

northern ireland  
**water**



**Delivering what matters**

# Regulatory Accounts 2023/24

## Statement of Directors' Responsibilities

The Directors of NI Water are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 and the relevant Regulatory Accounting Guidelines (RAGs).

The information contained in the Regulatory Accounts may refer to disclosures in the Annual Report document and, as agreed with the Utility Regulator, it is not necessary to duplicate the same information in both documents.

## Condition F6A of the Licence (Directors' certificate of going concern)

The Board confirms that to the best of its knowledge and belief:

(1) At the time of writing, in the opinion of the Directors, Northern Ireland Water Limited ("the Appointee") does not have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities and in particular the investment programme necessary to fulfil NI Water's obligations under the Appointment.

Note 2(a) on page 9 fully outlines the current funding position for the Company and a short summary of this is provided below:

- The Board of NI Water accepted the PC21 Final Determination in July 2021, encouraged that the first year of PC21 (2021/22) was fully funded by DfI and the NI Executive and based on a continuing commitment to fund the PC21 Final Determination to deliver the outputs and outcomes for customers.
- NI Water's Operating Plan and Budget for the 2024/25 (Year 4 of PC21) sets out a Resource DEL requirement of £175.9m and a Capital DEL requirement of £470m to ensure that NI Water can deliver on its statutory and regulatory commitments. Operating Plan targets for 2024/25 reflect the Utility Regulator's PC21 Final Determination with adjustment for slippage in 2023/24 due to shortfall in Capital DEL funding and reprofiling for efficient delivery.
- On 23 May 2024, the DfI Minister wrote to NI Water advising indicative budget allocations for the 2024/25 financial year of £137.7m Resource DEL and £324.5m Capital DEL resulting in shortfalls of £38.2m and £145.5m respectively.

2024/25 Funding Position	RDEL	CDEL	Total
	£m	£m	£m
NI Water Operating Plan & Budget	175.9	470	645.9
DfI Indicative Allocations	137.7	324.5	462.2
	(38.2)	(145.5)	(183.7)

- NI Water made its PC21 Mid Term Review submission to the Utility Regulator on 29 September 2023. Following engagement with NI Water and principal stakeholders, the Utility Regulator published its Draft Determination on 2 May 2024 for an eight-week consultation period.
- The Utility Regulator estimates that Capital DEL provision for the last three years of PC21 (2024/25 – 2026/27) would need to be £1,482m to deliver the planned investment and outputs. This is a reduction to NI Water's Mid Term Review submission of £1,792m. NI Water plans to challenge some of the difference in its response to the Utility Regulator's consultation.
- The DfI Permanent Secretary has informed NI Water that it should be planning for a 'Reasonable Worst Case Scenario' of c.£321m Capital DEL in each of the last three years of PC21 which equates to £966m, a shortfall of £516m (35%) from Utility Regulator's Draft Determination.

## Condition F6A of the Licence (Directors' certificate of going concern) (continued)

<b>Capital DEL</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
NI Water PC21 MTR Submission (Sept 2023)	562	666	564	1,792
Utility Regulator PC21 MTR Draft Determination (May 2024)	465	557	460	1,482
DfI Reasonable Worst Case Scenario (Nov 2023)	324	321	321	966
Shortfall in DfI Funding	(141)	(236)	(139)	(516)

- The DfI Permanent Secretary has also indicated that Resource DEL provision is likely to be similarly constrained going forward.

<b>Resource DEL</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
NI Water PC21 MTR Submission (Sept 2023)	169	151	143	464
Utility Regulator PC21 MTR Draft Determination (May 2024)	178	169	164	511
DfI Reasonable Worst Case Scenario (Nov 2023)	138	145	145	428
Shortfall in DfI Funding	(40)	(24)	(19)	(83)

- NI Water has access to cash through the loan note instrument which enables the Company to draw down loans up to £1.75bn from 1 April 2022 to 31 March 2027, subject to headroom restrictions. £215m was drawn down in 2023/24 bringing the cumulative total drawdown to £370m. In addition, the Company has access to a working capital facility of £20m.
- The availability of Resource and Capital DEL to enable delivery of PC21 outputs is the overriding constraint, irrespective of access to cash. A shortfall in Resource DEL allocation limits what cash NI Water can spend to run and operate its business. A shortfall in Capital DEL allocation creates a limit on what cash NI Water can invest in water and drainage infrastructure. NI Water is prohibited from spending any cash in excess of the DEL allocations without prior approval from DfI.
- The Board of NI Water finds itself in a difficult position and is concerned about future funding and the ability to discharge its statutory and regulatory duties and secure the continued provision of water and wastewater services.
- As a Government owned company operating under a regulatory Licence, NI Water is unable to unilaterally decide which statutory or regulatory obligations it will or will not perform. Both DfI and the Utility Regulator have statutory and regulatory obligations relating to funding. This includes a statutory obligation under Article 6 of the Water and Sewerage Services (NI) Order 2006 to ensure that NI Water is able to finance the proper carrying out of its functions.
- The Board notes that in the event that a material mismatch continues to arise between anticipated funded expenditure limits and those required to deliver PC21, both DfI and the Utility Regulator could consider the agreed procedures in the Memorandum of Understanding and Consequent Written Agreement.
- DfI has convened a forum to include the Utility Regulator and other key stakeholders in the Water Senior Stakeholder Group to engage in the development of a reasoned submission which will consider an agreed adjusted programme of outputs and outcomes for PC21.
- Until this forum has completed its work and a reasoned adjusted programme for PC21 is agreed, NI Water continues to face a significant mismatch between the PC21 output targets set by the Utility Regulator and the Capital DEL funding indicated by the DfI. NI Water is exposed to enforcement proceedings from the Utility Regulator which could result in the removal of NI Water's Licence to operate, and the possibility of legal action by other stakeholders for failure to meet its statutory obligations.

### Condition F6A of the Licence (Directors' certificate of going concern) (continued)

- In such circumstances, material uncertainties exist which cast doubt on the ability of the organisation to continue as a going concern in the future.

#### Conclusion

The regulatory accounts have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2024. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which NI Water operates and that there is a reasonable expectation that NI Water will continue to operate for 12 months from the date of approving the financial statements.

However, NI Water does not have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities and in particular the investment programme necessary to fulfil NI Water's obligations under the Appointment.

- (2) In the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it:
- (i) management resources;
  - (ii) methods of planning and internal control which, except for any control weaknesses reported separately to the Utility Regulator, are sufficient to enable it to carry out Regulated Activities necessary to fulfil its obligations under the Appointment; and

- (3) On 20th November 2017, NI Water Limited through a subsidiary, acquired Dalriada Water Limited which is the PPP Concessionaire Company contracted to provide services to NI Water Limited. The activities of Dalriada Water Limited lies outside the Regulated Activities as defined by the Licence. The financial results of Dalriada Water Limited and the other businesses acquired by NI Water have been consolidated into the Group accounts which are included in the Annual Report and Accounts. Apart from the above in the opinion of the Directors, no contracts were entered into with any Associated Company.

For and on behalf of the Board



Sara Venning  
Chief Executive  
8 July 2024

## HISTORICAL COST FINANCIAL STATEMENTS

### Profit and loss account

	Year to 31 March 2024			Year to 31 March 2023		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
<b>Turnover</b>	<b>542,804</b>	<b>6,825</b>	<b>549,629</b>	473,700	5,931	479,631
Operating costs	(277,590)	(3,938)	(281,528)	(273,464)	(4,052)	(277,516)
Historical cost depreciation	<u>(109,426)</u>	-	<u>(109,426)</u>	<u>(98,895)</u>	-	<u>(98,895)</u>
<b>Operating profit</b>	<b>155,788</b>	<b>2,887</b>	<b>158,675</b>	101,341	1,879	103,220
Net interest payable	<u>(63,882)</u>	-	<u>(63,882)</u>	<u>(63,442)</u>	-	<u>(63,442)</u>
<b>Profit on ordinary activities before taxation</b>	<b>91,906</b>	<b>2,887</b>	<b>94,793</b>	37,899	1,879	39,778
<i>Taxation on profit on ordinary activities:</i>						
Corporation tax	-	-	-	-	-	-
Deferred tax	<u>(24,427)</u>	-	<u>(24,427)</u>	<u>(2,484)</u>	-	<u>(2,484)</u>
<b>Profit/ (Loss) on ordinary activities after taxation</b>	<b>67,479</b>	<b>2,887</b>	<b>70,366</b>	35,415	1,879	37,294
Dividends	<u>(18,113)</u>	<u>(2,887)</u>	<u>(21,000)</u>	<u>(17,121)</u>	<u>(1,879)</u>	<u>(19,000)</u>
<b>Retained profit/ (loss) for the financial year</b>	<b>49,366</b>	-	<b>49,366</b>	18,294	-	18,294

## Balance sheet

	At 31 March 2024			At 31 March 2023		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
<b>Fixed assets</b>						
Tangible assets	4,134,420	-	4,134,420	3,841,955	-	3,841,955
Investments	5,000	-	5,000	5,000	-	5,000
	<u>4,139,420</u>	<u>-</u>	<u>4,139,420</u>	<u>3,846,955</u>	<u>-</u>	<u>3,846,955</u>
<b>Pension asset</b>	44,971	-	44,971	35,789	-	35,789
<b>Current assets</b>						
Stocks	5,236	-	5,236	5,137	-	5,137
Debtors	88,959	327	89,286	81,020	369	81,389
Cash at bank and in hand	88,215	2,154	90,369	56,686	1,813	58,499
	<u>182,410</u>	<u>2,481</u>	<u>184,891</u>	<u>142,843</u>	<u>2,182</u>	<u>145,025</u>
<b>Creditors: amounts falling due within one year</b>						
Payments received on account	(674)	-	(674)	(1,105)	-	(1,105)
Trade creditors	(8,502)	(96)	(8,598)	(3,104)	(30)	(3,134)
Intercompany creditors	(2,808)	-	(2,808)	-	-	-
Taxation and social security	(2,850)	-	(2,850)	(3,371)	-	(3,371)
Other creditors	(24,017)	-	(24,017)	(19,895)	-	(19,895)
Accruals and deferred income	(184,026)	(2,385)	(186,411)	(166,531)	(2,152)	(168,683)
Deferred grants and contributions	(1,072)	-	(1,072)	(1,067)	-	(1,067)
PPP finance lease	(12,955)	-	(12,955)	(12,074)	-	(12,074)
Other provisions	(2,382)	-	(2,382)	(2,412)	-	(2,412)
	<u>(239,286)</u>	<u>(2,481)</u>	<u>(241,767)</u>	<u>(209,559)</u>	<u>(2,182)</u>	<u>(211,741)</u>
<b>Net current liabilities</b>	<u>(56,876)</u>	<u>-</u>	<u>(56,876)</u>	<u>(66,716)</u>	<u>-</u>	<u>(66,716)</u>
<b>Total assets less current liabilities</b>	<u>4,127,515</u>	<u>-</u>	<u>4,127,515</u>	<u>3,816,028</u>	<u>-</u>	<u>3,816,028</u>
<b>Creditors: amounts falling due after more than one year</b>						
Loans and other borrowings	(1,950,262)	-	(1,950,262)	(1,748,218)	-	(1,748,218)
Other creditors	(619,477)	-	(619,477)	(585,764)	-	(585,764)
	<u>(2,569,739)</u>	<u>-</u>	<u>(2,569,739)</u>	<u>(2,333,982)</u>	<u>-</u>	<u>(2,333,982)</u>
<b>Provisions for liabilities and charges</b>						
Deferred tax provision	(325,566)	-	(325,566)	(303,051)	-	(303,051)
Other provisions	(5,012)	-	(5,012)	(8,395)	-	(8,395)
	<u>(330,578)</u>	<u>-</u>	<u>(330,578)</u>	<u>(311,446)</u>	<u>-</u>	<u>(311,446)</u>
<b>Net Assets</b>	<u>1,227,198</u>	<u>-</u>	<u>1,227,198</u>	<u>1,170,600</u>	<u>-</u>	<u>1,170,600</u>
<b>Capital and reserves</b>						
Called up share capital	500,000	-	500,000	500,000	-	500,000
Distributable reserve	171,690	-	171,690	171,690	-	171,690
Profit and loss account	555,508	-	555,508	498,910	-	498,910
	<u>1,227,198</u>	<u>-</u>	<u>1,227,198</u>	<u>1,170,600</u>	<u>-</u>	<u>1,170,600</u>
<b>Shareholder's funds</b>	<u>1,227,198</u>	<u>-</u>	<u>1,227,198</u>	<u>1,170,600</u>	<u>-</u>	<u>1,170,600</u>

These financial statements were approved and authorised for issue by the Board of Directors on 8 July 2024 and were signed on its behalf by:

*Sara Venning*

Sara Venning  
Chief Executive  
8 July 2024

## Statement of total recognised gains and losses

	Year to 31 March 2024			Year to 31 March 2023		
	Appointed business	Non - Appointed business	Total	Appointed business	Non - Appointed business	Total
	£000	£000	£000	£000	£000	£000
<b>Profit/ (Loss) for the financial year</b>	<b>49,366</b>	-	<b>49,366</b>	18,294	-	18,294
Available for sale shares - fair value loss	-	-	-	-	-	-
Actuarial gains/ (losses) recognised in the pension scheme	<b>9,642</b>	-	<b>9,642</b>	84,206	-	84,206
Deferred tax arising on gains/ (losses) in the pension scheme	<b>(2,411)</b>	-	<b>(2,411)</b>	<b>(21,052)</b>	-	<b>(21,052)</b>
<b>Total recognised gains and losses relating to the financial year</b>	<b>56,597</b>	-	<b>56,597</b>	<b>81,448</b>	-	<b>81,448</b>

## Cash flow statement

	Year to 31 March 2024			Year to 31 March 2023		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
<b>Net cash inflow from operating activities</b> (Note 7(a))	<b>274,135</b>	<b>3,228</b>	<b>277,363</b>	206,427	2,048	208,475
<b>Returns on investments and servicing of finance</b>						
Interest received	5,162	-	5,162	1,995	-	1,995
Interest paid	(50,828)	-	(50,828)	(46,003)	-	(46,003)
Interest element of finance lease	(14,800)	-	(14,800)	(15,842)	-	(15,842)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(60,466)</b>	<b>-</b>	<b>(60,466)</b>	(59,850)	-	(59,850)
<b>Capital expenditure and financial investment</b>						
Purchase of tangible fixed assets	(368,025)	-	(368,025)	(286,687)	-	(286,687)
Additional loan to subsidiaries	(750)	-	(750)	-	-	-
Repayment of loan from subsidiaries	795	-	795	356	-	356
Grants and contributions received	845	-	845	375	-	375
Disposal of fixed assets	193	-	193	425	-	425
Insurance proceeds	-	-	-	-	-	-
<b>Net cash outflow from investing activities</b>	<b>(366,942)</b>	<b>-</b>	<b>(366,942)</b>	(285,531)	-	(285,531)
<b>Equity dividends paid to the Shareholder</b>	<b>(18,113)</b>	<b>(2,887)</b>	<b>(21,000)</b>	(17,121)	(1,879)	(19,000)
<b>Cash (outflow) / inflow before management of liquid resources and financing</b>	<b>(171,386)</b>	<b>341</b>	<b>(171,045)</b>	(156,075)	169	(155,906)
Management of liquid resources	(25)	-	(25)	(9)	-	(9)
<b>Cash (outflow) / inflow from management of liquid resources</b>	<b>(25)</b>	<b>-</b>	<b>(25)</b>	(9)	-	(9)
<b>Net cash flow before financing</b>	<b>(171,411)</b>	<b>341</b>	<b>(171,070)</b>	(156,084)	169	(155,915)
<b>Financing</b>						
Loans advanced	215,000	-	215,000	155,000	-	155,000
Capital element of finance lease repayments	(12,083)	-	(12,083)	(10,728)	-	(10,728)
<b>Net cash inflow from financing</b>	<b>202,917</b>	<b>-</b>	<b>202,917</b>	144,272	-	144,272
<b>Net (decrease)/increase in cash</b>	<b>31,506</b>	<b>341</b>	<b>31,847</b>	(11,812)	169	(11,643)



# Notes to the Regulatory Accounts

## 1 Regulatory reporting

To further understand the performance of the business the Regulatory Accounts should be read in conjunction with the Strategic Report on pages 8 to 109 of the Northern Ireland Water Annual Report and Accounts 2023/24 ('The Annual Report'). Reference should be made to the Directors' report in the Annual Report which provides information on the dividend policy (page 141) and on 'Disclosure of information to auditors' (page 145). The Annual Report also includes The Directors' remuneration report on pages 146 to 152 and information on Directors' pay and standards of performance in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006. The Directors confirm that no amounts were given to charitable trusts assisting customers or similar funds in the year ended 31 March 2024.

## 2 Accounting policies

### *(a) Basis of preparation*

The Regulatory Accounts have been prepared on such a basis as to comply with the requirements of the Utility Regulator. These requirements are similar to previous guidance issued by Ofwat, the economic regulator for the water and sewerage industry in England and Wales. The Regulatory Accounts have been prepared in accordance with Condition F of the 'Instrument of Appointment by the Department for Regional Development\* of Northern Ireland Water Limited as a Water and Sewerage undertaker' and the Ofwat Regulatory Accounting Guidelines (RAGS) adopted by the Utility Regulator and modified where required for conditions prevalent in Northern Ireland, the accounting policies set out in these notes and, in the case of the Regulatory Historic Cost Accounts, under the historical cost convention. The Utility Regulator has instructed that for the year ended 31 March 2018, 31 March 2019, 31 March 2020, 31 March 2021, 31 March 2022, 31 March 2023 and 31 March 2024 accounts should not be reported on a current cost basis. The Regulatory Accounts have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2024. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Parent Company operates and that there is a reasonable expectation that NI Water will continue to operate for 12 months from the date of approving the financial statements. However material uncertainties exist which cast doubt on the ability of the organisation to continue as a going concern in the future. This is described in more detail below:

- NI Water is subject to economic regulation rather than market competition. As a result, NI Water provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006 which designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland.
- Following the NI Assembly decision to defer the introduction of domestic water charges, NI Water receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water is also designated as a NDPB and is subject to public sector spending rules.
- NI Water submitted its Business Plan for the PC21 Price Control period (April 2021 to March 2027) to the Utility Regulator in January 2020. The Utility Regulator published the PC21 Final Determination in May 2021 endorsing the proposals outlined in the PC21 Business Plan and adding further challenge in some areas. The Board of NI Water accepted the PC21 Final Determination in July 2021, encouraged that the first year of PC21 (2021/22) was fully funded by DfI and the NI Executive and based on a continuing commitment to fund the PC21 Final Determination to deliver the outputs and outcomes for customers.

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\*On 9<sup>th</sup> May 2016 the Department for Infrastructure (DfI) was formed. The Department for Infrastructure has taken on all the responsibilities of the Department for Regional Development.

## 2 Accounting policies (continued)

### (a) Basis of preparation (continued)

- Since then, there has been significant volatility in global energy prices which, combined with higher inflation more generally, has created a shortfall in Resource DEL in each of the first three years of PC21. Shortfalls were successfully met by in-year bids to DfI in 2021/22 and 2022/23. In the absence of monitoring rounds during 2023/24, it was 13 March 2024 before DfI advised that it was able to secure an additional £27m to regularise 2023/24 Resource DEL allocation to £172m in line with NI Water's forecast.
- While NI Water's requirement for Capital DEL cover was fully met in the first two years of PC21, 2023/24 has been challenging. NI Water's Operating Plan and Budget for 2023/24 set out a Capital DEL requirement of £370m reflecting the third year of PC21 Final Determination. NI Water reduced its requirement to £353m to reflect minimum Capital DEL allocation required to mitigate risk of prosecution, resulting in a shortfall of £31.8m to the Capital DEL allocation of £321.2m advised by DfI. DfI submitted a bid for additional capital funding to make up the shortfall but the Secretary of State did not make any additional in-year capital allocations. In December 2023, DfI sought an absolute assurance from NI Water Board that the £321.2m Capital DEL allocation would not be exceeded. An assurance was provided by the NI Water Board and management took steps to slow down the PC21 capital programme.

### **2024/25 Operating Plan and Budget**

- NI Water's Operating Plan and Budget for the 2024/25 (Year 4 of PC21) sets out a Resource DEL requirement of £175.9m and a Capital DEL requirement of £470m to ensure that NI Water can deliver on its statutory and regulatory commitments. Operating Plan targets for 2024/25 reflect the Utility Regulator's PC21 Final Determination with adjustment for slippage in 2023/24 due to shortfall in Capital DEL funding and reprofiling for efficient delivery.
- On 23 May 2024, the DfI Minister wrote to NI Water advising indicative budget allocations for the 2024/25 financial year of £137.7m Resource DEL and £324.5m Capital DEL resulting in shortfalls of £38.2m and £145.5m respectively.
- On 21 June 2024, the DfI Permanent Secretary provided a letter of assurance confirming NI Water is authorised to borrow against its current loan note in order to finance its normal trading activities in 2024/25, ensuring that expenditure financed by loan funding is covered within its public expenditure budget agreed by the Department.

### **Outlook to end of PC21 Price Control period**

- NI Water made its PC21 Mid Term Review submission to the Utility Regulator on 29 September 2023. Following engagement with NI Water and principal stakeholders, the Utility Regulator published its Draft Determination on 2 May 2024 for an eight-week consultation period. The PC21 Mid Term Review Draft Determination proposes the following:
  - Limited adjustments to PC21 output targets.
  - Average tariff increase of 4.6% for non-domestic consumers in each of the last two years of the PC21 period (2025/26 and 2026/27) to mitigate against an unprecedented increase in NI Water's power costs.

## 2 Accounting policies (continued)

### (a) Basis of preparation (continued)

- A capital allowance of c£2.4bn (nominal prices) for the full 6-year price control period to maintain existing services and deliver the upgrades required to meet its quality, environmental and service level obligations.
- The Utility Regulator estimates that Capital DEL provision for the last three years of PC21 (2024/25 – 2026/27) would need to be £1,482m to deliver the planned investment and outputs. This is a reduction to NI Water’s Mid Term Review submission of £1,792m. NI Water plans to challenge some of the difference in its response to the Utility Regulator’s consultation.
- The DfI Permanent Secretary has informed NI Water that it should be planning for a ‘Reasonable Worst Case Scenario’ of c.£321m Capital DEL in each of the last three years of PC21 which equates to £966m, a shortfall of £516m (35%) from Utility Regulator’s Draft Determination.

Capital DEL	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m
NI Water PC21 MTR Submission (Sept 2023)	562	666	564	1,792
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Shortfall in DfI Funding	(141)	(236)	(139)	(516)

- The DfI Permanent Secretary has also indicated that Resource DEL provision is likely to be similarly constrained going forward.

Resource DEL	2024/25	2025/26	2026/27	Total
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NI Water PC21 MTR Submission (Sept 2023)	169	151	143	464
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DfI Reasonable Worst Case Scenario (Nov 2023)	138	145	145	428
Shortfall in DfI Funding	(40)	(24)	(19)	(83)

- NI Water has access to cash through the loan note instrument which enables the Company to draw down loans up to £1.75bn from 1 April 2022 to 31 March 2027, subject to headroom restrictions. £215m was drawn down in 2023/24 bringing the cumulative total drawdown to £370m. In addition, the Company has access to a working capital facility of £20m.
- The availability of Resource and Capital DEL to enable delivery of PC21 outputs is the overriding constraint, irrespective of access to cash. A shortfall in Resource DEL allocation limits what cash NI Water can spend to run and operate its business. A shortfall in Capital DEL allocation creates a limit on what cash NI Water can invest in water and drainage infrastructure. NI Water is prohibited from spending any cash in excess of the DEL allocations without prior approval from DfI.

## 2 Accounting policies (continued)

### (a) Basis of preparation (continued)

- The Board of NI Water finds itself in a difficult position and is concerned about future funding and the ability to discharge its statutory and regulatory duties and secure the continued provision of water and wastewater services. The Utility Regulator has informed NI Water that delivery of all outputs within PC21 are necessary to discharge its statutory and regulatory duties and this is underpinned in PC21 Mid Term Review Draft Determination, with limited adjustment to PC21 output targets. DfI has informed NI Water that it should prepare Operating Plans for the remaining three years of PC21 based on a projected Capital DEL of £321M, which is materially below the amounts determined by the Utility Regulator.
- As a Government owned company operating under a regulatory Licence, NI Water is unable to unilaterally decide which statutory or regulatory obligations it will or will not perform. Both DfI and the Utility Regulator have statutory and regulatory obligations relating to funding. This includes a statutory obligation under Article 6 of the Water and Sewerage Services (NI) Order 2006 to ensure that NI Water is able to finance the proper carrying out of its functions.
- The current and anticipated shortfalls in Resource and Capital DEL allocations give rise to material uncertainty regarding going concern in the context of delivering a six year PC21 programme of work as well as having the potential to lead to conflicting requirements in relation to:
  - Obligations to deliver services under the regulatory Licence;
  - Board's statutory duties;
  - Accounting Officer responsibility not to overspend against budget; and
  - Regularity of spend.
- The Board is keen to avoid a repeat of events in 2023/24 where it experienced a potential conflict between its budgetary authority and its regulatory obligations. The Board notes that in the event that a material mismatch continues to arise between anticipated funded expenditure limits and those required to deliver PC21, both DfI and the Utility Regulator could consider the agreed procedures in the Memorandum of Understanding and Consequent Written Agreement. These procedures include reference to the PC21 Social & Environmental Guidance which informs how water and sewerage services are provided in Northern Ireland and sets out what NI Water will need to do to meet its environmental obligations, continue to make improvements in service delivery and work to operate sustainably, taking account of climate change.
- DfI has convened a forum to include the Utility Regulator and other key stakeholders in the Water Senior Stakeholder Group to engage in the development of a reasoned submission which will consider an agreed adjusted programme of outputs and outcomes for PC21.
- Until this forum has completed its work and a reasoned adjusted programme for PC21 is agreed, NI Water continues to face a significant mismatch between the PC21 output targets set by the Utility Regulator and the Capital DEL funding indicated by the DfI. NI Water is exposed to enforcement proceedings from the Utility Regulator which could result in the removal of NI Water's Licence to operate, and the possibility of legal action by other stakeholders for failure to meet its statutory obligations.

## 2 Accounting policies (continued)

### *(a) Basis of preparation (continued)*

- In such circumstances, material uncertainties exist, which cast doubt on the ability of the organisation to continue as a going concern in the future.

### *(b) General*

The regulatory accounting policies are based on UK-adopted international accounting standards (IFRS Standards) as directed by the Utility Regulator.



## 4a Analysis of operating costs and tangible fixed assets

	Year to 31 March 2024							
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
<b>Direct costs</b>								
Employment costs	4,748	12,236	16,984	5,987	5,222	-	11,209	<b>28,193</b>
Power	18,159	6,778	24,937	9,421	19,093	4,124	32,638	<b>57,575</b>
Hired and contracted services	3,810	12,137	15,947	6,967	1,954	3,851	12,772	<b>28,719</b>
Materials and consumables	8,727	558	9,285	605	1,226	300	2,131	<b>11,416</b>
Service charges	864	-	864	4	866	298	1,168	<b>2,032</b>
Other direct costs	290	14	304	9	6	-	15	<b>319</b>
<b>Total direct costs</b>	<b>36,598</b>	<b>31,723</b>	<b>68,321</b>	<b>22,993</b>	<b>28,367</b>	<b>8,573</b>	<b>59,933</b>	<b>128,254</b>
General and support expenditure	17,654	16,682	34,336	13,563	20,562	4,026	38,151	<b>72,487</b>
<b>Total functional expenditure</b>	<b>54,252</b>	<b>48,405</b>	<b>102,657</b>	<b>36,556</b>	<b>48,929</b>	<b>12,599</b>	<b>98,084</b>	<b>200,741</b>
<b>Business activities</b>								
Customer services			7,038				6,173	<b>13,211</b>
Scientific services			2,714				2,380	<b>5,094</b>
Other business activities			503				441	<b>944</b>
Rates			15,180				12,657	<b>27,837</b>
Doubtful debts			410				396	<b>806</b>
<b>Total operating expenditure less third party services</b>			<b>128,502</b>				<b>120,131</b>	<b>248,633</b>
Services for third parties			-				-	-
Total PPP unitary charge			14,667				15,588	<b>30,255</b>
<b>Total operating expenditure</b>			<b>143,169</b>				<b>135,719</b>	<b>278,888</b>
<b>Capital costs</b>								
<i>Historical cost depreciation:</i>								
service activities			43,637				65,788	<b>109,425</b>
business activities			1				-	<b>1</b>
Amortisation of grants			(191)				(5,145)	<b>(5,336)</b>
<b>Total capital costs</b>			<b>43,447</b>				<b>60,643</b>	<b>104,090</b>
<b>Total operating costs</b>			<b>186,616</b>				<b>196,362</b>	<b>382,978</b>
<b>Analysis of tangible fixed assets – Historical Cost</b>								
Service activities	391,881	1,173,741	1,565,622	1,366,516	1,170,095	32,182	2,568,793	<b>4,134,415</b>
Business activities			5				-	<b>5</b>
<b>Total</b>			<b>1,565,627</b>				<b>2,568,793</b>	<b>4,134,420</b>

## 4b Analysis of operating costs and tangible fixed assets

Year to 31 March 2023								
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
<b>Direct costs</b>								
Employment costs	4,171	11,276	15,447	5,080	5,071	-	10,151	<b>25,598</b>
Power	28,721	9,078	37,799	11,320	26,188	6,950	44,458	<b>82,257</b>
Hired and contracted services	2,787	11,791	14,578	6,984	1,766	3,600	12,350	<b>26,928</b>
Materials and consumables	7,087	491	7,578	479	1,104	178	1,761	<b>9,339</b>
Service charges	823	-	823	5	918	285	1,208	<b>2,031</b>
Other direct costs	35	70	105	22	17	-	39	<b>144</b>
<b>Total direct costs</b>	<b>43,624</b>	<b>32,706</b>	<b>76,330</b>	<b>23,890</b>	<b>35,064</b>	<b>11,013</b>	<b>69,967</b>	<b>146,297</b>
General and support expenditure	13,954	12,275	26,229	10,102	17,016	3,334	30,452	<b>56,681</b>
<b>Total functional expenditure</b>	<b>57,578</b>	<b>44,981</b>	<b>102,559</b>	<b>33,992</b>	<b>52,080</b>	<b>14,347</b>	<b>100,419</b>	<b>202,978</b>
<b>Business activities</b>								
Customer services			6,530				5,930	<b>12,460</b>
Scientific services			2,250				2,043	<b>4,293</b>
Other business activities			269				244	<b>513</b>
Rates			17,227				11,681	<b>28,908</b>
Doubtful debts			16				(109)	<b>(93)</b>
<b>Total operating expenditure less third party services</b>			<b>128,851</b>				<b>120,208</b>	<b>249,059</b>
Services for third parties			-				-	-
Total PPP unitary charge			13,109				12,792	<b>25,901</b>
<b>Total operating expenditure</b>			<b>141,960</b>				<b>133,000</b>	<b>274,960</b>
<b>Capital costs</b>								
<i>Historical cost depreciation:</i>								
service activities			39,534				59,362	<b>98,896</b>
business activities			1				-	<b>1</b>
Amortisation of grants			(145)				(5,015)	<b>(5,160)</b>
<b>Total capital costs</b>			<b>39,390</b>				<b>54,347</b>	<b>93,737</b>
<b>Total operating costs</b>			<b>181,350</b>				<b>187,347</b>	<b>368,697</b>
<b>Analysis of tangible fixed assets – Historical Cost</b>								
Service activities	344,470	1,106,657	1,451,127	1,293,158	1,073,594	24,069	2,390,821	<b>3,841,948</b>
Business activities			7				-	<b>7</b>
<b>Total</b>			<b>1,451,134</b>				<b>2,390,821</b>	<b>3,841,955</b>



#### 4a and 4b - Analysis of operating costs and tangible fixed assets (continued)

The tables above showing the analysis of operating costs have been prepared in accordance with Regulatory Accounting Guidelines 4.03 'Analysis of operating costs and assets'. Direct costs have been charged directly to the service to which they relate. General and support costs are, where possible, allocated directly to the service to which they relate. Any remaining general and support costs which cannot be directly allocated to a particular service are apportioned either on the basis of the directly coded spend or on the basis of the direct labour charge. All costs relating to business activities such as customers services, scientific services and other, were collated using the relevant cost centre from the General Ledger. The total expenditure attributable to these activities was apportioned to water and sewerage on the basis of the directly coded expenditure.

#### Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for the year ended 31 March 2024 in respect of infrastructure assets amounted to £10.7m (2023: £10.2m) for water services and £2.5m (2023: £2.6m) for sewerage services.

#### 5 Historical cost analysis of tangible fixed assets by assets type

##### Water Services

	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
<b>Gross book value</b>				
At 1 April 2023	691,777	1,054,692	110,453	<b>1,856,922</b>
Disposals	(15)	(402)	(298)	<b>(715)</b>
Additions	94,176	48,144	15,783	<b>158,103</b>
<b>At 31 March 2024</b>	<b>785,938</b>	<b>1,102,434</b>	<b>125,938</b>	<b>2,014,310</b>
<b>Depreciation</b>				
At 1 April 2023	(209,991)	(130,143)	(65,624)	<b>(405,758)</b>
Disposals	15	402	298	<b>715</b>
Charge for year	(24,595)	(11,736)	(7,306)	<b>(43,637)</b>
<b>At 31 March 2024</b>	<b>(234,571)</b>	<b>(141,477)</b>	<b>(72,632)</b>	<b>(448,680)</b>
<b>Net book value at 31 March 2024</b>	<b>551,367</b>	<b>960,957</b>	<b>53,306</b>	<b>1,565,630</b>
Net book value at 1 April 2023	481,786	924,549	44,829	1,451,164

##### Sewerage Services

	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
<b>Gross book value</b>				
At 1 April 2023	1,463,676	1,420,311	146,271	<b>3,030,258</b>
Disposals	-	(457)	(535)	<b>(992)</b>
Additions	137,977	83,976	21,853	<b>243,806</b>
<b>At 31 March 2024</b>	<b>1,601,653</b>	<b>1,503,830</b>	<b>167,589</b>	<b>3,273,072</b>
<b>Depreciation</b>				
At 1 April 2023	(471,189)	(102,611)	(65,667)	<b>(639,467)</b>
Disposals	-	456	517	<b>973</b>
Charge for year	(48,445)	(10,170)	(7,173)	<b>(65,788)</b>
<b>At 31 March 2024</b>	<b>(519,634)</b>	<b>(112,325)</b>	<b>(72,323)</b>	<b>(704,282)</b>
<b>Net book value at 31 March 2024</b>	<b>1,082,019</b>	<b>1,391,505</b>	<b>95,266</b>	<b>2,568,790</b>
Net book value at 1 April 2023	992,487	1,317,700	80,604	2,390,791

## 5 Historical cost analysis of tangible fixed assets by assets type (continued)

<b>Total Services</b>	<b>Operational Assets £000</b>	<b>Infrastructure Assets £000</b>	<b>Other Assets £000</b>	<b>Total £000</b>
<b>Gross book value</b>				
At 1 April 2023	2,155,453	2,475,003	256,724	<b>4,887,180</b>
Disposals	(15)	(859)	(833)	<b>(1,707)</b>
Additions	232,153	132,120	37,636	<b>401,909</b>
<b>At 31 March 2024</b>	<b>2,387,591</b>	<b>2,606,264</b>	<b>293,527</b>	<b>5,287,382</b>
<b>Depreciation</b>				
At 1 April 2023	(681,180)	(232,754)	(131,291)	<b>(1,045,225)</b>
Disposals	15	858	815	<b>1,688</b>
Charge for year	(73,040)	(21,906)	(14,479)	<b>(109,425)</b>
<b>At 31 March 2024</b>	<b>(754,205)</b>	<b>(253,802)</b>	<b>(144,955)</b>	<b>(1,152,962)</b>
<b>Net book value at 31 March 2024</b>	<b>1,633,386</b>	<b>2,352,462</b>	<b>148,572</b>	<b>4,134,420</b>
Net book value at 1 April 2023	1,474,273	2,242,249	125,433	3,841,955

## 6 Net debt analysis

	Fixed rate Year to 31 March 2024 £000	Total Year to 31 March 2024 £000	Fixed rate Year to 31 March 2023 £000	Total Year to 31 March 2023 £000
<b>Maturity Profile</b>				
Less than one year	(12,956)	(12,956)	(12,074)	(12,074)
Between one and two years	(29,494)	(29,494)	(25,903)	(25,903)
Between two and five years	(44,241)	(44,241)	(38,854)	(38,854)
Between five and twenty years	(1,876,527)	(1,876,527)	(1,683,461)	(1,683,461)
More than twenty years	-	-	-	-
Total borrowings	<u>(1,963,218)</u>	<u>(1,963,218)</u>	<u>(1,760,292)</u>	<u>(1,760,292)</u>
Cash	86,903	86,903	55,399	55,399
Short term deposits	1,312	1,312	1,287	1,287
Net debt at 31 March	<u>(1,875,003)</u>	<u>(1,875,003)</u>	<u>(1,703,606)</u>	<u>(1,703,606)</u>

## 7a Reconciliation of historical cost operating profit to net cash inflow from operating activities for the appointed business

	Year to 31 March 2024 £000	Year to 31 March 2023 £000
Historical cost operating profit	155,788	101,340
Movement in working capital	18,157	5,212
Historical cost depreciation	109,426	98,895
Historical cost profit on sale of fixed assets	(174)	(420)
<b>Other non-cash items</b>		
Amortisation of deferred grants and contributions	(5,335)	(5,160)
Excess of pension payments over FRS17 charge	(2,408)	6,005
Non-cash movement relating to pension	873	-
Movement in provisions and creditors greater than 1 year	(2,192)	555
<b>Net cash inflow from operating activities</b>	<u>274,135</u>	<u>206,427</u>

## 7b Analysis of net debt

	1 April 2023 £000	Additions** £000	Cash flows £000	Non cash* changes £000	31 March 2024 £000
Cash at bank and in hand	55,399	(2)	31,506	-	86,903
Deposits and investments	1,287	-	25	-	1,312
	<u>56,686</u>	<u>-</u>	<u>31,531</u>	<u>-</u>	<u>88,215</u>
Debt due within one year	(12,074)	-	-	(882)	(12,956)
Debt due after one year (including PPP liability)	(1,748,218)	(9)	(202,917)	882	(1,950,262)
<b>Total</b>	<u>(1,703,606)</u>	<u>(11)</u>	<u>(171,386)</u>	<u>-</u>	<u>(1,875,003)</u>

\* The non cash changes relate to the movement during the year on the PPP and finance lease liability due within one year.

\*\* Additions relate to new finance leases added during the year with the implementation of IFRS 16 Leases.

## 8 Regulatory capital value (RCV)

The Regulatory Capital Value (RCV) has been developed for regulatory purposes and represents the capital base established for the purposes of setting price limits.

In line with Regulatory Accounting Guideline (RAG) 1.04, this note is compiled using figures assumed in setting prices during the Price Control (PC) process. Figures in the year to 31<sup>st</sup> March 2024 are therefore consistent with figures contained within the Water and Sewerage Service Price Control 2021-2027 (PC21) published by the Utility Regulator in May 2021.

Within the RCV, the prior year balance and in year capital expenditure have been indexed by the average Retail Price Index (RPI) over the year to March.

	<b>At 31 March 2024</b>	At 31 March 2023
	<b>£'m</b>	£'m
Prior Year Closing RCV	<b>3,307.4</b>	2,831.6
Indexation and other adjustments	<b>247.4</b>	364.6
Opening RCV	<b>3,554.8</b>	3,196.2
Capital expenditure	<b>340.8</b>	241.7
Infrastructure renewals expenditure	<b>57.8</b>	49.5
Infrastructure renewals charge	<b>(57.8)</b>	(49.5)
Grants and contributions	<b>(15.9)</b>	(15.1)
Depreciation (including capital grants)	<b>(141.5)</b>	(114.6)
Disposal of assets	<b>(0.8)</b>	(0.8)
Closing RCV (pre regulatory adjustments)	<b>3,737.4</b>	3,307.4
Regulatory adjustments	-	-
<b>Closing RCV (post regulatory adjustments)</b>	<b>3,737.4</b>	3,307.4
Average RCV	<b>3,522.4</b>	3,069.5

## 9 Atypical and re-organisational operating expenditure items

The following items are considered to represent atypical and re-organisational operating expenditure in accordance with Regulatory Accounting Guideline 3.06 (RAG 3). Atypical items are deemed to be 'one off' in nature and are considered by the Utility Regulator when undertaking comparative efficiency analysis.

	<b>Year to 31 March 2024</b>	Year to 31 March 2023
	<b>£000</b>	£000
Holiday Pay settlement	<b>9,200</b>	-
Business improvement programme	<b>600</b>	1,100
PPP Atypical expenditure	<b>600</b>	(2,800)
PPP Constructive Liabilities	<b>(2,800)</b>	1,700
Balance of 2021-22 RPDM & UR credit accruals increased in 2022-23	-	(1,000)
Major incidents arising from High Demand in June 2023	<b>300</b>	1,100
Change in accounting treatment for Cloud based software costs	-	1,100
<b>Total</b>	<b>7,900</b>	<b>1,200</b>

# Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited

## Report on the audit of the Regulatory Accounts

### Accounts Opinion

We have audited the Regulatory Accounts ("Regulatory Accounts") of Northern Ireland Water Limited ("the Company") for the year ended 31 March 2024 as set out on pages 5 to 20 which comprise the regulatory historical cost financial statements for the appointed and non-appointed business comprising the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement and the related notes to the regulatory accounts including the statement of accounting policies set out in note 2.

These Regulatory Accounts have been prepared in accordance with the Company's Regulatory Licence, Regulatory Accounting Guidelines 1.04, 2.03, 3.06, 4.03 and 5.04 ("the RAGs") and the basis of preparation and accounting policies set out in the Statement of Accounting Policies. The Regulatory Accounts have been prepared for the reasons set out in note 2 to Regulatory Accounts.

In our opinion the Regulatory Accounts for the year ended 31 March 2024 have been properly prepared, in all material respects, in accordance with condition F of the Company's Regulatory Licence, Regulatory Accounting Guidelines, and the accounting policies set out in note 2.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800, the terms of our engagement letter dated 27 June 2023, and having regard to the guidance contained in ICAEW Technical Release 02/16AAF (Revised) Reporting to Regulators on Regulatory Accounts. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Regulatory Accounts section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the Regulatory Accounts in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter - basis of preparation

We draw attention to the fact that the Regulatory Accounts have been prepared in accordance with a special purpose framework, being condition F of the Company's Regulatory Licence, the RAGs issued by the Regulator, the accounting policies set out in the statement of accounting policies and in the case of the regulatory historical cost accounting statements, under the historical cost convention. The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of UK International Financial Reporting Standards. Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

Our opinion is not modified in respect of this matter.

# Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

## Material uncertainty related to going concern

We draw attention to note 2(a) in the Regulatory Accounts, which indicates that Northern Ireland Water Limited faces a significant shortfall between the output targets agreed with the Utility Regulator and the funding indicated by the Department for Infrastructure. Northern Ireland Water Limited is therefore exposed to enforcement proceedings from the Utility Regulator in respect of Northern Ireland Water Limited's licence to operate, and the possibility of legal action by other stakeholders in the event that Northern Ireland Water Limited fails to meet its statutory obligations. In such circumstances, material uncertainties exist, which cast significant doubt on the ability of the organisation to continue as a going concern in the future.

As stated in note 2(a), these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The directors have prepared the Regulatory Accounts on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. As set out in note 2(a) in the Regulatory Accounts, they have also concluded that there is a material uncertainty that could cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the Regulatory Accounts ("the going concern period").

In auditing the Regulatory Accounts, we have concluded that the director's use of the going concern basis of accounting in the preparation of the Regulatory Accounts is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included reviewing cash flow forecasts prepared by management for a period greater than 12 months, obtaining and reviewing correspondence received by the Company from the Utility Regulator and the Department for Infrastructure, held discussions with the Utility Regulator to understand the implications of under funding on the current price control period, held discussions with those charged with governance on the actions they are proposing to take, and the potential implications of the under funding for the required spend on operational and capital activities in line with the price control plan and obtaining a letter of support from the Department for Infrastructure.

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

## Detecting irregularities including fraud

We identified the areas of laws and regulations that could reasonably be expected to have a material effect on the Regulatory Accounts and risks of material misstatement due to fraud, using our understanding of the entity's industry, regulatory environment and other external factors and inquiry with the directors. In addition, our risk assessment procedures included: inquiring with the directors as to the Company's policies and procedures regarding compliance with laws and regulations and prevention and detection of fraud; inquiring whether the directors have knowledge of any actual or suspected non-compliance with laws or regulations or alleged fraud; inspecting the Company's regulatory and legal correspondence; and reading Board and Audit and Risk committee minutes.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

## Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

### Detecting irregularities including fraud (continued)

The Company is subject to laws and regulations that directly affect the regulatory accounts including companies and financial reporting legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related regulatory accounts items, including assessing the regulatory accounts disclosures and agreeing them to supporting documentation when necessary.

The Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the regulatory accounts, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, employment law, and environmental law.

Auditing standards limit the required audit procedures to identify non-compliance with these non-direct laws and regulations to inquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

We assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. As required by auditing standards, we performed procedures to address the risk of management override of controls. On this audit we do not believe there is a fraud risk related to revenue recognition. We did not identify any additional fraud risks.

In response to the risk of fraud, we also performed procedures including: identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation; evaluating the business purpose of significant unusual transactions; assessing significant accounting estimates for bias; and assessing the disclosures in the regulatory accounts.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the regulatory accounts, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the regulatory accounts, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the Condition F6A of the Licence (Directors' certificate of going concern). The Regulatory Accounts and our auditor's report thereon do not comprise part of the other information. Our opinion on the Regulatory Accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Regulatory Accounts audit work, the information therein is materially misstated or inconsistent with the Regulatory Accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

# Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

## Directors' responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 2 the Directors are responsible for the preparation of the Regulatory Accounts in accordance with the special purpose basis of preparation and accounting policies as set out in note 2 to the Regulatory accounts; determining that the basis of preparation is acceptable in the circumstances; such internal control as they determine is necessary to enable the preparation of Regulatory Accounts that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditors' responsibilities

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the regulatory accounts. A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## Our opinion on other matters prescribed by Condition F is unmodified

Under the terms of our engagement letter, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

## The purpose of our audit work and to whom we owe our responsibilities

This report is made, on terms that have been agreed, solely to the Company and the Utility Regulator ("UR") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Department for Regional Development to Northern Ireland Water Limited as a water and sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the UR those matters that we have agreed to state to them in our report, in order:

- (a) to assist the Company to meet its obligation under the Company's Instrument of Appointment to procure such a report; and
- (b) to facilitate the carrying out by the UR of its regulatory functions, and for no other purpose.

In accordance with our Services Contract with the Company, to the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the UR, for our audit work, for this report, or for the opinions we have formed.



## Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

### The purpose of our audit work and to whom we owe our responsibilities (continued)

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2024 on which we reported on 10 July 2024, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



KPMG  
Chartered Accountants  
Belfast  
10 July 2024