for example, Competition Act, where whilst the Legislation Champion and CRSA sign off is by a single business area, the compliance risk is wider and other areas need to be aware of the obligation and the associated compliance risks. You have made the format and language of the CRSA clearer to make it easier to identify all teams needing to comply.

We also provided advice on the content and drafting of your risk and compliance statement. We did not suggest any material changes to the draft. We note that your statement includes a section describing the steps you have taken to meet customer expectations and that this year you have included the actions you are taking to address our prior year recommendations.

As part of our risk based approach we met with Sarah Lubbe to review the CRSA process in her roles as both a member of the Risk and Compliance team, and as a Risk Champion, and with Rachel Lindley, Head of Risk and Audit. We also met with two Legal Champions to review their experience of the CRSA sign off process for two obligation areas - Reservoir Safety Act 1975 and Floods and Water Management 2010, and the Competition Act.

We are aware that you do have processes to manage compliance with other obligations and duties, but that they are not explicitly covered as part of the CRSA process and therefore are not part of your risk and compliance statement. We did not review the process you use to assess whether non-compliance with legislation falls below your risk appetite. Therefore, we did not consider whether the risk threshold and risk appetite was appropriate for the Appointed Business as a whole or for the various Appointed Business price controls.

Observations

Our main observations are as follows:-

- During our review we evidenced that as a company you have established appropriate systems and processes for identifying, managing, mitigating and reviewing risk;
- You recognise the importance of risk management, and have an established Risk Committee to monitor and manage risk, which is then cascaded through the business;
- In our discussions with Legislation Champions we found that the process was well understood and had been communicated across the business. Legislation Champions stated that the CRSA process was smoother than in previous years and that they found the additional support provided by the Risk and Compliance team this year helpful.
- Within the CRSA process we observed evidence of horizon scanning to identify new risks, for example, the Legislation Champion for Reservoir Safety Act 1975 and Floods and Water Management 2010 working with DEFRA, EA and ICE; and
- For the Competition Act the focus of your recent internal compliance work has been retail market opening and the operation of the market. You are also developing a training programme for the areas of the business which deal with NAVs. The overall Competition Act CRSA sign off is supported by staff training tailored to individual business areas and ad hoc checks of compliance. There is no formalised programme, other than for the retail market, to ensure that the policies are actually being followed and are compliant, and the T2 manager signing off compliance was not able to evidence in business areas other than his own that Competition Act policies were being followed and were compliant. The team also noted that there is no annual review process in place to ensure competition related policies are regularly reviewed and up to date.

Recommendations

On the basis of our work on your assurance and from our experiences working with other water companies, we are able to identify a number of recommendations that would embed best practice and help develop your processes further. We recommend that:

- your risk and compliance statement for 2018-19 should again note exceptions and areas for improvement including the actions you are taking ;
- where areas of exception and potential compliance risks have been identified they are noted and addressed in your assurance plan;
- your risk and compliance statement links to your APR where you can provide further information on your performance; and
- for those obligations where a large number of teams or individuals are required to be compliant that you consider how your internal compliance work can help to provide evidence to support CRSA sign off.

We therefore consider that, other than where indicated otherwise in this letter we provided:

- **you have a full understanding of the company's relevant obligations (as you have interpreted the scope required for this exercise); and**

- **you have appropriate systems and processes in place to run your business and identify and manage risks in a way that meets the relevant obligations (as you have interpreted the scope of these).**

Yours sincerely

Chris Turner

Technical Assurance Director

01625 547609

chris.turner@jacobs.com

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