Read more about **accounting policies** on page 219

Read more about **the impact of climate change** on page 206

The increasing focus of investors on the impact of climate change has again been reflected in the viability assessment underpinning the long-term viability statement (see page 140) which the committee endorses prior to approval by the board.

Following the publication of the BEIS consultation on 'Restoring Trust in Audit and Corporate Governance', to which the company formally responded in July 2021, management reviewed the group's internal control environment in preparation to address the likely evolution of the UK regulatory landscape as it relates to financial reporting. Management was supported in this review by an independent third party who commented that the current maturity of the group's capabilities, governance and operating model pertaining to internal controls over financial reporting was higher that was typically seen currently within other UK listed businesses. However, further enhancements could be made to address the evolving landscape. The committee was reassured by this review and its contribution to enhancing the group's audit and assurance processes, and to steps taken during the year towards the formulation of an audit and assurance policy (see page 151). Management has also discussed with the committee the group's preparedness toward the provision of a resilience statement, if required, in future years (see page 147). Based on assessments of the group's viability, resilience and long-term prospects that are currently formed, the group is well positioned to address developments in this area.

Audit quality has again been high on the committee's list of priorities, in particular its scrutiny of the findings of the FRC's 2021 audit quality review (AQR) published in July 2021 (and available on the FRC's website). The committee's challenge to KPMG was to address the lessons of the 2021 AQR's findings as they were applicable to the group, as well as enhancing the quality and transparency of the services provided as auditor. Ian Griffiths, KPMG's lead audit partner, responded to the committee's challenge by committing to provide to the committee the details of the independent partner's review of the audit, as part of the 2022 year-end sign-off processes. Other audit quality processes (see page 148) included a technical review and a second-line of defence review by another team independent of the audit team.

In its assessment of the effectiveness of the statutory audit process relating to the year ended 31 March 2021, the committee committed to assessing whether the additional audit quality processes that had been proposed for the 31 March 2021 audit such as: improving the communication between the KPMG audit team and the internal audit team through regular discussion sessions; raising audit points in a timely manner and improved project management of the year-end process, had been effectively implemented. The findings of the assessment (see page 149) were presented to the committee in September 2021, which concluded that the additional processes had been effectively implemented, and would be retained for the 31 March 2022 year-end audit.

Auditor independence is a key principle and contributing factor to audit quality. It is reviewed as part of the audit scope and re-examined prior to the accounts being approved and signed by the board. The auditor must be independent of the company. The committee has time set aside during its meetings to meet with the auditor without management in order that they can speak freely and raise any concerns.

Independence is a key focus for the auditor, whose staff must comply with their firm's own ethics and independence criteria which must be consistent with the FRC's Revised Ethical Standard (2019). Information on how the committee assesses the independence of the auditor can be found on page 149. The statutory auditor presents its audit findings to the shareholders as the owners of the business (see pages 202 to 209).

The evaluation of the committee's performance for 2021/22 was facilitated internally by the company secretary and his team, which has provided some useful feedback and points for action (see page 136) and reiteration of the need for the committee to stay abreast of developments, particularly the work of the International Sustainability Standards Board as it develops reporting standards for sustainability topics encompassing many aspects of ESG.

I am pleased to welcome Liam Butterworth, who joined the board on 1 January 2022, as a member of the committee. The membership of the committee will be revised after the forthcoming AGM in July 2022 (details can be found on page 133).

This report was approved by the committee at its meeting held on 17 May 2022.

Doug Webb
Chair of the audit committee

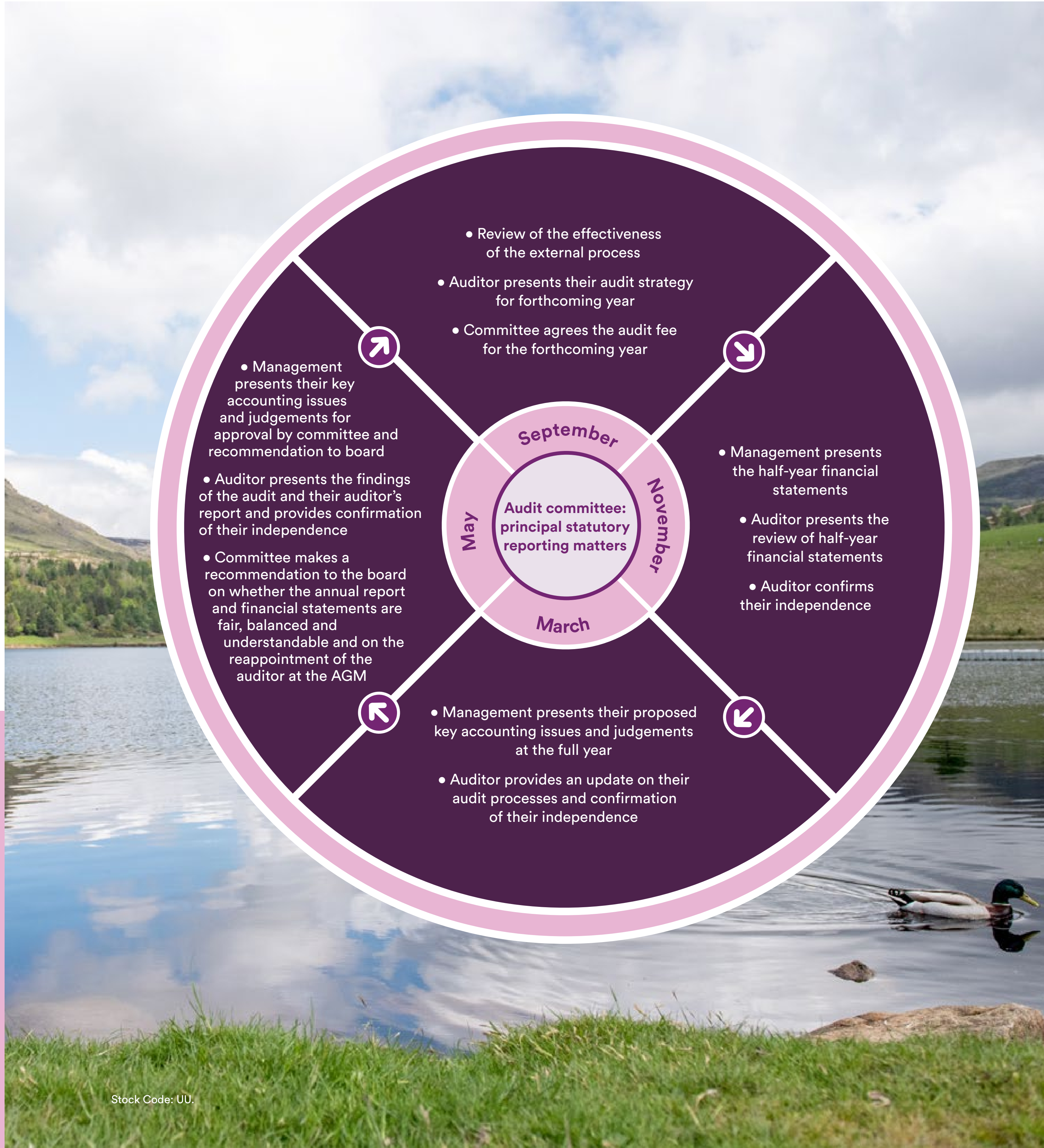
Main responsibilities

- Make a recommendation to the board for the appointment or reappointment of the auditor, and to be responsible for the tender of the audit from time to time and to agree the fees paid to the auditor.
- Establish policies for the provision of any non-audit services by the auditor.
- Challenge the auditor on the scope and the results of the annual audit and report to the board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded.
- Review the half-year and annual financial statements and any announcements relating to financial performance, including reporting to the board on the significant issues proposed by management and in particular those challenged by the committee in relation to the financial statements and how these were addressed.
- Approve the scope, remit and effectiveness of the internal audit function and the group's internal control and risk management systems.
- Review the group's procedures for reporting fraud and other inappropriate behaviour and to receive reports relating thereto.
- Report to the board on how it has discharged its responsibilities.
- Apply the principles of the code and report against the provisions.

Business on the committee's agenda during the year

The committee has an extensive agenda of items of business focusing on the audit, assurance and risk processes within the business which it deals with in conjunction with senior management, the auditor, the internal audit function and the financial reporting team. The committee's role is to ensure that management's disclosures reflect the supporting detail provided to the committee or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The committee reports its findings and makes recommendations to the board accordingly. The committee is supported in this role by using the expertise of the statutory auditor, who, in the course of the audit, considers whether the financial statements have been prepared in accordance with IFRS and whether adequate accounting records have been kept. In doing so it ensures that high standards of financial governance, in line with the regulatory framework along with market practice for audit committees going forward, are maintained. Furthermore, the company's own internal audit team contributes to the assurance process by reviewing compliance with internal processes. The committee's financial reporting cycle, which starts each year in September, is shown below. There were four meetings of the committee held during the year, the committee intends to continue to hold the two meetings in September and March virtually. Items of business considered by the committee are set out on pages 146 to 147.

Audit committee financial reporting cycle



Actions	Outcomes	Cross reference
Annual and half-year reporting		
Reviewed, discussed and challenged the financial reporting team's reports on the financial statements, management's significant accounting judgements, the policies being applied both at the full and half year and how the statutory audit contributed to the integrity of the year-end financial reporting.	The committee challenged management on a number of its judgements and sought detailed explanations of its interpretation. The committee was satisfied with the explanations provided by management. Recommendations were made to the board, supporting the approval of the financial statements.	See pages 151 to 152
Reviewed and challenged the regulatory reporting process relating to the annual performance report (APR) for UUW, including the assurance provided by the technical auditor, as required to be submitted to Ofwat, and noted the differences between the regulatory and statutory accounts.	The committee met with the technical auditor to provide an opportunity for challenge by the committee whose overview contributes to the assurance process of the regulatory reporting prior to the approval of the APR by the UUW board.	–
Assessed management's presentation of APMs to enable comparability with other companies.	Concurred with management's approach that the APMs as defined were satisfactory enabling comparability with other companies.	See page 82
Reviewed and challenged the proposed audit strategy for the 2021/22 statutory audit, including the level of materiality applied by KPMG, audit reports from KPMG on the financial statements and the areas of particular focus for the 2021/22 audit.	The committee monitored progress made by the statutory audit team against the agreed plan, and challenged the auditor in the resolution of any issues as they arose.	See page 202
Reviewed and challenged the basis of preparation of the financial statements as a going concern as set out in the accounting policies.	Recommendation made to the board to support the going concern statement.	See page 217
Reviewed and challenged the long-term viability statement proposed by management and reasons why a seven-year assessment period was appropriate.	The committee challenged management that the length of the period was appropriate, particularly in light of assessment timeframes used by peer companies, but were satisfied with management's preference to continue to provide a statement with greater certainty over a shorter period of time.	See page 140
Reviewed the results of the committee's assessment of the effectiveness of the 2020/21 audit.	The committee concluded that the audit was effective and a recommendation was made to the board on the reappointment of KPMG as the auditor for the year ending 31 March 2023 at the forthcoming annual general meeting.	See page 148
Reviewed whether the company's position and prospects as presented in the 31 March 2022 annual report and financial statements were considered to be a fair, balanced and understandable assessment of the company's position and prospects.	Recommendation made to the board that the 31 March 2022 annual report and financial statements was a fair, balanced and understandable assessment of the company's position and prospects.	See pages 139 and 147
Reviewed the non-audit services and related fees provided by the auditor for 2021/22 and the policy on non-audit services provided by the auditor for 2022/23.	Approved the non-audit services and related fees provided by KPMG for 2021/22 and concluded that no changes were required to the policy for non-audit services provided by the auditor.	See page 149
Negotiated and agreed the statutory audit fee for the year ended 31 March 2022.	The committee approved the fee for the 2021/22 audit, including a small additional fee in respect of the limited assurance work relating to the group's sustainable financing framework.	See pages 149 to 150
Challenged management to enhance the assurance processes supporting certain aspects of the TCFD, SECR and wider ESG sections in the narrative reporting in the 2021/22 annual report.	The committee concluded that the enhanced assurance processes supporting the narrative reporting in the annual report were satisfactory.	See page 148

Actions	Outcomes	Cross reference
Risk management and internal control		
Reviewed the effectiveness of the risk management and internal control systems including an overview of the output from the independent third party review of internal controls around financial reporting.	Recommendation made to the board that the risk management and internal control systems were effective.	See pages 153 to 154
Considered changes to internal control weaknesses brought to the attention of the committee by KPMG.	Challenged management to resolve any issues relating to internal controls and risk management systems.	See page 202
Considered the third party review of the group's fraud risk management framework and challenged management to implement a fraud risk management action plan.	A number of enhancements were recommended and a fraud risk management action plan was implemented and updates provided to monitor progress.	See page 154
Monitored fraud reporting.	Reviewed the company's anti-fraud policies and processes and alleged incidents of fraud and the outcome of their investigation.	See page 154
Biannual oversight and monitoring of compliance with the group's anti-bribery policy.	Reviewed compliance with the company's ongoing anti-bribery programme.	See page 154
Approved the strategic internal audit planning approach on the work of the internal audit function from the head of audit and risk.	Monitored the implementation of the 2021/22 internal audit plan. Reviewed findings of specific internal audit and implementation of any resulting actions by management.	See page 153
Considered the issues and findings brought to the committee's attention by the internal audit team.	The committee was satisfied that management had resolved or was in the process of resolving any outstanding issues or concerns in relation to matters scrutinised by the internal audit team.	See page 153
Reviewed the quality and effectiveness of internal audit and the effectiveness of the current co-source arrangements.	The committee reviewed the process of assessment of internal audit and made recommendations for enhancement, notwithstanding the recommendations it was concluded that the internal audit team, supported by the PwC co-source resource, was effective.	See page 153
Reviewed and challenged the strategic internal audit planning approach and internal audit plan for 2022/23.	Approved the internal audit plan for 2022/23.	See page 153
Governance		
Review of the committee's terms of reference	No changes were made to the committee's terms of reference during the year.	-
As a consequence of the Brydon and Kingman Reviews and the BEIS consultation report 'Restoring trust in audit and corporate governance', management undertook to develop: an audit and assurance policy following a review of the existing approach to audit and assurance, and a review of internal controls that impact the group's financial reporting.	The committee reviewed the existing approach to audit and assurance and the outcome of the review of the maturity of the internal control framework over financial reporting undertaken by PwC. While awaiting the publication of the outcome of the BEIS consultation, key matters under development include the audit and assurance policy, a resilience statement and fraud risk management.	See page 151
Reviewed the conclusions of the committee's annual evaluation. The evaluation was internally facilitated by the company secretary. The review explored the effectiveness of: the committee's composition, meetings and time management; committee processes and support, the areas of work of the committee and priorities for change.	All elements of the self-assessment reviewed indicated the committee was working well. The board considered the results of the review of the committee and concluded that the committee continued to be effective.	See page 136

How we assessed whether "the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy"

The following section sets out the company's compliance with part of provision 25. The directors' responsibility for preparing the annual report and financial statements is set out on page 198.

The board delegates to the committee, in the first instance, the review of the annual report and financial statements with the intention of providing advice to the board on whether, as required by the code, "the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy". To make this assessment, the committee received copies of the annual report and financial statements to review during the drafting process to ensure that the key messages being followed in the annual report were aligned with the company's position, performance and strategy being pursued and that the narrative sections of the annual report were consistent with the financial statements. The committee also considered whether the significant issues considered by the committee in relation to the financial statements include those identified by the auditor in their report on pages 202 to 209.

Management has again considered and sought to enhance the review processes to provide support to the board in forming its view on whether the accounts and financial statements were fair, balanced and understandable, as it concluded they were and set out on page 198. In particular, a member of the executive team not involved in the drafting process was appropriately briefed to review and challenge the content to ensure that the activities and issues faced by the business were reported in a fair and balanced manner.

The committee received updates on the calculation of underlying operating profit measures as one of the principal alternative performance measures (APMs) used by management, a full guide to APMs can be found on page 82.

Many of our regulatory performance commitments are used by management as key performance indicators and are monitored by our regulators, who set the methodology against which we report. As part of their role as auditor of UUW's annual performance, KPMG provides assurance on many of these performance commitments along with Jacobs, the technical auditor. During the year, the committee met with representatives from Jacobs, providing an opportunity for the committee to understand the specifics of Jacobs' role as technical auditor of the UUW regulatory annual performance report.

KPMG is required (under ISA(UK) 720) to consider whether there are any material inconsistencies between the 'other information' and 'statutory other information' presented in the annual report (i.e. in the strategic report, the directors' report and the corporate governance statement), and the financial statements, taking into account the auditor's knowledge obtained in the audit, or the auditor's understanding of the legal and regulatory requirements applicable to the 'other information' and 'statutory other information'. The TCFD and Streamlined Energy and Carbon Reporting (SECR) disclosures are deemed to be 'other information' as they are included in the company's strategic report, as they are important to the company. Other assurance of the TCFD and SECR disclosures (see pages 86 to 97) is undertaken both by third parties and our internal audit team. Our disclosures against the code are reviewed by the internal audit team and reported to the committee.

Additionally, the committee was satisfied that all the key events and issues which had been reported to the board in the executive team's monthly board reports during the year, both good and bad, had been adequately referenced or reflected within the annual report.

How we assessed the effectiveness of the statutory audit process

The committee, on behalf of the board, is responsible for the relationship with the auditor, and part of that role is to examine the effectiveness of the statutory audit process. Audit quality is regarded by the committee as the principal requirement of the annual audit process. KPMG presented the strategy and scope of the audit for the forthcoming financial year at the meeting of the committee held in September, highlighting any areas which would be given special consideration (these key audit matters are included in the auditor's report on pages 202 to 209). KPMG reported against their audit scope at subsequent committee meetings, providing an opportunity for the committee to monitor progress and raise questions, and challenge both KPMG and management.

Throughout the year, management presents its up-to-date view of the key accounting issues and its resulting judgements to the committee. In response, KPMG informs the committee whether, in its professional view, the judgements management proposes, or has taken, are appropriate. A number of these issues manifest themselves as the significant issues considered by the committee in relation to the financial statements, which are set on pages 151 to 152 in respect of 2021/22. As required by auditors' professional standards, KPMG exercise their professional scepticism in their audit of these significant issues.

Private meetings are held at committee meetings between the committee and representatives of the auditor without management being present to encourage open and transparent feedback by both parties on any matters they wish to raise, and provide the committee with an opportunity to obtain from the auditor greater insight on the extent to which the auditor has challenged management's analysis and presentation of information.

Prior to the board's approval of the year-end financial statements, the committee provides its view to the board on the outcome of the statutory audit, explaining: management's key accounting issues and judgements; the outcome of the auditor's assessment of key audit matters; other areas of audit focus and control deficiencies (if any), and how the statutory audit contributed to the integrity of the financial reporting process. The independent nature and financial expertise of committee members further contributes to the integrity of the process.

Audit quality

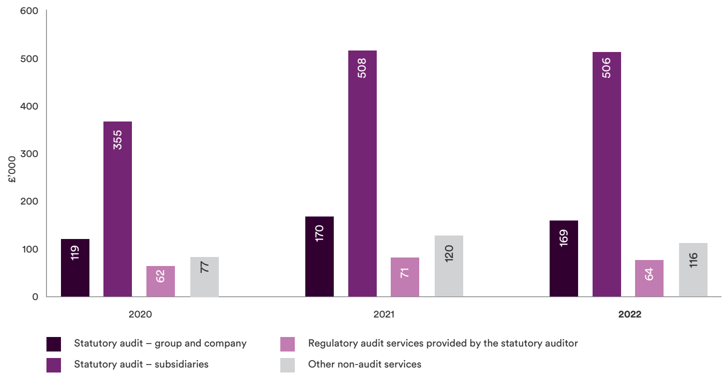
Additional audit quality processes and interactions

KPMG introduced a number of additional elements as part of its action plan to enhance audit quality for the 2020/21 audit. The effectiveness of these enhancements were reviewed and agreed to have had a positive contribution to the audit, and so were retained and further enhanced for the 2021/22 audit. As part of its review of the 2021/22 audit in July 2022, the committee will seek to review the effectiveness of these processes and interactions.

The processes and interactions included:

- providing sight of their interim control findings to the committee early in the audit process and sharing their knowledge and best practice recommendations;
- improving communication and sharing of information and insight between the external and internal audit teams by implementing regular discussion sessions prior to the scheduled committee meetings;
- raising audit points in a more timely manner with the financial reporting team during the audit process by holding regular discussions with the external audit team and financial reporting team;
- using a project manager to assist with the delivery of the year-end audit cycle; and
- enhanced visibility of the key challenges and findings of the second-line of defence review performed by another team independent of the audit team, and of the independent KPMG partner's review of the audit.

Statutory auditor's fees



KPMG updated the committee on its ongoing Audit Quality Transformation Plan (AQTP). KPMG's AQTP includes: a more standardised audit approach; holding companies to account for the quality of the information provided in the audit process; providing more feedback to companies on the findings of their audit and providing additional senior-level support to the KPMG audit teams during the audit; all of which are well embedded in the audit process. In planning for the 2021/22 audit, KPMG provided a report to the committee on the quality interventions that they had implemented during the 2020/21 audit. Each year the committee considers the annual review by the FRC's Audit Quality Review Team and challenges KPMG to ensure continuous improvement.

On completion of the annual audit process the views of those involved in the audit on how well KPMG performed the audit are sought. All members of the committee, key members of the senior management team and those who regularly provide input into the audit committee or have regular contact with the auditor, complete a feedback questionnaire, thereby ensuring a wide range of views are taken into account. The questionnaire reviewing the 2021 audit process was issued in July 2021.

Views of the respondents were sought in terms of:

- the robustness of the external audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity;
- whether the scope of the audit and the planning process were appropriate for the delivery of an effective and efficient audit;
- the quality of the delivery of the audit and whether planned quality improvements had been delivered and whether the committee had insight into the auditor's internal quality procedures;
- the expertise of the audit team conducting the audit and their understanding of the company's business risks to assess if there was an impact on the audit;
- whether the auditor made appropriate use of the work of the internal audit team;
- that the degree of professional scepticism applied by the auditor was appropriate;
- the appropriateness of the communication between the committee and the auditor in terms of technical issues;
- the quality of the service provided by the auditor;
- their views on the quality of the interaction between the audit engagement partner, the audit senior manager and the company;
- whether the audit process had been kept on schedule, despite the remote working due to COVID-19 restrictions of both the audit and management teams; and
- whether the statutory audit contributed to the integrity of the group's financial reporting.

The feedback was collated and presented to the committee's meeting in September 2021. The committee noted KPMG's quality interventions as part of its AQTP to improve audit quality, including: the additional oversight provided by senior KPMG personnel during the 2020/21 audit. The committee concluded that the statutory audit process and services provided by KPMG were satisfactory and effective, with additional measures for further enhancement encouraged.

How we assessed the independence of the statutory auditor

The following section sets out the company's compliance with part of provision 26.

There are two aspects to auditor independence that the committee monitors to ensure that the auditor remains independent of the company.

First, in assessing the independence of the auditor from the company, the committee takes into account the information and assurances provided by the auditor confirming that all its partners and staff involved with the audit are independent of any links to United Utilities. KPMG confirmed that all its partners and staff complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standard, including that none of its employees working on our audit hold any shares in United Utilities Group PLC. KPMG is required to provide written disclosure at the planning stage of the audit in the form of an independence confirmation letter. Their letter discloses matters relating to their independence and objectivity, including any relationships that may reasonably be thought to have an impact on its independence and the integrity and objectivity of the audit engagement partner and the audit staff. The audit engagement partner must change every five years and other senior audit staff rotate at regular intervals.

Secondly, the committee develops and recommends to the board the company's policy on non-audit services and associated fees that are paid to KPMG. In accordance with the FRC's Revised Ethical Standard (2019), an auditor is only permitted to provide certain non-audit services to public interest entities (i.e. United Utilities Group PLC) that are closely linked to the audit itself or that are required by law or regulation, as such services could impede their independence. Permitted non-audit services fees paid to the statutory auditor are subject to a fee cap of no more than 70 per cent of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period in which the cap applies.

The 70 per cent non-audit services fee cap has been applied to the group for the year ended 31 March 2022. The average of audit fees is £447,000 (calculated as the average of the audit fees for the three preceding financial years (2021: £430,000; 2020: £474,000; 2019: £437,000). Non-audit services fees during the year were £130,500, (2021: £119,500; 2020: £77,000; 2019: £66,000) so well below the cap of £313,900 (70 per cent of £447,000). In 2022, fees for non-audit services represent 19.3 per cent of the average audit fees on which the cap is based. Permitted services (which remain subject to the 70 per cent cap, apart from the regulatory audit) can be approved by the CFO subject to a cap of £10,000 applied for individual items. Individual items in excess of £10,000 require the approval of the committee. Auditor-provided permitted services include the non-audit fees paid to the statutory auditor for: the interim review; the regulatory audit; agreed-upon procedures for regulatory reporting; limited assurance work relating to the group's sustainable financing framework; the Euro Medium Term Note Programme and Law Debenture Trust compliance work.

Read more about our **annual performance report** on page 51

Read more about our **treasury committee** on page 155

Fees for non-audit services paid to KPMG include the cost of the UUW regulatory assurance work they undertake, which is separate to the regulatory audit. While this work could be performed by a different firm, the information is in fact more granular breakdowns of data that form part of the statutory audit, and by KPMG undertaking the work it reduces duplication and saves considerable cost.

During the year, the committee agreed a small additional fee in respect of the limited assurance work relating to the group's sustainable financing framework.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of KPMG, the committee was satisfied that KPMG continues to be independent, and free from any conflicting interest with the group.

Statutory auditor reappointment for the year ending 31 March 2023

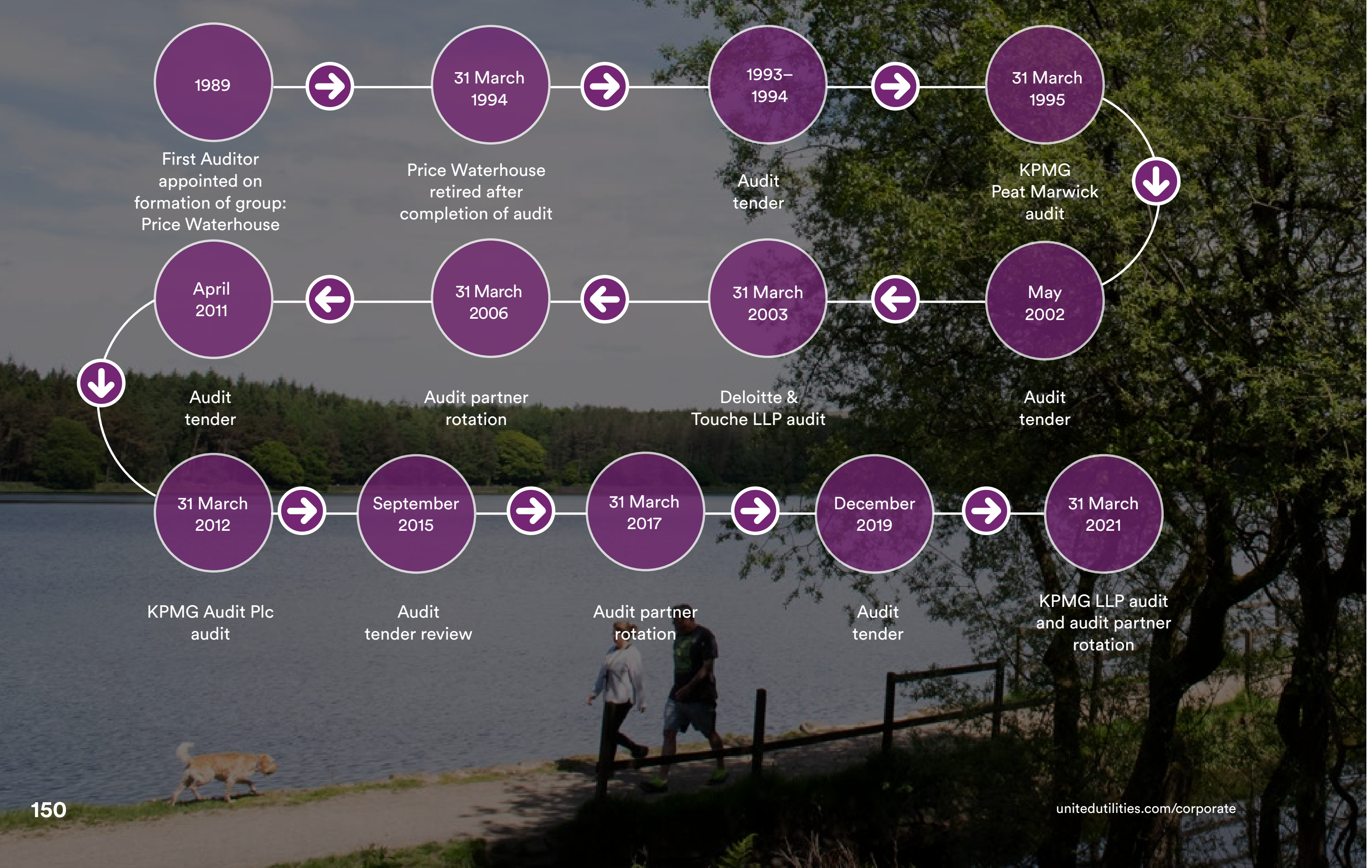
The following section sets out the company's compliance with part of provision 26.
The 2021/22 year-end audit has been KPMG's eleventh consecutive year in office as auditor; they were reappointed after the committee conducted a formal tender process in December 2019 and as reported by the committee in the 2020 annual report. Prior to this, a formal tender was last undertaken in 2011, and resulted in the appointment of KPMG who thereafter presented their report to shareholders for the year ended 31 March 2013. An audit tender review was held in September 2015. The diagram shown below shows the historical tendering and rotation of the role of statutory auditor. The company, as a public interest entity, is required to conduct a competitive tender process every ten years, and rotate auditors after 20 years at most. As a matter of good practice, the committee continually keeps the performance of the auditor under review.

The 2021/22 audit has been the second year for Ian Griffiths as audit engagement partner. The audit engagement partner changes at least every five years.

United Utilities has complied fully with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 March 2022.

At its meeting on 17 May 2022, the committee recommended to the board that KPMG be proposed for reappointment for the year ending 31 March 2023 at the forthcoming AGM in July 2022. There are no contractual obligations that restrict the committee's choice of auditor; the recommendation is free from third-party influence and no auditor liability agreement has been entered into.

Rotation of external auditor to the group



Audit and assurance policy

During the year, management took steps, prompted by the BEIS consultation and with a view to providing a more standardised approach, to begin to develop an audit and assurance policy as a means of tailoring proportionate assurance relating to the narrative disclosures in the annual report and referencing the assurance of the regulatory reporting relating to UUW. Feedback from the committee was incorporated into the drafting process.

Going concern and long-term viability

The committee challenged and scrutinised management's detailed assessment of the group's long-term viability and its ability to continue as a going concern. In doing this the committee took into account the risks facing the business, and its ability to withstand a number of severe but reasonable scenarios. Having considered management's assessment, the committee approved the long-term viability statement set out on page 140. Management apprised the committee of its preparedness to provide a resilience statement in future years, which would encompass the going concern and long-term viability statement should this be a recommendation of the BEIS Consultation on 'Restoring trust in audit and corporate governance'.

Significant issues considered by the committee in relation to the financial statements

Material and/or judgemental areas of the financial statements

Significant issues considered	How these were addressed by the committee
Revenue recognition and allowance for doubtful receivables (see pages 218, 220, 229 to 230, 257 and 259) – due to the nature of the group's business, the extent to which revenue is recognised and expected credit losses are recognised in relation to doubtful customer debts is an area of considerable judgement and estimation. This has particularly been the case in the current year as the cost of living has increased and is forecast to increase further into the next year. The future economic situation is highly uncertain, but it is expected that this could impact the ability of some customers to pay their bills as they become due.	• The committee reviewed the approach taken by management in estimating the impact that increases in the cost of living could have on future cash collection under a range of scenarios, recognising that the situation is highly uncertain. Having challenged management's approach, the committee concluded that while cash collection rates during the year have been good, the rate at which expected credit losses are accounted for needs to consider future cash collection risk and that the rates proposed by management are reasonable given the scenario analysis undertaken; and • The committee challenged management's judgement around the appropriate period over which to consider cash collection history in assessing the level of expected future credit losses, and concurred that the judgement around the period chosen was appropriate.
Capitalisation of fixed assets (see pages 203, 218 to 219, 226 to 228 and 258 to 259) – fixed assets represents a subjective area, particularly in relation to costs permitted for capitalisation and depreciation policy.	• The committee assessed the reasonableness of the group's capitalisation policy and the basis on which expenditure is determined to relate to enhancement or maintenance of assets and, having also considered the work performed by KPMG in this area, deemed both to be appropriate; and • The committee also challenged the controls around ensuring the accuracy of capital accruals making up part of the total amount of fixed assets capitalised during the year, and satisfied itself that controls in this area were adequate.
Retirement benefits (see pages 204, 219, 232 to 244, 250 to 255 and 260) – the group's defined benefit retirement schemes is an area of considerable judgement, the performance and position of which is sensitive to the assumptions made. The group employs the services of an external actuary to determine the calculation of the net retirement benefit surplus and determine the appropriate assumptions to make.	• The committee sought from management an understanding of changes to the assumptions used in calculating the defined benefit scheme surplus and how data from the latest triennial valuation that concluded during the year is incorporated into the final analysis. This included an assessment of the appropriateness of the inclusion of a 'w2021' parameter in the demographic assumptions adopted to take account of the expected impact of the COVID-19 pandemic on life expectancy in the medium term given the indirect impacts of the pandemic on the likes of waiting lists and delays in diagnoses of conditions. • Having challenged the rationale for making these changes and considered how it compares with market practice and the requirements of the relevant accounting standards, the committee concluded that the resulting assumptions were appropriate and balanced in estimating the level of defined benefit obligations and therefore the net retirement benefit surplus. The committee was also satisfied that data from the latest triennial valuation had been appropriately factored into the valuation.
Derivative financial instruments (see pages 219, 242 to 249 and 260) – the group has a significant value of swap instruments, the valuation of which is based upon models which require certain judgements and assumptions to be made. Management performs periodic checks to ensure that the model-derived valuations agree back to third-party valuations and KPMG check a sample against their own valuation models. This process has been complicated slightly during the year by the rebooking of financial instruments that were linked to LIBOR following the cessation of LIBOR as an interest rate benchmark after 31 December 2022.	• The committee noted that the periodic checks performed by management had been completed at the year-end reporting date and, having also noted that KPMG had undertaken their testing in this area, was satisfied that no significant issues were identified. • The committee also considered management's update on the controls in place around the rebooking of financial instruments and was satisfied that these were appropriate and that the impact of the cessation of LIBOR had been appropriately accounted for.

Corporate governance report
Audit committee

Material and/or judgemental areas of the financial statements

Significant issues considered	How these were addressed by the committee
Provisions and contingent liabilities (see pages 234, 236 and 260) – the group provides for contractual, legal and environmental claims brought against it based on management's best estimate of the value of settlement, the timing of which is dependent on the resolution of the relevant legal claims. Judgement is also required in determining when contingent liabilities exist that require disclosure in the financial statements.	• The committee assessed and challenged the appropriateness of the basis on which provisions are recognised, and management's estimate of the value applied to individual claims, focusing particularly on instances where new provisions were required or where the likelihood of financial outflow was deemed to have diminished such that provisions were no longer needed and were therefore released. The committee concluded that the approach to provisioning was appropriate and that management's best estimates were reasonable; • The committee also considered the reasonableness of disclosures made in respect of contingent liabilities, challenging management as to whether any provision should be recognised in the financial statements and concluding that the recognition criteria had not been met and therefore that disclosure as contingent liabilities was the most appropriate approach.
Taxation (see pages 224 to 225, 233 and 257) – judgement is required in assessing provisions for potential tax liabilities and in considering the recoverability of deferred tax assets.	• The committee considered the tax risks that the group faces and the key judgements made by management underpinning the provisions for potential tax liabilities and deferred tax assets, and noted that KPMG have also assessed these provisions. Based on the above, the committee was satisfied with the judgements made by management. • The committee also considered the nature of significant refunds of tax paid in prior years that were recognised in the financial statements in the current year, and concluded that it is appropriate for these to be treated as part of the underlying tax expense in the year in arriving at the group's alternative performance measures.
Other topical areas	
Impact of COVID-19 – the impact of the COVID-19 pandemic resulted in higher levels of estimation uncertainty and considerably more judgement being required in preparing the financial statements for the years ended 31 March 2020 and 31 March 2021. During the year ended 31 March 2022 the committee has considered how the situation has developed in order to revisit these significant estimates and judgements.	• The impacts of the pandemic on the issues considered were considerably lower for the year ended 31 March 2022 compared with previous years, and judgements and estimates were subject to what are now well-established processes. With the passage of time and as more data relating to the key areas impacted by the pandemic has become available, together with an increasing return towards pre-pandemic norms during the year, the committee satisfied itself that the level of estimation uncertainty has fallen compared with previous and that, going forward and subject to any further developments, there may be less of a requirement for the impact of COVID-19 to be considered as a discrete item, having been superseded by other developments such as increases in the cost of living.
Impact of increases in the cost of living – while the level of judgement and estimation uncertainty associated with the COVID-19 pandemic has receded during the year, this has been superseded by economic circumstances that have resulted in increases in the cost of living for much of the group's customer base. As there is a high degree of uncertainty around how the economic situation may develop, this gives rise to a higher level of judgement and estimation uncertainty in this area.	• The committee concurred with management's assessment that the impact of increases in the cost of living on the group's significant accounting judgements and areas of uncertainty is felt most acutely in relation to revenue recognition and allowances for expected credit losses in relation to doubtful receivables. Considerations in this area are therefore set out more fully above.
Impact of the war in Ukraine – Russia's invasion of Ukraine in the early part of 2022 has had profound geopolitical and economic consequences, which the committee has considered in determining whether the group's accounting for the year ended 31 March 2022 is materially affected.	• The committee considered management's assessment of the impact of the war in Ukraine, and was satisfied that neither the operations nor the assets of the group are directly impacted, notwithstanding some exposure to the conflict's broader effects such as cost increases due to supply chain risk relating to certain materials and chemicals sourced from the region.
Accounting for the proposed sale of United Utilities Renewable Energy Limited (UURE) (see pages 236 and 259) – during the year ended 31 March 2022 the board approved the commencement of a process to sell the group's renewable energy business, UURE.	• The committee considered the stage of the sales process as at the year-end reporting date along with management's assessment of the application of the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' in terms of the assets and liabilities of UURE, and challenged management's view that criteria for presenting these as 'Held for sale' had not been met as at the reporting date; and • After due consideration, the committee agreed with management's assessment that as at 31 March 2022 the sale could not be considered "highly probable", and that this hurdle was met subsequently. The committee therefore reviewed the draft disclosure relating to the sale as an event after the reporting period and endorsed the wording included on page 236 of the financial statements.
Accounting for 'Software as a Service' (SaaS) arrangements (see pages 222 and 258) – following the publication of IFRIC agenda decisions relating to SaaS arrangements, management has considered the extent to which these affect the way in which such arrangement are accounted for by the group.	• The committee reviewed the processes undertaken by management to determine the level of SaaS arrangements that may be affected by recent IFRIC agenda decisions and the conclusions reached, focusing on the extent of customisation and configuration costs incurred in implementing SaaS solutions and whether these could be considered to give rise to intangible software assets. Having sought to understand management's thought processes, together with the challenge applied by KPMG as part of their audit procedures, the committee was satisfied that the majority of such costs should be treated as operating expenditure rather than be capitalised; and • Having satisfied itself over the accounting for SaaS arrangements, the committee also reviewed management's assessment of the extent to which costs incurred in prior periods may also be affected, and concluded that prior year costs were not material and therefore that there was no change in accounting policy in relation to these costs that would require any prior year restatement.

Internal controls and risk management systems

The main features of the group's internal controls and risk management systems are summarised below:

Internal audit function

The internal audit function is a key element of the group's corporate governance framework. Its role is to provide independent and objective assurance, advice and insight on governance, risk management and internal control to the audit committee, the board and to senior management. It supports the organisation's vision and objectives by evaluating and assessing the effectiveness of risk management systems, business policies and processes, systems and key internal controls. In addition to reviewing the effectiveness of these areas and reporting on aspects of the group's compliance with them, internal audit makes recommendations to address any key issues and improve processes and, as such, provides an indication of the behaviours being exhibited by employees in the areas under review. Once any recommendations are agreed with management, the internal audit function monitors their implementation and reports to the committee on progress made at every meeting.

A five-year strategic audit planning approach is applied. This facilitates an efficient deployment of internal audit resource in providing assurance coverage over time across the whole business, as well as greater variation in the nature, depth and breadth of audit activities. This strategic approach supports the annual audit plan, which is then endorsed by management, and which the committee reviews, challenges and approves. The plan focuses the team's work on those areas of greatest risk to the business. Building on the strategic planning approach, the development of the plan considers risk assessments, issues raised by management, areas of business and regulatory change, prior audit findings and the cyclical review programme. The purpose, scope and authority of internal audit is defined within its charter which is approved annually by the audit committee. As set out in the charter, internal audit perform their work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors; and with integrity (honestly, diligently and responsibly) and objectively (without conflicts of interest).

Internal audit, led by the head of audit and risk, covers the group's principal activities and reports to the committee and functionally to the CFO, both of whom approve the head of audit's annual personal objectives. The head of audit and risk attends all scheduled meetings of the audit committee, and has the opportunity to raise any matters with the members of the committee at these meetings without the presence of management. He is also in regular contact with the chair of the committee outside of committee meetings.

The in-house team is expanded as and when required with additional resource and skills co-sourced from external providers ensuring that the internal audit function has sufficient resources and expertise to deliver the annual audit plan. The committee keeps the relationship with co-source providers under review to ensure the independence of the internal audit function is maintained and there is a documented process to manage possible conflicts of interest with the co-sourced resource. Ensuring that any co-source resource remains independent in the course of its work is crucial to the integrity of its work. Following a competitive tender process, PwC was last re-appointed as co-source resource provider during 2020/21.

The internal audit function liaises with the statutory auditor, discussing relevant aspects of their respective activities which ultimately supports the assurance provided to the audit committee and board.

Assessing the effectiveness of the internal audit function

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs, including the ongoing audit reports received, the audit committee's interaction with the head of audit and risk, an annual review of the department's internal quality assurance report, a quarterly summary dashboard providing a snapshot of the progress against the internal audit plan tabled at each committee meeting as well as any other periodic quality reporting requested.

An annual stakeholder survey in the form of a feedback questionnaire is circulated to committee members, senior management and other managers who have regular contact with the internal audit function, including representatives from the auditor KPMG and the co-source audit provider PwC. The responses were anonymous to encourage open and honest feedback, and were consistently favourable, as were previous surveys.

Periodically, the quality and effectiveness of the internal audit function is also assessed externally, with the most recent review being undertaken in early 2019.

Taking all these elements into account, the committee concluded that the internal audit function was an effective provider of assurance over the organisation's risks and controls and appropriate resources were available as required.

Risk management systems

The group designs its risk management activities to manage rather than eliminate the risk of failure to achieve its strategic objectives.

The committee receives updates and reports from the head of audit and risk on key activities relating to the company's risk management systems and processes at every meeting. These are then reported to the board, as appropriate. A diagram and explanation of the risk management governance and reporting process can be found on page 101. The CFO has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager and his team. The group audit and risk board (GARB) is a sub-committee of the executive team. The GARB meets quarterly and reviews the governance processes and the effectiveness and performance of these processes along with the identification of emerging trends and themes within and across the business. The work of the GARB then feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and the strategies to manage these risks.

Supplementing the more detailed ongoing risk management activities within each business area, the biannual business unit risk assessment process (BURA) seeks to identify how well risk management is embedded across the different teams in the business. The BURA involves a high-level review of the effectiveness of the controls that each business unit has in place to mitigate risks relating to activities in their business area, while identifying new and emerging risks and generally to facilitate

Read more about financial oversight responsibilities of the board on pages 139 to 140

Read more about our risk and resilience framework on pages 100 to 102

improvements in the way risks are managed. The outcome of the BURA process is communicated to the executive team and the board. This then forms the basis of the determination of the most significant risks that the company faces which are then reviewed by the board. The group utilises risk management software in order to maintain an up to date view of the assessment of risk. The maturity of the risk management framework and its application across the business is assessed on an annual basis against a defined maturity model. This assessment provides an objective appraisal of the degree of maturity in how the risk management system is being applied against the key elements of ISO 31000:2018 Risk Management Standard. The results of the maturity assessment are reported to the GARB, and actions agreed with business units.

An external assessment of the risk management framework last took place in 2017/18.

Internal controls

The committee reviews the group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting, prior to reporting any significant matters to the board. Internal control systems are part of our 'business as usual' activities and are documented in the company's internal control manual which covers financial, operational and compliance controls and processes. Internal control systems are the responsibility of the CFO, with the support of the GARB, the financial control team and the internal audit team, although the head of audit and risk and his team are directly accountable to the audit committee.

Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work which the committee approves each year as well as aspects being tested by other internal assurance providers. Compliance with the internal control system is monitored annually by the completion of a self-assessment checklist by senior managers in consultation with their teams. The results are then reviewed and audited on a sample basis by the internal audit team and reported to the committee.

During the year, the committee asked management to commission an independent review of the maturity of the group's internal control framework over financial reporting in light of the recent BEIS consultation, and the likely evolution of the UK internal control requirements, in general terms but also more specifically in relation to controls over financial reporting. The key findings of the independent review were that: there was a high level of coverage of the financial statement line items in both the consolidated income statement and the balance sheet; risk and control matrices were in operation; and the fundamental building blocks underpinning an internal control framework over financial reporting were in place which would contribute to an audit and assurance policy (see page 151).

Anti-fraud and anti-bribery

The audit committee is responsible for reviewing the group's procedures for detecting fraud, and the systems and controls for preventing other inappropriate behaviour. In the first instance of an incident being reported, a summary of the allegations is passed to the fraud and whistleblowing committee (consisting of the company secretary, the customer services and people director, the strategy, policy and regulation director, the commercial, engineering and capital delivery director and the head of internal audit and risk) to decide on the appropriate course of action and investigation and by whom.

During the year, the audit committee was kept fully apprised in regular updates on the progress and findings of investigations of cases of alleged fraud and any remedial actions taken.

In line with the group's anti-fraud culture and zero-tolerance attitude towards fraud, a fraud incident forum has been established to identify and understand potential threats, and optimise the group's response and mitigation and ensure consistency across the business.

The company has an anti-bribery policy to prevent bribery being committed on its behalf, which all employees must follow, and processes in place to monitor compliance with the policy. Employees in certain roles are required to complete anti-bribery training materials. As part of the anti-bribery programme, employees must comply with the group's hospitality policy. The hospitality policy permits employees to accept proportionate and reasonable hospitality for legitimate business purposes only and all hospitality (and gifts) offered and accepted has to be logged, and approved when accepted. Employees and representatives of the group's suppliers must comply with the group's responsible sourcing principles and United Supply Chain approach. The group will not tolerate corruption, bribery and anti-competitive actions and suppliers are expected to comply with applicable laws and regulations, and in particular never to offer or accept any undue payment or other consideration, directly or indirectly, for the purposes of inducing any person or entity to act contrary to their prescribed duties.

As part of the internal control self-assessment checklist (part of the group's internal control processes), senior managers in consultation with their teams are required to confirm, among other things, that they have complied with the group's anti-bribery and hospitality policies. The anti-bribery programme is monitored and reviewed biannually by the committee.

Independent review of the fraud risk management structure

During the year, the committee asked management to commission an independent review of the group's fraud risk management framework to assess its maturity and identify any enhancements required given the evolving nature of business processes and the working environment. This was felt to be timely, particularly in light of the need for remote working during the pandemic and the subsequent move to hybrid working in some areas of the business. An action plan to strengthen the approach to fraud risk assessment has been implemented, overseen in the first instance by the security steering group forum and with the final report presented to the committee.

Doug Webb
Chair of the treasury committee

Quick facts

- The committee meets three times a year.
- The committee operates under terms of reference and delegated authorities approved by the board.
- The company secretary attends all meetings of the committee.
- The treasurer is a member of the committee.
- The members of the committee undertook a self evaluation in February 2022 facilitated internally by the company secretary. The review of the responses indicated that the committee was effective and its members had the appropriate skills and experience to fulfil the committee's responsibilities.

Quick link

Terms of reference:
unitedutilities.com/corporate-governance

Treasury management is fundamental to the group's business model ensuring that sufficient funding is available to meet the group's foreseeable needs, while managing the liquidity market and capital risks.

Dear shareholder

During the year, with the board's delegated authority, the committee oversaw the successful execution of the group's funding programme. Approximately £425 million of new term funding was raised, with financial market conditions being closely monitored as central banks began tightening monetary policy in response to surging inflation, amidst heightened geopolitical tensions.

The continuation of our funding programme, on top of the £900 million of term funding raised in 2020/21, has positioned the group well with regard to its circa £2.7 billion financing requirement across the AMP7 regulatory period. The committee also completed a 'deep dive' review of the group's inflation and interest rate hedging policies.

The committee oversaw the group's successful implementation of the transition of benchmark reference rates used in the group's financial derivatives and loan and credit facilities, from GBP LIBOR to replacement 'risk free rates', with SONIA replacing GBP LIBOR effective from the end of 2021.

In November 2021, we increased the size, and redenominated the group's multi-issuer, London listed, Euro Medium Term Note Programme from EUR7 billion to £10 billion to facilitate future debt issuance. This programme, in conjunction with our sustainable finance framework launched in November 2020, is expected to continue to be the primary vehicle for the group accessing funding in the debt capital markets. In July 2021, the group published its inaugural sustainable finance framework allocations and impact report. Details of the group's engagement with banks and credit investors can be found on page 128.

Doug Webb
Chair of the treasury committee

Treasury committee members:

Doug Webb
Chair of the treasury committee

Phil Aspin
CFO

Brendan Murphy
Treasurer

Main responsibilities

- Review of the group's treasury policies in relation to: financing; liquidity; hedging of market risks (interest rates; inflation; currency and electricity hedging); financial counterparty credit risk; credit ratings and capital structure.
- Execution of the financing plan and evaluation of funding opportunities.
- Liquidity management and review of forecasts.
- Execution of hedging transactions and programmes in relation to the management of market risks in accordance with treasury policy parameters.
- Developments in relation to the credit ratings agencies.
- Credit investor relations.
- Banking relationships.
- Treasury delegated authorities, internal controls and governance.
- Reporting to the board on matters relating to the group's treasury activities, including board approval of the annual treasury update and associated financing plan and board delegated authorities.