



# Northern Ireland Water Limited

## **Auditors Report and Commentary on the Annual Information Return**

**Year Ended 31 March 2023**

This report contains 44 pages  
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## Notice about this report

1.1.1 This report is made to Northern Ireland Water Limited ('NI Water') in accordance with the terms of our engagement letter dated 27 March 2023.

1.1.2 This report is confidential and has been prepared solely for the purpose of NI Water ('the Beneficiary'), and has been released to the Beneficiary on the basis that it will not be copied or disclosed to any third party or otherwise quoted or referred to, in whole or in part, without our written prior consent.

1.1.3 This report is not suitable to be relied on by any party wishing to acquire rights against KPMG (other than the Beneficiary) for any purpose or in any context. Any party other than the Beneficiary that obtain access to this report or a copy (under the Freedom of Information Act 2000 or otherwise) and chooses to rely on this report (or any part of it) does so at their own risk. To the fullest extent permitted by law, KPMG does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiary.

1.1.4 The contents of the report should not be taken as reflecting the views of KPMG except where explicitly stated as being so.

1.1.5 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and directors of the Company. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

1.1.6 This report refers to Northern Ireland Water Limited as 'NI Water' and makes references to 'Oracle', 'Rapid Xtra', 'CIDA', 'FAR', 'Echo', 'Actuals Report' and 'UK GAAP'. Oracle is the accounting system used by NI Water, Rapid Xtra is the billing system, FAR is the fixed asset register and CIDA is the capital investment driver allocation system. Echo has been subcontracted to provide billing, credit management and customer services to NI Water. The Actuals Report is a monthly transactional report detailing the financial and associated volumetric impact of all bills created and adjusted within the calendar month. UK GAAP refers to old UK GAAP prior to the introduction of FRS102 as the new format for UK GAAP.

1.1.7 This report and the testing performed are in line with Regulatory Accounting Guidelines issued by the UR in February 2023. KPMG have used 'Annual Information Return Reporting Requirements 2023, Auditors' Guidance' and RAG 2.03 (guideline for classification of expenditure), 3.06 (guideline for the contents of regulatory accounts), 4.03 (guideline for the analysis of operating costs and assets) and 5.04 (guideline for transfer pricing in the water industry). The Regulatory Accounting Guidelines have not been updated to reflect the introduction of FRS102. IFRS refers to UK International Financial Reporting Standards. The Regulatory Accounting Guidelines have not been updated to reflect the requirement to prepare Regulatory Accounts on the basis on IFRS.

1.1.8 The Statutory Accounts for the year ended 31 March 2023 were approved by the Board of Directors on 29 June 2023 and signed on 3 July 2023. The Regulatory Accounts for the year ended 31 March 2023 were approved by the Board of Directors on 29 June 2023 and signed on 3 July 2023.

1.1.9 This report should be read in conjunction with the Annual Information Return prepared by NI Water for the year ended 31 March 2023.

1.1.10 Where no guidance has been given to auditors, we have assumed that comment is not required on these Tables and have therefore not included these within the scope of our work.

# Report of the Independent Auditors to Northern Ireland Water Limited

The Directors  
Northern Ireland Water Limited  
Westland House  
Old Westland Road  
Belfast  
BT14 6TE

28 July 2023

Dear Sirs / Madams,

## **Report of KPMG to Northern Ireland Water Limited (“the Company”) of factual findings in relation to Regulatory Accounts Tables 6a, 18, 18a, 18b, 18c, 18d, 19, 19a, 21, 22, 23, 25, 28, 29, 33, 34, 39, 42 and 43 set out in the Annual Information Return.**

In accordance with the terms of our engagement letter dated 27 March 2023 (the ‘Engagement Letter’), we have performed those procedures agreed with the directors of the Company and set out in the accompanying schedules.

### **Purpose of this agreed upon procedures report**

Our report has been prepared solely for the purpose of assisting the Company in connection with the requirements of the Instrument of Appointment by the Department for Regional Development of Northern Ireland Water Limited as a water and sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 (the “Regulatory License”) and to enable the Northern Ireland Authority for Utility Regulation (the “Regulator” or “NIAUR”) to verify that a report from independent auditors has been issued in connection with the Regulatory Accounts tables 6a, 18, 18a, 18b, 18c, 18d, 19, 19a, 21, 22, 23, 25, 28, 29, 33, 34, 39, 42 and 43. Our work has been undertaken so that we might state to the Company those matters we have been engaged by the Company to state in this report and for no other purpose. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company’s own internal purposes) or in part, unless permitted under the terms of the Engagement Letter or with our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company’s needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context, save to the extent separately agreed upon in writing with KPMG. Any other party who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of our report to any such other party.

### **Responsibilities of the Company and the responsible party**

The Company has acknowledged that the agreed upon procedures are appropriate for the purpose of the engagement.

The NIAUR, are responsible for the subject matter on which the agreed upon procedures are performed.

## **Our responsibilities**

We have conducted the agreed upon procedures engagement in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), Agreed Upon Procedures Engagements. An agreed upon procedures engagement involves our performing the procedures that have been agreed with the Company, and reporting the findings, which are the factual results of the agreed upon procedures performed. We make no representation regarding the appropriateness of the agreed upon procedures.

The procedures agreed and conducted have been made in accordance with the Regulatory Accounting Guidelines, the Annual Information Return reporting requirements dated February 2023 and other relevant material issued by the NIAUR and the Contract. This agreed upon procedures engagement is not an assurance engagement; the procedures below do not constitute either an audit or a review in accordance with International Standards on Auditing (UK) or International Standards on Review Engagements (UK). Accordingly, we do not express an opinion or an assurance conclusion.

Had we been engaged to perform, and had performed additional procedures, an audit, or a review in accordance with International Standards on Auditing (UK) or International Standards on Review Engagements (UK), other matters might have come to our attention that would have been reported.

## **Professional Ethics and Quality Control**

We have complied with the ethical requirements in the Chartered Accountants Ireland Code of Ethics issued by Chartered Accountants Ireland which include the requirements of the International Ethics Standards Board for Accountants' (*IESBA International Code of Ethics for Professional Accountants* (IESBA Code)).

There are no specific independence requirements for this engagement. However, we are the statutory auditor of Northern Ireland Water Limited and are therefore independent from Northern Ireland Water Limited. in accordance with the FRC Ethical Standard 2019 issued by the Financial Reporting Council.

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

## **Procedures and Findings**

We have performed the procedures described in the schedules below, which were agreed upon with the Company as set out by the Utility Regulator in the Annual Information Return Auditors Guidance February 2023.

We report our findings in the schedules below.

This report relates only to the items specified above and does not extend to any financial statements of the Company, taken as a whole.

This engagement is separate from the audit of the annual financial statements of the Company and the report here relates only to the items specified above and does not extend to the Company's annual financial statements taken as a whole.

As set out in our audit report on those financial statements, that audit report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. The audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 Company's members as a body for that audit work, for the audit report, or for the opinions we have formed in respect of that audit.

Yours faithfully

A handwritten signature in black ink, appearing to be 'KPMG' in a stylized, cursive font.

KPMG  
Chartered Accountants  
Belfast  
28 July 2023

**Independent Reasonable Assurance Report to Northern Ireland Water Limited on the Regulatory Accounts Tables 6a, 18, 18a, 18b, 18c, 18d, 19, 19a, 21, 22, 23, 25, 28, 29, 33, 34, 39, 42 and 43 set out in the Annual Information Return.**

We were engaged by the board of directors of Northern Ireland Water Limited to report on Northern Ireland Water Limited's Regulatory Accounts Tables 6a, 18, 18a, 18b, 18c, 18d, 19, 19a, 21, 22, 23, 25, 28, 29, 33, 34, 39, 42 and 43 and accompanying commentaries set out in the Annual Information Return for the year ended 31 March 2023 (the "Regulatory Accounts Tables"), in the form of an independent reasonable assurance conclusion about whether Northern Ireland Water Limited's Regulatory Accounts Tables 6a, 18, 18a, 18b, 18c, 18d, 19, 19a, 21, 22, 23, 25, 28, 29, 33, 34, 39, 42 and 43 set out in the Annual Information Return contain the information for the year to 31 March 2023 required to be submitted to the NIAUR by the Company to comply with Condition F of the Regulatory Licence and are materially consistent with the information submitted to NIAUR in the Regulatory Accounts in accordance with the terms of our engagement letter dated 27 March 2023 as set out on pages 8 to 49 attached to this report.

**Northern Ireland Water Limited's Responsibilities**

The directors of Northern Ireland Water Limited are responsible for preparing Regulatory Accounts Tables that are materially consistent with the information submitted to Northern Ireland Authority for Utility Regulation (the "NIAUR") in the Regulatory Accounts and contain the information for the year to 31 March 2023 required to be submitted to the NIAUR by the Company to comply with Condition F of the Regulatory Licence.

This responsibility includes designing, implementing, and maintaining internal control relevant to the preparation and presentation of the Regulatory Accounts Tables that are free from material misstatement, whether due to fraud or error. It also includes collating and developing Regulatory Accounts Tables 6a, 18, 18a, 18b, 18c, 18d, 19, 19a, 21, 22, 23, 25, 28, 29, 33, 34, 39, 42 and 43 that are free from material misstatement, whether caused by fraud or other irregularity or error and ensuring the overall adequacy of the presentation of information in the Regulatory Accounts tables in terms of International Financial Reporting Standards (IFRS) and the Regulatory Accounting Guidelines.

The directors of Northern Ireland Water Limited are also responsible for preventing and detecting fraud and for identifying and ensuring that Northern Ireland Water Limited complies with laws and regulations applicable to its activities. The directors of Northern Ireland Water Limited are responsible for ensuring that Northern Ireland Water Limited staff involved with the preparation of the Regulatory Accounts Tables are properly trained, systems are properly updated and that any changes in reporting encompass all significant business activities.

## Our Responsibilities

Our responsibility is to examine the Regulatory Accounts Tables prepared by Northern Ireland Water and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) (ISAE 3000 (Revised)) issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Regulatory Accounts Tables' contain the information for the year to 31 March 2023 required to be submitted to the NIAUR by the Company to comply with Condition F of the Regulatory Licence and are materially consistent with the information submitted to NIAUR in the Regulatory Accounts.

The firm applies International Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1) which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Regulatory Accounts Tables' whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Regulatory Accounts Tables in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Northern Ireland Water Limited's internal control over the preparation and presentation of the Regulatory Accounts Tables. Our engagement also included: assessing the appropriateness of the Regulatory Accounts Tables, the suitability of the criteria used by Northern Ireland Water Limited in preparing the Regulatory Accounts Tables in the circumstances of the engagement, evaluating the appropriateness of the methods, policies and procedures, and models used in the preparation of the Regulatory Accounts Tables and the reasonableness of estimates made by Northern Ireland Water Limited and evaluating the overall presentation of the Regulatory Accounts Tables. Reasonable assurance is less than absolute assurance.



## **Conclusion**

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the Regulatory Accounts tables contain the information for the year to 31 March 2023 required to be submitted to the NIAUR by the Company to comply with Condition F of the Regulatory Licence and are materially consistent with the requirements set out in the Condition F of the Regulatory Licence.

## **Restriction of Use of Our Report**

Our report is released to Northern Ireland Water Limited on the basis that it shall not be copied, referred to or disclosed, in whole (save for Northern Ireland Water Limited's own internal purposes) or in part, unless permitted under the terms of the Engagement Letter dated 27 March 2023 ("the Engagement Letter") or with our prior written consent.

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than Northern Ireland Water Limited for any purpose or in any context, save to the extent separately agreed upon in writing with KPMG. Any other party who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any such other party for our work, for this independent reasonable assurance report, or for the conclusions we have reached.



KPMG  
Chartered Accountants  
Belfast

28 July 2023

## Part A – General Procedures

*The requirement under the terms of the Engagement Letter dated 27 March 2023 has been included in bold followed by our reported findings for each procedure listed*

### **1. From discussions with management and sight of underlying documentation in the form of screenshare and sight of the client's internal systems, document NI Water's sign off procedures including the systems and documentation observed on the Annual Information Return Submission.**

Management have confirmed the procedures in place are as follows:

Assurance for the AIR23 submission process was completed using SharePoint 'Workflows'. Lines within tables and commentaries can only be amended by the designated 'author' who is sent a task by email from the SharePoint system. Once the authors have compiled the final version of their table lines and commentaries, they complete the task assigned to them confirming completeness and accuracy and the System administrator locks the relevant files so they cannot be changed. A task is then sent to the reviewer who then reviews the files and approves their task. When the reviewing task is complete an email is sent to the approver and when they approve their task an email is sent to the System Administrator to update the master copy for final formatting. If the reviewer or the approver reject the files the System Administrator is advised, the permissions for the files are changed to allow the author to edit and the workflow is restarted.

On 29 June 2023 the Board approved the text of the AIR 2023's Board overview and agreed submission of all final AIR23 Tables and commentaries to the Utility Regulator. This ensured consistency of approach.

### **2. For the Regulatory Accounts Tables 6a, 18, 18a, 18b, 18c, 18d, 19, 19a, 21, 22, 23, 25, 28, 29, 33, 34, 39, 42 and 43, inspect that NI Water has complied with the Definitions Manual published by the Utility Regulator or has included a commentary as part of the Regulatory Accounts Tables as to why the guidance has not been followed.**

For each of the Tables noted above, we obtained a copy of the client's commentary and inspected the definitions noted by management against the definitions set out in the Regulatory Accounting Guidelines. We bring to your attention the following observations and/or exceptions:

#### **Part A General Procedures**

There were no adjustments made to the 2023 figures between the date which the Regulatory Accounts were signed and the date which the Annual Information Return was submitted.

#### **Part B Activity Cost Analysis**

During the current year NI Water allocated £1.9m (2022/23: £3.7m) of dividends to non-appointed activities.

#### **Part C Pensions**

The Company has not carried out an exercise to separately analyse staff members included in the Pension Scheme between those involved in Appointed and Non-Appointed activities, and consequently have not analysed the pension deficit or the associated net interest income between Appointed and Non-Appointed activities. This issue was also raised in prior years.

Management have provided full explanation in their commentary to Tables 21 and 22 and assert the cost of calculating the impact for these members in isolation to be unjustified. Management note in their commentary that in the process of apportioning costs (including total wages, salaries, and pensions) to non-appointed activities it is assumed that an element of this apportionment will cover pension costs. Management have advised in their commentary that an exact split between appointed and non-appointed pension costs cannot be determined as all operating costs in aggregate (including pension costs) are allocated to non-appointed activities based on non-appointed activity turnover.

**Part D Income**

No matters noted.

**Part E Bad Debt**

No matters noted.

**Part F Taxation**

[Section has been redacted]

**Part G Accounting Charges**

No matters noted.

**Part H Land Sales**

[Section has been redacted]

**Part I Borrowings**

No matters noted.

**Part J General**

In line with Chapter 29 of the UR Guidance, no commentary is required for Table 29 on the Operating Profit to Net Cash Flow from Operating Activities. Northern Ireland Water have not completed a commentary on this table. NI Water have complied with the guidance, however, we have not completed any procedures to ensure that NI Water have complied with the Definitions Manual.

**3. Obtain the commentary statement prepared by management for each of the Regulatory Accounts Tables 6a, 18, 18a, 18b, 18c, 18d, 19, 19a, 21, 22, 23, 25, 28, 29, 33, 34, 39, 42 and 43, and carry out the following procedures:**

Table	Description	Procedures:	Findings and Results:
Table 6A	Outstanding revenue and breakdown of customer services operating expenditure	<ol style="list-style-type: none"> <li>1. Agree Lines 29, 31, 33, 35, 37, 43, 45, 47, 49 and 51 to the Aged Debt Listing at 31 March 2023 and to subsequent client schedules detailing adjustments made for regulatory purposes.</li> <li>2. Inspect that household numbers in lines 30, 32, 34, 36, 38, 44, 46, 48, 50 and 52 have been extracted from the Rapid Xtra billing System and reconcile the lines to the client schedules detailing adjustments made for regulatory purposes.</li> <li>3. Agree lines 59 and 60a to the Customer Services Operating Expenditure breakdown for the year ended 31 March 2023.</li> <li>4. For reporting requirements within Table 6A that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We have agreed Lines 29, 31, 33, 35, 37, 43, 45, 47, 49 and 51 to the Aged Debt Listing as at 31 March 2023 and to subsequent client schedules detailing adjustments made for regulatory purposes.</li> <li>2. We observed that household numbers in lines 30, 32, 34, 36, 38, 44, 46, 48, 50 and 52 have been extracted from the Rapid Xtra billing System via screenshare, and these figures were used in the preparation of client schedules detailing adjustments made for regulatory purposes.</li> <li>3. Agreed lines 59 and 60a to the Customer Services Operating Expenditure breakdown for the year ended 31 March 2023.</li> <li>4. NI Water have provided an explanation on Lines 1-28 having no figures as a result of no household billing in 22/23. This is consistent with prior year.</li> </ol>
Table 18	Profit and Loss Account (Historical Cost Accounting)	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 15 (for 22/23) to the 22/23 Regulatory Accounts, to the Oracle nominal ledger and client schedules detailing adjustments made for regulatory purposes.</li> <li>2. For reporting requirements within Table 18 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We agreed lines 1 to 15 (for 22/23) to the 22/23 Regulatory Accounts, to the Oracle nominal ledger and client schedules detailing adjustments made for regulatory purposes.</li> <li>2. Management have not noted any reporting requirements not applicable to NI Water in Table 18</li> </ol>
Table 18A	[Redacted]	[Redacted]	[Redacted]

Table 18B	[Redacted]	[Redacted]	[Redacted]
Table 18C	Statement of total recognised gains and losses	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 4 (for 22/23) in Table 18C to the 22/23 Regulatory Accounts.</li> <li>2. Agree the actuarial gain reported in line 2 to the Statutory Accounts.</li> <li>3. For reporting requirements within Table 18C that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We agreed lines 1 to 4 (for 22/23) in Table 18C to the 22/23 Regulatory Accounts.</li> <li>2. We agreed the actuarial gain reported in line 2 to the Statutory Accounts.</li> <li>3. Management have not noted any reporting requirements not applicable to NI Water in Table 18C.</li> </ol>

Table 18D	Analysis of dividends and interest charges for year	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 3 to the 21/22 Regulatory Accounts, to the Oracle nominal ledger and client schedules detailing adjustments made for regulatory purposes. Note, for Lines 4 to 12, (interest analysis), these do not require agreement to the Regulatory Accounts as this disclosure is not required.</li> <li>2. Agree the total in line 12 minus capitalised interest in line 13 to 'net interest payable' in the Regulatory Accounts.</li> <li>3. Agree lines 4 to 13 to the Oracle nominal ledger and client supporting schedules detailing adjustments made for regulatory purposes.</li> <li>4. For reporting requirements within Table 18D that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We agreed lines 1 to 3 to the 22/23 Regulatory Accounts, to the Oracle nominal ledger and client schedules detailing adjustments made for regulatory purposes.</li> <li>2. We agreed the total in line 12 minus capitalised interest in line 13 to 'net interest payable' in the Regulatory Accounts.</li> <li>3. We agreed lines 4 to 13 to the Oracle nominal ledger and client supporting schedules detailing adjustments made for regulatory purposes.</li> <li>4. Management have not noted any reporting requirements not applicable to NI Water in Table 18D.</li> </ol>
Table 19	Balance Sheet (Historical Cost Accounting)	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 33 (for 22/23) to the 22/23 Regulatory Accounts.</li> <li>2. Agree all lines to the Oracle nominal ledger and client supporting schedules detailing adjustments made for regulatory purposes.</li> <li>3. For reporting requirements within Table 19 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We agreed lines 1 to 33 (for 22/23) to the 22/23 Regulatory Accounts except for lines 13, 15, 18, 19, 21, 22, 24 and 26. This is due to specific disclosure requirements in Table 19 relating to the presentation of deferred income. However, the net assets employed total in line 28 and 33 agrees to the Regulatory Accounts as it is merely a reclassification within liabilities.</li> <li>2. We have agreed all lines to the Oracle nominal ledger and client supporting schedules detailing adjustments made for regulatory purposes.</li> <li>3. Management have not noted any reporting requirements not applicable to NI Water in Table 19.</li> </ol>

Table 19A	Analysis of borrowings due after more than one year (Historical Cost Accounting)	<ol style="list-style-type: none"> <li>1. Agree the principal sum, nominal interest rate and the carrying value to the 22/23 Statutory Accounts and the carrying value to the Oracle nominal ledger.</li> <li>2. Agree the principal sum and carrying value to the Regulatory Accounts</li> <li>3. Agree the years to maturity as the number of years from 31 March 2023 to the maturity date per the loan note agreements.</li> <li>4. For reporting requirements within Table 19A that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We have agreed the principal sum, nominal interest rate and the carrying value to the 22/23 Statutory Accounts and the carrying value to the Oracle nominal ledger.</li> <li>2. The principal sum and carrying value have been agreed to the Regulatory Accounts. Note, the nominal interest rate is not included in the Regulatory Accounts.</li> <li>3. The years to maturity have been agreed as the number of years from 31 March 2023 to the maturity date of 31 March 2027, 2034 and 2042 per the loan note agreements. As the loan note agreements are fixed rate instruments, the real coupon rate is agreed as the nominal interest rate adjusted for the RPI assumption.</li> <li>4. Management have not noted any reporting requirements not applicable to NI Water in Table 19A.</li> </ol>
Table 21	Activity Cost Analysis – Water Services	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 34 (for 22/23) to the 22/23 Regulatory Accounts except for lines 16, 19, 21, 23, 24, 28, 30 and 33 as the Regulatory Accounting Guidelines do not specifically require this disclosure within the Regulatory Accounts.</li> <li>2. Agree the total of line 22 in Table 21 and line 21 in Table 22 as being the total taken from the Oracle nominal ledger less non-appointed costs supported by client schedules.</li> <li>3. Agree the apportionment of costs to Water and Sewerage to the client allocation/apportioning model.</li> <li>4. Reconcile the sum of the total of lines 25, 27 and 28 in Table 22 and lines 26, 28 and 29 in Table 21 to the Oracle nominal ledger and current cost fixed asset register.</li> <li>5. Confirm the arithmetic accuracy of line 16, total business costs which is the sum of lines 13, 14 and 15.</li> <li>6. Agree all balances in the NI Water Total Table Column for 22/23 as being the sum of the NI Water only Table and the PPP only Table.</li> <li>7. For reporting requirements within Table 21 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We have agreed lines 1 to 34 (for 22/23) to the 22/23 Regulatory Accounts</li> <li>2. We have agreed the total of line 22 in Table 21 and line 21 in Table 22 as being the total taken from the Oracle nominal ledger less non-appointed costs supported by client schedules.</li> <li>3. The apportionment of costs to Water and Sewerage has been agreed to client allocation/apportioning model.</li> <li>4. The sum of the total of lines 25, 27 and 28 in Table 22 and lines 26, 28 and 29 in Table 21 has been reconciled to the Oracle nominal ledger and current cost fixed asset register.</li> <li>5. We have confirmed the arithmetic accuracy of line 16, total business costs which is the sum of lines 13, 14 and 15. Lines 23 and 24 classify certain elements of operating expenditure included in lines 1 to 22 between infrastructure and non-infrastructure reactive and planned maintenance. Lines 23 and 24 are for disclosure purposes only and are not included in total costs.</li> <li>6. All balances in the NI Water Total Table have been agreed as being the sum of the NI Water only Table and the PPP only Table.</li> <li>7. For reporting requirements within Table 21 that did not apply to NI Water we inspected that an explanation had been provided by management.</li> </ol>

Table 22	Activity Cost Analysis – Sewerage Services	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 33 (for 22/23) to the 22/23 Regulatory Accounts except for lines 15, 18, 22 and 23 as the Regulatory Accounting Guidelines do not specifically require this disclosure within the Regulatory Accounts.</li> <li>2. Agree the total of line 22 in Table 21 and line 21 in Table 22 as being the total taken from the Oracle nominal ledger less non- appointed costs.</li> <li>3. Agree the apportionment of costs to Water and Sewerage to the client allocation/apportioning model.</li> <li>4. Reconcile the sum of the total of lines 25, 27 and 28 in Table 22 and lines 25, 26 and 27 in Table 21 to the Oracle nominal ledger and current cost fixed asset register.</li> <li>5. Confirm the arithmetic accuracy of line 15, total business costs which is the sum of lines 12, 13 and 14.</li> <li>6. Agree all balances in the NI Water Total Table Column for 22/23 as being the sum of the NI Water only Table and the PPP only Table.</li> <li>7. For reporting requirements within Table 22 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We agreed lines 1 to 33 (for 22/23) to the 22/23 Regulatory Accounts except for lines 15, 18, 22 and 23.</li> <li>2. We agreed the total of line 22 in Table 21 and line 21 in Table 22 as being the total taken from the Oracle nominal ledger less non- appointed costs.</li> <li>3. We agreed the apportionment of costs to Water and Sewerage to the client allocation/apportioning model.</li> <li>4. We reconciled the sum of the total of lines 25, 27 and 28 in Table 22 and lines 25, 26 and 27 in Table 21 to the Oracle nominal ledger and current cost fixed asset register.</li> <li>5. We have confirmed the arithmetic accuracy of line 15, total business costs which is the sum of lines 12, 13 and 14. Lines 22 and 23 classify certain items of operating expenditure included in lines 1 to 21 between infrastructure and non- infrastructure reactive and planned maintenance. Lines 22 and 23 are for disclosure purposes only and are not included in total costs.</li> <li>6. All balances in the NI Water Total Table have been agreed as being the sum of the NI Water only Table and the PPP only Table.</li> <li>7. For reporting requirements within Table 22 that did not apply to NI Water we inspected that an explanation had been provided by management.</li> </ol>
Table 23	Analysis of Turnover and Operating Income	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 22 to the 22/23 Regulatory Accounts, the Oracle nominal ledger and client supporting schedules detailing adjustments made for regulatory purposes.</li> <li>2. Agree the subsidy water and subsidy sewerage included in Table 23 to the nominal ledger.</li> <li>3. For reporting requirements within Table 23 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We have agreed lines 1 to 22, with the exception of line 7a (for 22/23) to the 22/23 Regulatory Accounts, the Oracle nominal ledger and client supporting schedules detailing adjustments made for regulatory purposes. Line 7a refers to road drainage revenue which is not separately identified within the Regulatory Accounts. We have agreed the road drainage revenue in line 7a as being included within other appointed business (line 13) in the Regulatory Accounts.</li> <li>2. We agreed the subsidy water and subsidy sewerage included to the nominal ledger.</li> <li>3. For reporting requirements within Table 23 that did not apply to NI Water we inspected that an explanation had been provided by management.</li> </ol>



Table 25	Analysis of Fixed Assets by Asset type	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 16 (for 22/23) to the 22/23 Regulatory Accounts and client's supporting schedules.</li> <li>2. For reporting requirements within Table 25 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We have agreed lines 1 to 16 (for 22/23) to the 22/23 Regulatory Accounts and client's supporting schedules.</li> <li>2. For reporting requirements within Table 22 that did not apply to NI Water we inspected that an explanation had been provided by management.</li> </ol>
Table 28	Cash Flow Statement	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 23 (for 22/23) to the 22/23 Regulatory Accounts and statement in the Statutory Accounts.</li> <li>2. For reporting requirements within Table 28 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We have agreed lines 1 to 23 (for 22/23) to the 22/23 Regulatory Accounts and client workings based on the Statutory Accounts.</li> <li>2. For reporting requirements within Table 28 that did not apply to NI Water we inspected that an explanation had been provided by management.</li> </ol>
Table 29	Reconciliation of Operating Profit to Net Cash Flow	<ol style="list-style-type: none"> <li>1. Agree lines 1 to 9 (for 22/23) to the 22/23 Regulatory Accounts and client workings based on the Statutory Accounts.</li> <li>2. For reporting requirements within Table 29 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We have agreed lines 1 to 9 (for 22/23) to the 22/23 Regulatory Accounts and client workings based on the Statutory Accounts. Line 8 - other non-cash profit and loss items are the sum of other non-cash items included, and separately disclosed, in the Regulatory Accounts.</li> <li>2. For reporting requirements within Table 29 that did not apply to NI Water we inspected that an explanation had been provided by management.</li> </ol>

Table 33	Depreciation charge by asset type	<ol style="list-style-type: none"> <li>1. Agree the depreciation charge for the year for both Water and Sewerage to the 22/23 Regulatory Accounts with the exception of lines 2, 3 and 4 to the Regulatory Accounts as the Regulatory Accounting Guidelines do not specifically require this disclosure within the Regulatory Accounts.</li> <li>2. For reporting requirements within Table 33 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We have agreed the depreciation charge for the year for both Water and Sewerage to the 22/23 Regulatory Accounts. We are unable to agree lines 2, 3 and 4 to the Regulatory Accounts as the Regulatory Accounting Guidelines do not specifically require this disclosure within the Regulatory Accounts.</li> <li>2. For reporting requirements within Table 33 that did not apply to NI Water we inspected that an explanation had been provided by management.</li> </ol>
Table 34	Analysis of non-infrastructure fixed asset additions by life categories	<ol style="list-style-type: none"> <li>1. Agree lines 1-7 and 9-13 to the CIDA summary model.</li> <li>2. For reporting requirements within Table 34 that do not apply to NI Water inspect that an explanation has been provided by management.</li> </ol>	<ol style="list-style-type: none"> <li>1. We have agreed lines 1-7 and 9-13 to the CIDA summary model.</li> <li>2. For reporting requirements within Table 34 that did not apply to NI Water we inspected that an explanation had been provided by management.</li> </ol>
Table 39	[Redacted]	[Redacted]	[Redacted]

Table 42      [Redacted]      [Redacted]      [Redacted]

Table 43      [Redacted]      [Redacted]      [Redacted]

4. **Where there are subsequent changes to the Regulatory Accounts, compared to the submitted Regulatory Tables, NI Water should write to NIAUR setting out any differences between the submitted Regulatory Tables and the finalized Regulatory Accounts and the reasons for the changes. Read NI Water's explanation and agree details set out in the commentary to the underlying accounting records or other supporting documentation. Describe the nature of the underlying accounting records or other supporting documentation.**

Regulatory Accounts were approved by the directors on 29 June 2023 and signed by KPMG on 03 July 2023, pre-submission of the Annual Information Return. There were no adjustments made to the 2023 figures between the date which the Regulatory Accounts were signed and the date which the Annual Information Return was submitted.

5. **Read NI Water's response to the Regulator's queries and check that NI Water's responses is consistent with the Regulatory Accounts and their underlying accounting records.**

We inquired of NI Water as to whether any queries were received from NIAUR in respect of AIR23 in respect of the financial tables only. There were no queries received on the financial tables therefore no further review conducted

6. **The full wording of the opinion NIAUR require for the Regulatory Accounts for 2022-23 is set out in the Engagement Letter between NI Water's Auditors, the Regulator and NI Water. Where NI Water submits a set of Regulatory Accounts that does not contain this wording, NIAUR will not consider it to be compliant with license condition F. Agree the wording of the opinion NIAUR require for the Annual Information Return set out in Annex B of the Auditors Guidance provided by the Utility Regulator to the auditor's report in the regulatory accounts.**

The wording of the audit opinion on the Regulatory Accounts is consistent with the wording within the latest version of the engagement letter dated 27 March 2023, as stipulated in Annex A of the Auditors' Guidance (the format has been amended to reflect current best practice as set out by the Financial Reporting Council). We have also included an emphasis of matter paragraph in respect of the basis of preparation.

The wording of the opinion on the Regulatory Tables as presented on pages 2 - 4 contains all wording stipulated in Annex B of the Auditor's Guidance (as amended to reflect current best practice as set out by the Financial Reporting Council).

7. **NIAUR expect, given the timescales of submission for the Annual Information Return 2023, that information in the Annual Information Return submission and the Regulatory Accounts will be consistent and that auditors will be able to agree the Annual Information Return figures to the Regulatory Accounts. Confirm in your report the information in the Annual Information Return and the Regulatory Accounts as set out in Annex B is consistent. If there are any material differences between the Annual Information Return submission and the Regulatory Accounts, where materiality thresholds are defined in the Guidance issued by the UR in February 2023 these should be detailed and explained in a covering letter by the auditors.**

As noted in above, there were no changes identified in the period between the Regulatory Accounts were signed and the AIR Tables were submitted.

## Part B – Activity Cost Analysis

- 8. Read NI Water's explanation of the procedures used to allocate costs for the purpose of the Annual Information Return, starting from the point where such data is extracted from the general ledger. Inspect that the explanation provided is consistent with the preparation basis of the Regulatory Table and can be reconciled with the underlying accounting records that can be traced to the general ledger. Include in the report a statement that they are consistent.**

The Company's explanation of the procedures used to allocate costs is consistent with our understanding of the allocation and apportionment model designed and implemented by the Company.

Furthermore, a reconciliation was carried out on the Oracle nominal ledger in order to ensure that all statutory operating costs less any non-appointed costs were accounted for correctly within Tables 21 and 22. These reconciled and all relevant costs had been included.

- 9. For any judgements, apportionments or adjustments identified by management in (8), inspect that the explanations of each provided is consistent with the preparation basis of the Regulatory Table and can be reconciled with the underlying accounting records that can be traced to the general ledger. Include in the report a statement that they are consistent.**

The Company's explanation of the procedures used to allocate costs is consistent with our understanding of the allocation and apportionment model designed and implemented by the Company.

Operating costs are extracted from Oracle by nominal ledger code into an excel spreadsheet where they are allocated to services (i.e. Water or Sewerage) and then service areas (i.e. Resources and Treatment, Distribution). As general and support expenditure cannot be directly mapped to service areas, a basis of apportionment is applied. The cost apportionment methodology is based on the total direct costs incurred in each service area.

- 10. Obtain management's commentary for the Regulatory Accounts Tables 21 and 22. Read the commentary for any identified changes in judgements, apportionments or adjustments when compared with the prior year. For any changes in judgements, apportionments or adjustments read NI Water's Regulatory Accounts Tables' commentary and, agree details set out in the Regulatory Accounts Tables' commentary to the underlying accounting records that can be traced to the Oracle Nominal Ledger or other supporting third-party evidence provided by management to support the change. Report the changes in judgements, apportionments or adjustments identified and the underlying accounting records or other supporting documentation used by management to support the change that have been inspected by you.**

There have been no changes in the methodology with respect to the calculation of direct and general and support costs.

Operating expenditure costs from the general ledger have been allocated between Water and Sewerage services and between service areas within the Water and Sewerage activities by mapping the company's general ledger to the Tables using the coding structure described in management's commentary to Tables 21 and 22. The only exception to this is in relation to indirect general and support expenditure which can relate to more than one service area or activity. These costs are collated into five separates 'overhead pots' and are apportioned either on the basis of directly coded spend or on the basis of total direct costs. The

allocations to Water and Sewerage from these overhead pots, together with the comparative figures, are set out in the below extract from the commentary to Table 21 & 22:

	2023				2022			
	Water		Sewerage		Water		Sewerage	
Pot	£'k	%	£'k	%	£'k	%	£'k	%
Pot 1 – Non-operational general spend	[Redacted]	52.4	[Redacted]	47.6	[Redacted]	53.4	[Redacted]	46.6
Pot 2a – water related activities only	[Redacted]	100	[Redacted]	-	[Redacted]	100	[Redacted]	-
Pot 2b – sewerage related activities only	[Redacted]	-	[Redacted]	100	[Redacted]	-	[Redacted]	100
Pot 3a – water and sewerage network spend	[Redacted]	52.4	[Redacted]	47.6	[Redacted]	53.5	[Redacted]	46.5
Pot 3b – mechanical and engineering	[Redacted]	17.5	[Redacted]	82.5	[Redacted]	19.2	[Redacted]	80.8
Directly coded costs	[Redacted]		[Redacted]		[Redacted]		[Redacted]	
<b>Total</b>	[Redacted]		[Redacted]		[Redacted]		[Redacted]	

The allocation to Water from general and support overhead pot 1, pot 3a and pot 3b has remained largely consistent with AIR22. The general and support expenditure has increased by £1.3m, from £55.4m in 2021/22 to £56.7m in 2022/23.

During the current year NI Water allocated £1.9m (2021/22: £3.7m) of dividends to non-appointed activities.

- Obtain management's Regulatory Accounts Tables' commentary on all items they note as being 'exceptional' or 'atypical' in the Regulatory Accounts. Read NI Water's commentary and agree details set out in the Regulatory Accounts Tables' commentary to the underlying accounting records that can be traced to the Oracle Nominal Ledger or other supporting third-party evidence. For atypical items, compare the costs in the report year with historic actual costs for that item. Report the 'exceptional' or 'atypical' items identified and the underlying accounting records or other supporting documentation used by management to support the change that have been inspected by you.**

There were £(0.5m) of atypical costs. The table below which has been extracted from the commentary to Table 21 & 22 sets out the atypical costs over the past five years.

Category	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)
Business improvement	0.9	0.6	1.0	1.3	1.1
Voluntary severance / early retirement	0.2	0.2	1.1	0.8	-
IHR related costs.	-	-	-	-	-
PPP atypicals.	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Project Clear.	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
RPDM and UR credit.	(0.5)	0.1	0.3	(0.2)	(1.0)
One off legal fees.	0.5	-	-	-	-
Other atypical costs.	-	-	2.8	1.9	2.2
Extreme Weather	1.2	-	-	-	-
Retrospective Pension Payment	-	-	-	-	-
Brexit costs	-	2.3	0.4	-	-
Covid-19 costs	-	0.3	5.7	0.4	-
<b>Total</b>	<b>1.9</b>	<b>2.3</b>	<b>10.6</b>	<b>2.0</b>	<b>(0.5)</b>

- 12. Obtain management’s capitalization policy which should also highlight any changes from the prior year. Read NI Water’s commentary on Tables 21 and 22 and agree the commentary on the capitalization policy for the purpose of the Annual Information Return is the same as the policies applied in the Regulatory Accounts and the underlying accounting records.**

There has been no change in management’s capitalisation policy which is detailed in the commentary to Tables 21 and 22. The commentary is consistent with the policies applied in the Regulatory Accounts and the underlying accounting records and agrees to the capitalisation guidance published by NI Water. Sampling of expenditure on capital projects performed during the statutory audit fieldwork identified no instances where the policy in place during the 2022/2023 financial year was not applied.

- 13. Agree the costs relating to ‘movements in provisions’ (including legal provisions) in the Regulatory Accounts Tables 21 and 22 to the underlying accounting records and other supporting third-party evidence that has been provided by management.**

All material movements in provisions have been agreed to the Regulatory Accounts, statutory nominal ledger and client schedules based on third party legal advice and management assessment.

- 14. Obtain management's Regulatory Accounts Tables' commentary for Tables 21 and 22 in relation to reorganization costs which should include a description of what costs have been included (split between redundancy costs and pension strain) along with details of when the expenditure is expected to be incurred. Read NI Water's Regulatory Accounts Tables' commentary and agree details set out in the Regulatory Accounts Tables' commentary to the underlying accounting records or other supporting documentation provided by management. Report the description of the reorganization costs identified and the underlying accounting records or other supporting documentation used by management to support the reorganization costs.**

The Business Improvement Programme ('BIP') which consists of a series of major projects set up with an aim to meet or exceed performance levels of similar English and Welsh Water companies. These costs have no redundancy or pension element.

This cost has been agreed as included in operating expenditure in the Regulatory Accounts and reconciled to the Oracle nominal ledger. The expected timing of expenditure has been disclosed in the commentary to Tables 21 and 22, if known.

- 15. To the extent not covered by OFWAT's Regulatory Accounting Guideline 5.04 's ("RAG 5.04") on transfer pricing in the water industry, obtain from management any identified adjustment made to exclude non-appointed business costs from the Regulatory Accounts Table. Agree the adjustment to the underlying accounting records provided by management and/or the Regulatory Accounts. Report the description of the reorganization costs identified and the underlying accounting records or other supporting documentation used by management to support the reorganization costs.**

The Company excludes non-appointed operating costs (£4.05m) from the activity cost Tables in the Regulatory Accounts. The activity costs reported in the AIR have been reconciled and agreed to both Statutory and Regulatory Accounts. The amount deemed non-appointed has been agreed to the client apportioning model.



## Part C – Pensions

- 16. Obtain an explanation from management of the procedures used to allocate costs, starting from the point where such data is extracted from the general ledger. Agree the procedures, in particular the apportionments of the FRS17 (or other relevant standard) charge across the lines in Tables 21 and 22, is an exact match to the Regulatory Accounts and the underlying accounting records provided by management. Report the procedures used, confirming they are an exact match to the Regulatory Accounts or provide details of any inconsistencies.**

An explanation of the procedures used to allocate costs including pension costs, is included in the commentary for Tables 21 and 22. Tables 21 and 22 have been agreed to the Regulatory Accounts and reconciled to NI Water's Oracle nominal ledger. Pension costs for those employees who can be directly attributed to service or business activities are directly mapped to these areas via the wages and salaries codes. However, pension costs that relate to either employees not engaged directly on service/business activities or that relate to past service costs have been apportioned to activities in line with the treatment of general and support expenditure. We have not identified any inconsistencies between the Company's explanations, the Regulatory Accounts and underlying information.

- 17. Agree that an adjustment has been made by management within Table 21 and 22 for employees who are outside of the appointed business. Appointed business means the business consisting of the carrying out by the appointee of the regulated activities as defined by the Instrument of Appointment by the Department for Regional Development of NI Water Limited as a water and sewerage undertake under the Water and Sewerage Services (Northern Ireland) Order 2006. Report the details of the adjustment for the current year recorded.**

Management have been unable to separate out the FRS17 charge or the pension deficit relating to those employees in the non-appointed business. However, these employees represent a small minority of the total number in the scheme and any allocation is not expected to be material. The commentary to Tables 21 and 22 notes this departure from reporting requirements.

- 18. Check that the amounts included for the interest cost in table 18d and the balance sheet position in tables 19 can be agreed to the Regulatory Accounts, and where relevant, the pension disclosure notes provided by NI Water's actuary.**

The total net interest per Table 18d has been agreed to the Regulatory Accounts. The interest charges for pension could not be agreed to the Regulatory Accounts as this disclosure is not required.

Table 19 has been agreed to the Regulatory Accounts and pension disclosure notes provided by the Company's actuary where applicable.

- 19. Where any apportionments are identified above, obtain from management a commentary identifying any changes in the apportionment policy from the prior year and the new basis of preparation applied. Agree the new basis is the exact same as the basis of preparation of the Regulatory Accounts.**

Pension costs have not been split between Appointed and Non-Appointed business, as set out above - therefore no apportionments have been made in relation to pension costs.

- 20. Obtain from management, the NI Water Regulatory Accounts Tables' commentary on the comparison of actual contributions to those set out in the final price determination PC21. Read NI Water's explanation and agree details set out in the commentary to the underlying accounting records provided by management. Report any differences between the actual contributions and those set out in PC21 and report the underlying accounting records or other supporting documentation used by management to support the differences inspected by you.**

The Company's commentary to Tables 21 and 22 states employer's contributions were £13.3m for the year ended 31 March 2023. We have tested contributions through vouching to bank statements and confirm that these have been paid during the year.

- 21. Inquire with management, whether there have been any financial changes to future contribution levels agreed with the pension scheme trustees which will commence after the year-end. If changes are noted, provide financial details and details of the supporting documentation confirmed with the trustees that was made available by management to support the changes.**

Future levels of contributions have been agreed between the company and the trustees of the pension scheme and have been formally set out in a schedule of contributions. Note G3 of the Statutory Accounts indicate that management anticipate contributions of approximately £15.2m in 2023/24 based on the Schedule of Contributions agreed by the actuary.

- 22. For defined benefit schemes, reconcile and agree the level of cash contributions stated by NI Water to bank statements as having been paid.**

Cash contributions for the defined benefit scheme have been agreed to bank statements as having been paid.

- 23. Where NI Water contributes to both a defined benefit and a defined contribution scheme, reconcile the split to the underlying accounting records of the company provided by management.**

The Company makes immaterial contributions to certain defined contribution pension schemes as a result we have not completed this procedure.

- 24. Agree any lump sum contribution during the year to the underlying accounting records and NI Water's commentary.**

There were no additional lump sum contributions into the Company Pension Scheme during the year.

- 25. Obtain from NI Water management detail of changes in the actuarial assumptions underpinning the FRS17 (or other relevant standard) valuation that have occurred since the previous year-end. Agree these assumptions to the FRS17 (or other relevant standard) report provided by NI Water's actuary.**

The valuation provided by the company's actuary is an IAS19 valuation as the Statutory Accounts are prepared under UK International Financial Reporting Standards and as such an FRS17 valuation has not been prepared. We note there is a difference between IAS19 and FRS17 in relation to the allocation of pension costs as an expense to the profit and loss account or directly to reserves (see above for details). The key assumptions in 2023 and 2022 are set out below:

Assumption	2023	2022
Discount rate	4.80%	2.80%
Inflation (RPI)	3.00%	3.30%
Inflation (CPI)	2.70%	3.00%
Rate of increase in salaries	2.70% (for the next year)/ 3.70% (thereafter)	3.00% (for the next 2 years)/ 4.00% (thereafter)
Rate of increase in pensions in payment and deferred pensions	3.10%	3.40%

Details of mortality assumptions are set out below:

	31 March 2023			
	Non-industrial		Industrial	
	Male	Female	Male	Female
Member age 60 (current life expectancy)	26.9	28.8	25.2	27.2
Member age 40 (life expectancy at age 60)	28.8	30.7	27.1	29.1
	31 March 2022			
	Non-industrial		Industrial	
Member age 60 (current life expectancy)	26.8	28.7	25.1	27.1
Member age 40 (life expectancy at age 60)	28.7	30.6	27.1	29.0

A pension surplus of £46.5m (2022: deficit of £29.1m) has been recognised in the financial statements. The movement from the prior year primarily relates to changes in key underlying assumptions (discount rate, inflation rate and mortality) with the key contributing factors being the increase in the discount rate of 2.00% and the decrease in the CPI and RPI inflation rate of 0.30% (all in absolute terms). The assumptions used are within KPMG Actuary's tolerable benchmark range.

- 26. Where there has been a change in the level of contributions within the year, agree that management has included a commentary on the difference in the relative amount of contributions being used to fund any deficit. If changes are noted, report your findings including any financial figures noted and the supporting documentation that was made available by management.**

The employer contribution rate has remained consistent with the prior year rate of 29.2% in the current year. There is currently a pension asset of £46.457m.

## Part D – Income

- 27. Read management’s reconciliation and commentary of the amounts billed to the reported turnover as part of the Regulatory Accounts Tables. For adjustment lines included in the Table 23 (other than for the measured income accrual), agree that management have included in the Table 23 commentary their assessment whether they are one-offs for the current year or repeated. Where management note the adjustments occur annually, agree that a comment has been included in the Table 23 comment on the size of the adjustment compared to the previous year. Read NI Water management’s commentary on Table 23 and agree details set out in the commentary to the underlying accounting records or other supporting documentation provided by management. Report the details in the commentary that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**

Management have reconciled the billed income figure reported in Table 23 to Echo reports for the year, after making manual adjustments for movements in accrued, referred, and deferred income and adjustments in respect of miscellaneous movements in provisions. Referred income relates to bills raised and included in Rapid Xtra billing reports, but not accounted for by NI Water as they are currently under investigation. Total turnover, opening and closing accrued/referred income and manual adjustments have been agreed to the Oracle nominal ledger, the remaining billed income figure to Echo reports. We have also verified the arithmetical accuracy of the reconciliation.

The majority of adjustments are non-recurring in nature and relate to movements in provisions and accrued income due to changes in the billing cycle in the current year. Recurring adjustments relate to variances between accrued income and amounts actually billed.

- 28. Based on inquiries with management and sight of underlying documentation that can be traced to underlying accounting records or other supporting third-party evidence provided by management. Provide your understanding of NI Water’s procedures for monitoring revenue, including who reviews the revenues against PC21 and forecasts, the process for identification of variances and whether any sensitivity analysis takes place and details of what supporting documentation was provided by management that you inspected to support the procedures.**

Measured and unmeasured Water and Sewerage revenue are monitored against the budgetary position on a monthly basis and variances investigated. This process is undertaken by representatives from Financial Accounts, Management Accounts and Customer Services. Monthly variances are also reviewed by the Finance Director and Customer Services Director, who subsequently prepare a report for submission to the Board. The annual budget in respect of subsidy income is based on PC21, after adjusting for a change in revenue mix given the deferral of domestic charges and phasing of subsidy income. The annual budget in respect of non-domestic billed income is a part of a separate exercise which takes into account any recent issues relevant to income (e.g. water consumption levels, new customers, potential for significant customers going out of business etc.).

The company uses the 'actuals report' for the purpose of providing management with more detailed information in respect of consumption, broken down by customer categories and types, thus enabling the company to more accurately identify trends and fluctuations which in turn allows them to forecast future consumption with more accuracy. The Finance and Customer Services teams meet on a monthly basis to discuss emerging variances with the 'actuals report' allowing underlying trends in consumption to be compared to the volumetrics underpinning the forecasted information and can provide logical explanations for under/over achievement in revenue targets. Where subsequent meter readings are at variance with the expected amounts taken from the accrued income report, this is taken into account in estimated forecasted revenue.

**29. Obtain the commentary within the Regulatory Accounts Tables completed by NI Water management on both revenue reported in Table 23 and explaining variances between the actual and forecasted revenue in PC21. Read NI Water's explanation of all variances and agree the details within the explanation to the underlying accounting records provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**

The company have noted in their commentary that total revenue for 2022/23 was £20.5m (4.5%) above budget (including non-appointed revenue). The main drivers are:

With Measured Water, there has been:

- There was a lot of economic uncertainty when the 2022/23 income budget was agreed. While the world was just emerging following the pandemic and Russia had yet to invade Ukraine, energy prices had started to rise. As such, the budget was set at a conservative level, anticipating that water consumption would return to pre-pandemic levels by Q4 of 2022/23. In reality, consumption returned to "normal" levels or above far sooner than expected, even in areas like hospitality.
- Agricultural income accounts for about a third of measured water income, and consumption was generally above pre-pandemic levels, possibly due to a lot of dry weather during the year and, at times, a very hot summer.
- The budget assumed that hospitality would rise from 90% in Q1 to c95% in Q4; however, hospitality was mostly at or above "normal" levels, possibly due to "pent-up demand" and also helped by a strong Christmas.

With Measured Sewerage, there has been:

- MS has been impacted more by the higher than expected consumption for public sector businesses and the hospitality sector.
- Measured sewerage benefitted from a £0.6m back-billing for a third borehole (hence, measured sewerage only) [redacted] during the year.

For Trade Effluent income, there has been:

- The 2022/23 budget reflected the 2021/22 increased income for new billing [redacted] (£0.2m), which was not replicated in the actual income for 2022/23.

Actual revenue figures have been agreed to the Oracle nominal ledger. Budget figures are those initiated by the Customer Service Department and agreed with the Finance and Regulation Department. Explanations in respect of turnover variances are those provided by the Customer Service Team

- 30. Obtain management’s commentary within the Regulatory Account Tables on the basis of the measured income accrual. Read NI Water’s commentary and agree the accrual and supporting details set out in the commentary to the underlying accounting records or other supporting third-party evidence provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**

The commentary based on the measured income accrual was reviewed and is consistent with our understanding established during the statutory audit. The level of measured income accrual noted for 2022/23 has been agreed to the Oracle nominal ledger and reconciled to underlying customer billing reports. We note that accrued income has increased by £2.1m from the prior year as a result of the following extract taken from the Table 23 commentary:

	<b>Impact £m</b>
Increased average daily consumption in MW and MS	1.9
Increased average consumption in unmeasured income	0.2
<b>Total increase in accrued income</b>	<b>2.1</b>

- 31. Where management has calculated a retrospective review of the previous year’s accrual compared to the amounts actually billed, agree the amounts reported in Table 23 to the underlying accounting records or other supporting documentation. Where management are not able to complete a retrospective review of the previous year’s accrual, ensure that NI Water has included an explanation of the reasons for this in their Regulatory Accounts Tables commentary. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**

In 2014 management implemented a reconciliation process whereby amounts billed are compared to those previously accrued for both monthly and six-monthly customers.

In the current year, a £2.2m (2021/22: £1.9m) system adjustment provision in respect of expected credits to be raised relating to bills previously issued was recognised against trade receivables. This system adjustment provision was created in recognition of the number of adjustments that are made to bills following queries raised by customers. Management have referred to this in their commentary to Table 6A.

- 32. Agree that the amounts reported in table 23 in net revenue movement out of the tariff basket (water and sewerage service) agree to the underlying accounting records or other supporting documentation provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**

There has been no net revenue movement out of the tariff basket, as stated in the commentary.

## Part E – Bad Debt

- 33. Obtain NI Water’s commentary on Tables 6a, 21 and 22 and agree NI Water have confirmed if the information has been extracted directly from their billing systems or whether numbers have been manually calculated or adjusted in some way, for example to allocate data between households and non-households. Read NI Water’s explanation and agree details of any assumptions or apportionment stated in the basis of preparation to the underlying accounting records provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**

The data illustrated on lines 29 and 43 of Table 6a summarise revenue outstanding from non-households only. Household billing had not commenced in 22/23 therefore no such income has been recognised and as such there is no outstanding revenue at the year end.

As noted earlier, NI Water has outsourced billing and debt collection to Echo.

The balances on line 29 and line 43 of Table 6a have been extracted from the aged debt listing created using information from the Rapid Xtra Billing System provided by Echo on a monthly basis. These balances are manually adjusted for potential bad debts and then reconciled to the Oracle nominal ledger. Reconciling items have been agreed to supporting documentation, and balances agreed to Oracle nominal ledger.

The nominal ledger figure (TB codes 1210 – Measured water and sewerage; and 1213 – Trade Effluent) is £7.8m, £1.2m more than the figure included in the AIR due to the following adjustments:

	£m
Balance per Nominal Ledger	7.8
Echo bad debt provision adjustment	(3.0)
Excluded credit balances	1.8
Balance per Table 6a	<u>6.6</u>

The information for revenue written off of £289k populated in lines 57a and 58a of Table 6a has been reconciled to the Oracle nominal ledger.

The customer services operating expenditure of £12.460m in line 63 has been agreed as the total of line 13 in Table 21 (£6.530m) and line 12 in Table 22 (£5.930m). This total has been agreed to the Regulatory Accounts.

- 34. Agree the figures included in Tables 6a, 21 and 22 to NI Water’s accounting records/billing systems. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**



The total revenue outstanding detailed in lines 29 and 43 has been reconciled to the supporting documentation provided by the client. This supporting documentation is a manual reconciliation performed between the aged debt listing at the year end and the amounts included in lines 29 and 43 of the Table. The amounts included in the aged debt listing are extracted from the Rapid Xtra Billing System. The figures are adjusted to account for potential bad debts.

- 35. Obtain NI Water's commentary within the Regulatory Accounts Tables 6a, 21 and 22 on any changes in reporting methodologies (for example, apportionments used in calculating outstanding revenue collection operating expenditure) from year to year and the effect this will have on the data reported in the current, past and/or future years. Read NI Water's explanation and agree the details set out in the commentary to the underlying accounting records or other supporting third-party evidence provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included**

There have been no changes in reporting methodologies since the prior year. The income split by category has been reconciled to the Oracle nominal ledger. Explanations for variances provided by management supports our understanding of the debtors/income process established during the statutory fieldwork.

- 36. For any changes in methodology, agree that the previous years' data in tables 6a, 21 and 22 has been adjusted. If previous years' data has not been adjusted agree NI Water's reasons for this are stated in the Regulatory Accounts Tables commentary.**

There have been no changes in methodology that require an adjustment to prior year figures.

- 37. Agree that the definition of 'revenue outstanding' as set out in NI Water's reporting requirements has been adhered to in Lines 1 to 56 of the Regulatory Accounts Table 6a and state where this information has been extracted from.**

Domestic billing has been postponed in the current year; hence lines 1-28 remain blank. The revenue outstanding reported in line 29 is that of non-domestic measured Water, measured Sewerage and Trade Effluent billing. This is further broken down in lines 31, 33, 35 and 37. The revenue outstanding per line 43 is that of non-domestic unmeasured Water and Sewerage. This is further broken down in lines 45, 47, 49 and 51. This information has been reconciled to the Oracle nominal ledger. Information is posted into the nominal ledger on a monthly basis from the information pack derived from the Rapid Xtra billing system.

- 38. Inspect that the revenue outstanding shown in these lines has been aged into the relevant time bands correctly, through agreement to underlying accounting records or other supporting third-party evidence provided by management. Report the details of the underlying aged debt report inspected or other accounting records that the revenue outstanding has been agreed to and details of sample tested.**

The ageing of outstanding debt has been agreed to underlying accounting records and agrees with work performed during the statutory fieldwork. The aged debt report provides totals for measured, unmeasured and Trade Effluent debtor categories aged

from 0-30, 30-60 up to 180 days, then from 180-365 days, after which it continues 1-2 years up to 4+ years.

- 39. Inspect that NI Water has provided explanations for any material changes (+/-20% between the report year and the previous year) in the “revenue outstanding” lines in table 6a. Read NI Water’s explanation and agree details set out in the commentary within the Regulatory Accounts Tables to the underlying accounting records or other supporting third-party evidence provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included**

Revenue outstanding decreased by £2.89m (30%) from the prior year. This material movement is primarily a result of the change in NI Water’s bad debt provisioning policy. The balances for revenue outstanding that are extracted from the Rapid Xtra Billing System are manually adjusted for potential bad debts. As the bad debt provision has increased in the year (see details at (50)), this has resulted in less revenue outstanding being recognised in table 6a.

- 40. Agree the sum of the total revenue outstanding lines in table 6a (lines 1, 13, 15, 27, 29, 41, 43 and 55) to the debt reported on NI Water’s Oracle Nominal Ledger. If numbers do not reconcile, agree the reason for the difference in management’s Regulatory Accounts Tables’ commentary to underlying accounting records or other supporting documentation. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included**

The total revenue outstanding per line 29 and line 43 of Table 6a cannot be reconciled to the Oracle nominal ledger, as the client has performed manual adjustments to these figures to reflect any potential bad debts. KPMG has reviewed the client’s supporting schedules and have agreed the total revenue outstanding per line 29 and 43 to these schedules.

KPMG note that the remaining lines (1, 13, 15, 27, 41 and 55) are not relevant in the year, or have been included within the Table as nil values.

- 41. Where there are any adjustments made to revenue outstanding between data extracted from billing or accounting systems and that reported in the Regulatory Accounts Table 6a, agree the details to the underlying records or other supporting documentation provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**

See (33) for details on adjustments made to revenue outstanding between data extracted from the billing system and that reported in the Regulatory Table.

- 42. Agree that ‘non-household revenue outstanding’ has been correctly extracted from NI Water’s underlying accounting records or other supporting documentation provided by management. Document in your report the nature of costs that have been reported.**

The balances on line 29 and line 43 of Table 6a have been extracted from the aged debt listing created using information from the Rapid Xtra Billing System provided by Echo on a monthly basis. These balances are manually adjusted for potential bad debts and then reconciled to the Oracle nominal ledger. Reconciling items have been agreed to supporting documentation, and balances agreed to Oracle nominal ledger.

- 43. Obtain NI Water’s commentary on lines 59 to 63 of tables 21 and 22 on the basis of allocating customer services operating expenditure and agree the details and figures with the underlying accounting records or other supporting third-party evidence provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included**

Customer services operating expenditure has been allocated to line 59 only due to there being no household billing in 22/23 and hence there are no associated costs in respect of the collection of household debt. Similarly, there have been no donations to charitable trusts, assisting customers in debt nor any operating expenditure incurred due to vulnerable household customers. The allocation of this customer services operating expenditure follows the same methodology as detailed in the commentary to Tables 21 and 22. Further work has been performed on the allocation methodology in section B - Activity Costing Analysis including walkthroughs of a sample of expense items to confirm that the allocation is being carried out as described in the methodology included in the commentary to Tables 21 and 22 - no issues were noted.

- 44. Inspect that NI Water has provided an explanation for any material changes (+/-30% between report year and previous year) in data reported in the ‘customer service operating expenditure’ lines in tables 21 and 22. Read NI Water’s explanation and agree details and figures in table 21 and 22 commentary with the underlying accounting records or other supporting third-party evidence provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included**

Total customer services operating expenditure has increased by approximately £923k (8%) compared to AIR22. This is made up of various movements in each direction, with no individual movement +/- 30%, explanations for these movements are included in the commentary to Tables 21 and 22 and are consistent with our understanding of debt collection and movements observed during statutory fieldwork. None of the variances are material, as per the definition (i.e. +/- 30%).

- 45. Confirm the basis of allocating outstanding revenue collection operating expenditure in line 60a in Table 6a is consistent with prior year or report any changes provided by management.**

As domestic billing has been postponed, there is no operating expenditure incurred in relation to households. No balance has been reported in line 60. Expenditure in relation to line 60a has been allocated on the basis set out above.

- 46. Agree the reported numbers for household and non-household costs for outstanding revenue collection operating expenditure in line 60a in Table 6A to the underlying accounting records or other supporting documentation provided by management. Obtain NI Water’s commentary on Table 6A and inspect that NI Water has provided reasons for any material differences (+/-30% between the report year and the previous year) in each element of household and non-household expenditure. Read NI Water’s explanation and agree details set out in the commentary to the underlying accounting records or other supporting documentation provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**

Line 60 - Not applicable as there was no domestic billing in 22/23 therefore no outstanding domestic revenue at the year end.

Line 60a - Operating expenditure has been disclosed as £2.482m (2022: £2.323m). This is based on several key assumptions and management disclose the following in their commentary:

[Redacted]. In addition, an estimate of some internal NI Water collection costs was included.”

The internal costs referred to include NI Water staff costs based on an estimate of grading but does not include the costs of billing, staff costs in respect of dealing with complaints or queries, NI Water overhead costs, bad debt costs or management review costs.

- 47. Where NI Water management has commented on a change to the methodology used to compile line 60a in table 6a auditors should agree this to the underlying accounting records or third-party documentation. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included**

There has been no change in the methodology used to compile line 60a.

- 48. Agree line 63 in table 6a to the sum of regulatory accounts table 21 line 13 and regulatory accounts table 22 line 12. For any differences agree to the underlying accounting records that agree to the Oracle Nominal Ledger or third-party evidence. Report the nature of the underlying accounting records or other supporting documentation provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.**

The total figure in line 63 (£12.460m) has been agreed to the total of line 13 in Table 21 (£6.530m) and line 12 in Table 22 (£5.930m).

49. For any significant exceptional capital costs associated directly with outstanding revenue collection or provision for vulnerable customers included in Table 6A, agree these to the underlying accounting records that agree to the Oracle Nominal Ledger or third-party evidence. Report the nature of the underlying accounting records or other supporting documentation provided by management. Report the details that have been agreed to underlying records or other supporting documentation provided by management and details of what the other supporting documentation provided by management included.

No significant exceptional capital costs have been described in the Company's commentary.

50. Obtain a commentary from management within the Regulatory Accounts Tables on the bad debt provisioning policy, particularly where this has changed from the prior year. Confirm if there has been a change reported to have taken place, agree the policy is the exact same as the Regulatory Accounts.

The bad debt provisioning policy has been included in the commentary to Table 6a. This is not consistent with the prior year policy. The methodology for calculating the bad debt provision is based on an analysis of industry specific bad debt which banded specific industry types as very high, high, medium, or low risk in terms of collectability of debt. Percentages were then applied in terms of bad debt provision. Percentages for 'very high risk' have remained the same and percentages for 'high risk', 'medium risk' and 'low risk' were set at an increased level from prior year and percentages. The company view this methodology as providing an appropriate estimate of the provisioning required and reflects the current economic climate. NI Water's bad debt provision is calculated as follows:

Provision	0-30 Days	31-60 Days	61-90 Days	91-120 days	121-150 Days	151-180 Days	180-365 Days	1 - 2 Years	2 - 3 Years	3 - 4 Years	4+ Years
Very High	40%	40%	55%	55%	70%	100%	100%	100%	100%	100%	100%
High	30%	30%	45%	45%	60%	90%	100%	100%	100%	100%	100%
Medium	15%	15%	15%	15%	35%	50%	80%	100%	100%	100%	100%
Low	5%	5%	5%	5%	15%	25%	50%	75%	100%	100%	100%

The following is a summary of the bad debt provision at 31 March 2023 and 31 March 2022:

	2023	2022
	£m	£m
Measured Water & Sewerage	2.521	2.840
Unmeasured Water & Sewerage	0.122	0.361
Trade Effluent	0.353	0.166
<b>Total</b>	<b>2.996</b>	<b>3.367</b>

The bad debt policy applied is consistent with the policy that has been applied in deriving the bad debt provision in the Statutory Accounts and Regulatory Accounts.

**51. Provide in a table the bad debt charge and revenue outstanding over time using the data provided by management in tables 21 and 22 and lines, 1, 13, 15, 27, 29, 41, 43 and 55 in table 6a respectively. Report any large movements and explanations from discussions with management and agreed to inspected underlying accounting records or third-party evidence.**

The level of revenue outstanding has decreased in the year.

Table	Line		AIR 2023 £m	AIR 2022 £m	AIR 2021 £m	AIR 2020 £m	AIR 2019 £m	Variance from AIR 2022 to AIR 2023 £m
21	18	Doubtful debts	(0.016)	(0.121)	(0.723)	(0.449)	(0.041)	0.105
22	17	Doubtful debts	(0.109)	(0.130)	(0.985)	(0.618)	(0.226)	0.021
6a	1	Total revenue outstanding < 48 months (measured households)	-	-	-	-	-	-
6a	13	Revenue outstanding > 48 months (measured households)	-	-	-	-	-	-
6a	15	Total revenue outstanding < 48 months (unmeasured households)	-	-	-	-	-	-
6a	27	Revenue outstanding > 48 months (unmeasured households)	-	-	-	-	-	-
6a	29	Total revenue outstanding < 48 months (measured non-households)	6.235	6.139	6.175	5.496	6.112	0.096
6a	41	Total revenue outstanding > 48 months (measured non-households)	-	-	-	-	-	-
6a	43	Total revenue outstanding < 48 months (unmeasured non-households)	0.358	3.338	3.016	2.870	2.650	2.980
6a	55	Total revenue outstanding > 48 months (unmeasured non-households)	-	-	-	-	-	-

Of the £0.125m current year total bad debt credit, a £0.016m bad debt credit can be directly allocated to Table 21 (Water) and £0.109m bad debt credit can be directly allocated to Table 22 (Sewerage).

We note that there are limitations when reviewing the consistency over time of the bad debt charge and revenue outstanding in a company that is continuing to grow and develop due to the following factors:

- Revisions to bad debt provisioning policies in light of experience
- Improvements in empirical evidence of system adjustments
- Economic factors outside of the control of the Company (e.g. Covid-19)

Line 29 of Table 6a representing measured non household debt has increased by £0.096m from the prior year.

Line 43 of Table 6a representing unmeasured non household debt less than 48 months old has decreased by £2.980m from the prior year.

Lines 1, 13, 15 and 27 above relate to domestic debt and as such are not applicable for the company.

Lines 41 and 55 above relate to non-domestic debt greater than 48 months old. These debts are fully provided for and as such are included at nil value.

- 52. Confirm if there have been any changes in the provisioning policy. Where there is a change in the provisioning policy (set out in management's commentary on the Regulatory Accounts Tables), obtain management's assessment of the impact of the change and agree the details to supporting documentation provided by management. Report the nature of the supporting documentation provided and inspected**

The Company's provisioning policy has changed from the prior year. Please see details of this change at (50).

## Part F – Taxation

[Part F- Taxation has been redacted.]



## Part G – Accounting Charges

- 53. Inspect that any amounts reported in table 34 by NI Water for assets fully depreciated still in use and assets written off or replaced in the year which were not fully depreciated can be agreed to the underlying accounting records provided by management that agrees to the final statutory accounts and final regulatory accounts.**

No amounts have been recorded in Table 34 for assets fully depreciated still in use or assets written off / replaced in the year which were not fully depreciated.

- 54. Review the Infrastructure Renewals Charge (“IRC”) in table 33 with the supporting calculation schedule prepared and provided by management. Agree the charge is based on the definition within PC21. The PC21 determination is based on an operational assessment of activity needed to maintain the serviceability of the underground infrastructure using the definitions within RAG 3.06.**

The calculation of the infrastructure renewals charge has been reviewed. It is based on the final determination arriving from PC21. Management note in their commentary to Table 33 that the Regulator determined that the IRC and IRE will be the same for the six-year period of PC21. The PC21 determination is based on an operational assessment of activity needed to maintain the serviceability of the underground infrastructure using the definitions within RAG 3.06. We note that the cumulative difference between IRE and IRC at 31 March 2023 is £13.892m (Water prepayment of £30.421m and Sewerage accrual of £16.529m). Whilst we recognise that differences will inevitably arise due to timing of planned work, we recommend that management review their longer-term maintenance plans to ensure that the IRC is representative of the actual renewals’ expenditure over the longer term.

- 55. Inspect that the financial calculation and details in table 34 commentary explaining the difference between the IRC reported in the Regulatory Accounts and the Statutory Accounts can be agreed to underlying accounting records provided by management.**

The Statutory Accounts and Regulatory Accounts are prepared under UK International Financial Reporting Standards. These standards prohibit the use of renewals accounting and accordingly there is no value for IRC in the Statutory or Regulatory Accounts.

## Part H – Land Sales

[Part H- Land sales have been redacted.]

## Part I – Analysis of Borrowings

- 56. Agree the total carrying value of all instruments in the Regulatory Accounts and Statutory Financial Statements to the appropriate line in table 19 as required by the reporting requirements of table 19a.**

The carrying value of £1,748,218k has been reconciled to Table 19 line 20.

- 57. Agree each instrument included in table 19a sourced from NI Waters underlying accounting records to the Oracle Nominal Listing that agrees to the final statutory accounts and final regulatory accounts has been included within the correct category (A, B, C) in accordance with the definitions of FRS 26**

Each instrument has been included in the correct category (A - C) in accordance with the definitions of FRS 26. The capital loan notes have been classified as a fixed rate instrument under other borrowings (C).

- 58. Agree the interest rates recorded in table 19a back to loan documents and other third-party evidence provided by management.**

The interest rates recorded for the capital loan notes have been agreed to the individual Fixed Coupon Unsecured Loan notes agreement.

We note that the interest rate of 5.25% relates to loan notes issued before 31 March 2010. Any loan notes issued after this date are subject to interest rates based on a margin of 0.85% above the reference gilt rate published by UK HM Government Debt Management Office on the date of the issue of the loan note. This amendment to interest rates has also been agreed to the loan note agreement and has been noted in the Company's commentary to Table 19a.

- 59. Agree the hedging strategy to supporting third party documentation provided by management. Include in your report the supporting documentation management provided.**

As per the Statutory Accounts, the Company does not adopt a hedging strategy.

- 60. Agree NI Water's commentary for the Regulatory Accounts Tables on any significant borrowings that mature in less than one year and agree the monetary value and payment terms back to supporting third party documentation provided by management.**

The Company does not have any significant borrowings which mature in less than one year.

[Redacted]

## Part J – General Procedures

**Ensure that amounts recorded in Tables 42 and 43 of the AIR23, as appropriate, are calculated in accordance with the terms of the relevant PPP contract and with Generally Accepted Accounting Practice (UK GAAP). Also review the audit trail for payment to PPP contractors and the checking of underlying evidence in support of these payments.**

The Company has three PPP contracts in place. For Statutory Accounts purposes all PPP contracts (Alpha, Omega and Kinnegar) are treated as “on” balance sheet. “On” balance sheet classification results in the fixed assets used in the contract being recognised on the balance sheet of NI Water with an associated PPP creditor being recognised. An element of the unitary charge relates to the repayment of this PPP creditor balance. “Off” balance sheet classification results in the fixed assets used in the contract not being recognised on the balance sheet of NI Water.

Due to the change in the Regulatory Accounting basis from Regulatory Accounting Guidelines based on UK GAAP to those based on UK IFRS there are no longer any differences between the Statutory Accounts and the Regulatory Accounts in terms of the “on/off” balance sheet classification of the PPP contracts.

The amounts recognised in the current year in respect of PPP contracts are in accordance with IFRS. Samples of payments were agreed, as part of our statutory audit procedures, to invoices from the PPP contractor and bank statements.

The payments to the contractor appear consistent with our overall knowledge of the PPP contracts. The PPP contract, or any amendments to it, has not been reviewed as part of our audit testing as this would not be necessary to agree amounts recorded in the nominal ledger. The amounts included in the Tables have been agreed, on a sample basis, to invoices provided by the PPP contractor.

**Include in the report details of any major internal control weaknesses identified from the review of PPP in Tables 42 and 43 by management and in the statutory audit review.**

[Redacted]

**Confirm values included in Tables 42 and 43 are consistent with those in the Statutory Accounts and note any deviations.**

[Redacted]

**Review supporting commentary to Table 42 with regard to NI Water statement on total PPP unitary charge. Review commentary to ensure consistency with underlying accounting records and the applicability of any assumptions made.**

[Redacted]

**Ensure that the amounts recorded in line 9 (Unitary Charge Deductions) of Table 42 have been calculated and charged appropriately, promptly, and accurately and are additionally consistent with the terms of the PPP contract between NI Water and the Concessionaire Company.**

[Redacted]

**Ensure that any disputed amounts between NI Water and the Concessionaire Company have been treated and recorded appropriately in accordance with GAAP and the Regulatory Accounting Guidelines.**

[Redacted]

**Check that any relevant efficiency gains recorded in line 11 of Table 42 have been calculated accurately and applied consistently in accordance with the terms of the relevant PPP contracts.**

[Redacted]

**Additionally, check the status of all efficiency audits and/reports on PPP operations and report on their implementation, where appropriate. Should implementation be outstanding report on the explanations provided by NI Water of any failure or delay in implementing such audits/reports.**

[Redacted]

**Ensure that amounts recorded in lines 10 and 16 of Table 42 for atypical expenditure and payments capitalised have been appropriately authorised and supported by information which supports the payments made.**

[Redacted]

**Confirm that all payments reviewed have been made in accordance with the terms of the relevant PPP contract or if such payments have been made outside the terms of the contract, that they have been appropriately authorised.**

We have agreed a sample of payments to bank statements and reconciled these to individual invoices provided by the contractor which have been checked and certified for payment by the Company.

**Confirm that all payments reviewed have been appropriately recorded and follow GAAP.**

All payments reviewed in relation to the PPP contracts have been appropriately recorded and follow IFRS.

**Check and report on the consistency of the total amount recorded in Table 42 line 20 and Table 43 line 4 with the respective totals recorded in line 21a of Table 21 and line 20a of Table 22.**

[Redacted]

**Check and report on the consistency of the total amount recorded in Table 43 line 5 with the total in line 22a of Table 21 and line 21a of Table 22.**

[Redacted]

*The document and information contained herein (“Information”) is specific in nature and is only intended to address the circumstances of Northern Ireland Water Limited (“NIW”), as set out in the engagement letter dated 8 June 2023, and not any third party individual or entity. If you are a party other than the NIW, KPMG:*

*To the fullest extent permitted by law, KPMG will have no liability and accepts no responsibility whatsoever to you for any loss or damage suffered or costs incurred by you or any other person or entity arising out of or in connection with the provision to you of this report or any part thereof, however the loss or damage is caused, including, but not limited to, as a result of negligence.*

*Any findings contained within this report are based upon our reasonable professional judgement based on the information that was available as of 28 July 2023 and we cannot provide any guarantee of assurance that it will continue to be accurate in the future.*

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