

18 July 2017

Trust in water

# Company monitoring framework – final position

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## About this document

In section A9.2 of the [assurance technical appendix to our draft determinations](#) in August 2014, we proposed an assurance framework for 2015-20. We considered and revised our proposals following the publication of our [strategy](#). We called this framework the company monitoring framework.

This document sets out our company monitoring framework for the 2015-20 period, which describes how we will oversee the information that the 17 largest water and sewerage and water only companies ('the water companies') in England and Wales provide to customers. It explains the actions that we want companies to take.

This document was revised in July 2017. We updated this document to:

- reflect one change in policy already published in the [Company monitoring framework: 2016 assessment](#) (see section 1.4 of this document– change from 18 months to 12 months for prescribed companies);
- address an inconsistency in the format of the document, so that the assessment categories are explained in full, in one place;
- clarify how we assess companies' assurance, to reflect our approach published in the 2016 assessment (see section 4);
- make a number of minor changes to the wording to reflect that the company monitoring framework is an "up and running" tool, for example the present tense is now used, and the history of its development is no longer included; and
- make some minor changes to wording where we think that this improves the clarity or readability of the document.

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## 1. Key messages

Our [shared vision for the water sector in England and Wales](#) is one where customers, the environment and wider society have trust and confidence in vital public water and wastewater services. We want the companies that provide those services to be accountable to their customers for delivering the services they need and want at a price they can afford.

Having information that is easy to understand and navigate provides transparency and helps everyone build trust and confidence in water. Information forms the basis for conversations so that water companies can listen to their customers and deliver the outcomes they, the environment and wider society want. Information also reveals excellence within the sector, to provoke all companies to lift their game and deliver the best for their customers.

Water companies' boards are accountable for the quality and transparency of the information they provide on their performance. It is important that they continue to review what information their customers and other stakeholders want and need. Companies need to adopt a proportionate and transparent approach to the data assurance they carry out to give confidence to customers and stakeholders in the information they publish.

Ofwat's role is to help the sector build trust and confidence with customers, the environment and wider society. The company monitoring framework, alongside the financial monitoring framework which monitors companies' financial structures and financial stability, are important tools in building trust and confidence.

We help promote transparency by making sure companies, where appropriate, provide comparative information across the sector. This enables customers, investors and other stakeholders to analyse the companies' relative and absolute performance. Companies report information in an [annual performance report](#), including both information specific to its customers and stakeholders and information that is comparative across the sector.

The company monitoring framework is a tool we use to oversee that stakeholders can have confidence in this information. Where companies have met the high standards customers and other stakeholders expect, they have discretion to put in place assurance to give confidence about their performance. Through the company monitoring framework, we step in where companies do not provide the standard of information that customers and other stakeholders expect. Where necessary, we make sure that assurance is provided in a proportionate way that can help rebuild trust and confidence.

Within the framework we make a distinction between data assurance activities that water companies put in place to provide accurate data and the wider assurance that they provide to demonstrate that they are listening to customers and delivering services they want and can afford. Both are essential to build trust and confidence.

This document sets out:

- **how we set the specific additional assurance requirements; and**
- **how companies move between categories over time.**

Our final position is as set out in the table below.

Category	What this means	Assurance requirements
Self assurance	A company has demonstrated consistently that customers and other stakeholders can place trust and confidence in the information that it provides	<p>A 'self assurance' company will need to meet the base requirements that apply to all companies, namely:</p> <ul style="list-style-type: none"> <li>• Over the reporting year each Board must confirm that it has complied with <b>all</b> its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate the risks it faces.</li> <li>• The company will provide transparency on the audit procedures it has put in place in relation to data assurance.</li> <li>• The company will provide a summary of the outcome of the data assurance that has been carried out.</li> </ul>

Category	What this means	Assurance requirements
		<p>Beyond this, the company will have discretion to deliver self assurance. This means they will decide themselves what additional assurance arrangements they put in place.</p> <p>This applies to any information the companies are required to provide/publish.</p>
Targeted	A company did not consistently meet the high standards that customers and other stakeholders expect	<p>A 'targeted' company will need to meet all the requirements for companies in the self-assurance category, but in addition:</p> <ul style="list-style-type: none"> <li>• carry out an exercise with stakeholders to identify areas to target ; and</li> <li>• publish a statement on this in the autumn of each year before they submit information.</li> </ul> <p>For areas the exercise targets, companies are required to publish draft assurance plans and engage with stakeholders before confirming final plans, but only in these targeted areas.</p>
Prescribed	A company did not instil sufficient confidence about their ability to deliver, monitor and report performance	<p>A 'prescribed' company will need to meet the requirements required of companies in the other two categories.</p> <p>In addition, a prescribed company will be required to publish its assurance plans covering all information before publishing or providing it, so that stakeholders (including Ofwat) can gain confidence and, if necessary, provide comments or guidance that the company would need to respond to.</p> <p>The risks, strengths and weaknesses exercise that a prescribed company carries out with stakeholders will highlight the areas of reporting that have the most significance or are of greatest risk to customers.</p> <p>For the areas that are of greatest risk, the company will need to incorporate independent external assurance as part of its assurance plans.</p>

## **1.1 Moving between categories**

A company will move down from self to targeted assurance, or targeted to prescribed assurance, if its behaviour leads to a reduction in the trust and confidence stakeholders can place in it. A self assurance company can be moved to targeted or prescribed assurance depending on the significance of the issues involved. The move down could be immediate where appropriate, but otherwise would be in the autumn each year.

A company is able to move up from targeted to self assurance, or prescribed to targeted assurance on a yearly basis. This will occur each autumn as long as:

- there is confirmation that targeted areas have been adequately addressed;
- there is no evidence of behaviour that would reduce the trust and confidence stakeholders can place in the company; and
- there are no significant problems with its assurance plans in the previous year.

Companies in the prescribed category will remain in that category for a minimum of 12 months and would move to targeted assurance before moving to self assurance.

More detail is provided on moving between categories in section 4 of this document.

## **2. The overall framework**

This chapter explains why assurance is important and how the company monitoring framework works.

### **2.1 Why it is important for water companies to provide assurance to customers and stakeholders**

Information is central to our vision of trust and confidence in the sector. We expect water companies to have open and honest conversations with customers and other stakeholders with a high level of transparency. It is important that they provide accessible information that will provide assurance that they are listening to customers and delivering services they want and can afford. This will build trust and confidence through the sector. If issues arise that could reduce this trust and confidence, companies need to respond proactively to engage with customers and stakeholders, providing appropriate information to address the issue.

We will continue to challenge the sector, to ensure it improves and provides the quality of information stakeholders want. We are ready to step in if companies fall short, using the right tools from our available toolkit to achieve the best results. We have set out the approach we will take in this company monitoring framework so that the sector understands it and so that our actions are predictable.

### **2.2 Why is data assurance important?**

Accurate information forms the basis for conversations on performance between water companies and their customers and other stakeholders. Water companies must take full responsibility for the integrity of the data they collect, analyse and publish. Data assurance that is appropriately focused, which builds on appropriate processes and procedures for gathering and reporting, reduces the risk of any inaccurate or incomplete reporting.

We expect companies that perform well in this area will continue to keep their processes and procedures for reporting accurate information under review. We expect them to target the level of assurance to an appropriate level based on the risks associated with the reporting of that information. In line with our strategy of fostering trust and confidence in the sector, we expect companies to report on the data assurance carried out, and the outcome of that data assurance in reporting that information to us and stakeholders.

## **2.3 What is the company monitoring framework?**

The company monitoring framework is a tool to challenge all companies to provide information for customers and stakeholders that is reliable, timely, appropriate to the audience, and for companies to be transparent with customers and stakeholders about the data assurance they put in place.

By information, we mean more than merely data. It is important that what companies present is relevant to and provides an appropriate context for the audience with which they are communicating. Having information that is easy to understand and navigate provides transparency and helps everyone build trust and confidence in water.

This framework sets out the basis on which we will step in to protect customers and intervene in how companies provide assurance in a proportionate way that can help rebuild trust and confidence.

## **2.4 What information does it apply to?**

The company monitoring framework applies to companies that have an annual turnover of at least £6.5 million.

In assessing the appropriate category for a company under the framework, we may consider any information that a company has provided to customers and stakeholders, or indeed the absence of appropriate information. Chapter 4 explains how we will do this.

For each category of company, the company monitoring framework specifies requirements for companies to follow where they are required to publish (or otherwise report to Ofwat). This applies where we have given adequate notice ahead of when the information is required to be published (reported). Chapter 3 sets out what these requirements are.

Chapter 5 explains the process that we and companies follow each year.

## 3. Requirements for each category

### 3.1 Self assurance

Water companies in this category have demonstrated that customers and other stakeholders can place trust and confidence in the information that they provide. So they have few requirements in providing assurance.

Self assurance companies are only required to meet a set of base requirements all companies must meet, which are as follows.

- Over the reporting year each Board must confirm that it has complied with **all** its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate the risks it faces.
- The company will provide transparency on the audit procedures it has put in place in relation to data assurance.
- The company will provide a summary of the outcome of the data assurance that has been carried out.

It is for companies to work with assurers to provide transparency in an appropriate way that will inform customers and other stakeholders of the assurance that is carried out in order to build trust and confidence, but which does not reduce probing questions and speculative feedback that is appropriate between assurers and Boards<sup>1</sup>. This applies to any information a company is required to provide/publish.

These requirements also apply to companies in the targeted and prescribed categories.

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<sup>1</sup> For avoidance of doubt, any contractual arrangements entered into with external assurers should explicitly allow the company to share full reports with Ofwat if they have not been published in full. We accept that there is no duty of care to Ofwat from the assurer and Ofwat would not publish or share material provided under these terms that the company had not published without agreement.

## 3.2 Targeted

Companies in this category did not consistently meet the high standards that customers and other stakeholders expect. The companies, in conversation with stakeholders, are best placed to identify where the risks, strengths and weaknesses arise in providing information that stakeholders want and will trust. Targeted companies are required to carry out an exercise each year to consider these aspects in order to target areas to improve. This should consider both data assurance and how companies provide assurance to customers more generally. The areas to be targeted may not be those of greatest underlying risk as the company may be able to demonstrate that it already has strengths in these areas. The exercise must aim to take account of stakeholders' views.

For areas that the exercise identifies that a company should target, it is required to publish draft assurance plans on its website. The company will engage with stakeholders before it publishes final assurance plans. In other areas, the company has the same level of discretion as companies in the self assurance category.

We set out further guidance on how companies should engage in section 3.4.

## 3.3 Prescribed

Companies in the prescribed category have not demonstrated that they can deliver accurate and reliable information that gives stakeholders trust and confidence. In our risk-based approach<sup>2</sup>, we set out that water companies should be accountable for assessing and managing their own risks. We consider that companies are best placed to understand the risks to providing accurate and reliable information and producing assurance plans to minimise those risks. And customers are more likely to be protected if a company is actively challenging itself, rather than just attempting to follow guidance that may or may not target the greatest risks.

We need to intervene to make sure that companies in this category produce appropriate assurance, while keeping clear accountability to their customers and stakeholders. We consider that if stakeholders are to gain trust and confidence in a company that has not delivered in the past, it is important that they are able to be involved in the process of how that company intends to improve.

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<sup>2</sup> [http://www.ofwat.gov.uk/regulating/compliance/pap\\_pos1203regcomp.pdf](http://www.ofwat.gov.uk/regulating/compliance/pap_pos1203regcomp.pdf)

A company in the prescribed category will carry out a risks, strengths and weaknesses exercise with stakeholders to highlight the areas of assurance that have the most significance or are of greatest risk to customers. It is for the exercise to define these. For the areas identified, the company will need to incorporate independent external assurance as part of its assurance plans. By exception, a company may explain why this is not appropriate. In this case, the company should engage with Ofwat on this issue, before publishing draft assurance plans.

A company in the prescribed category must publish all of its assurance plans for all information on its website ahead of reporting. It will engage with stakeholders before it publishes final assurance plans, so that stakeholders (including Ofwat) can gain confidence and, if necessary, provide comments that the company would need to respond to, before confirming the final plans.

The approach we have set out provides a way for companies to build trust and demonstrate that information they provide is appropriately assured.

### **3.4 Guidance for targeted and prescribed companies**

We expect each company to tailor the type and extent of engagement to each particular stakeholder. Where a company is required to carry out engagement, it should be able to demonstrate efforts to engage proactively with stakeholders. A company will most likely want to explore different issues with different stakeholders as part of the conversations that occur. The decisions a company takes in proactively engaging with stakeholders and of how it does this should be made on the basis of what is in customers' best interests.

The risks, strengths and weaknesses exercise should consider both data assurance and how companies provide assurance to customers more generally. A company may want to engage with stakeholders to understand various aspects of how information is provided, including:

- stakeholders' current concerns about information that is reported;
- the relative importance a stakeholder places on the various information the company reports;
- how a stakeholder uses information and their needs for the precision that information is reported to; and
- if stakeholders would value information presented in a different way or desire further information.

The company will publish a statement on the exercise in the autumn of each year. The statement must allow stakeholders to understand how the exercise has been carried out and why the areas highlighted are the most appropriate. The engagement for the exercise should result in a statement that is acceptable to all stakeholders. Ofwat is one of those stakeholders, but we would not expect extensive involvement with all companies. We have not set a precise date for when these will be published, but it must be before 30 November each year. Companies must consider how they can effectively engage with stakeholders when deciding on the timing of their exercises, engagement and publication of both the statement and assurance plans. This should take into account both the ability of stakeholders to be involved in the process and the ability of the company to understand and respond to stakeholders' views.

Following the exercise, companies must publish assurance plans on their websites, although the areas that these plans are required to cover will depend on whether a company is in the targeted or prescribed category. The draft plans may be published at the same time as the statement or at a later date.

We expect that assurance plans will take into account the conversations that companies have had with their stakeholders. We therefore expect variations in both the approach and focus of these plans. It is important that plans are developed in the context of the wider assurance that companies provide to customers and stakeholders to demonstrate that they are listening to customers and delivering services. It is essential that the plans are clear on the data assurance activities that water companies will put in place to provide accurate data that underpins the information that companies provide. Any data assurance plan should follow a risk-based approach and we note that various standards already exist.

The company should aim to publish draft plans in a way that stakeholders will best understand and be able to navigate. In confirming final plans, we expect companies to be clear on the comments they have received and provide a response to the comments whether or not this has changed the final plan.

By exception, we may provide specific formal guidance to a company, which we would expect it to follow. This is distinct from the comments we provide when companies engage with us. A company will need to consider these comments in the round with other stakeholders' comments. We will make clear when we are providing formal guidance. If we provide a company with guidance, it may want to discuss how it intends to apply that guidance.

Guidance may focus either on the data assurance that companies carry out or on the wider aspect of companies providing assurance to stakeholders and customers on

delivery. At this point we have not identified any specific guidance we consider we need to provide to protect customers. We consider the framework we have set out will protect customers and will help trust and confidence to develop in the sector. We will oversee how companies provide assurance and only step in if necessary.

The likely timing of these steps, and how a change in categorisation might affect the timing are outlined in section 5.

## 4. Moving between categories

A company is able to move up from targeted to self assurance, or prescribed to targeted assurance on a yearly basis.



Increasing trust and confidence

A company will move from the targeted to self assurance category, or prescribed to targeted category, each autumn providing:

- there is no evidence of behaviour that leads to a reduction in the trust and confidence stakeholders can place in it;
- there is an absence of significant problems with its audit plans in the previous year;
- companies in the prescribed category must have remained in that category for a minimum of 12 months and can only move to the targeted category, or
- companies in the targeted category demonstrate that targeted areas have been adequately addressed.

A company will move from self to targeted assurance, or targeted to prescribed assurance, if its behaviour leads to a reduction in the trust and confidence customers can place in it. A self assurance company can be moved to targeted or prescribed assurance depending on the significance of the issues involved.

We conduct assessments of the quality of companies' assurance across several different areas. The individual assessment areas feed into an overall assessment in which Ofwat considers in the round what the exercise has shown about the overall trust and confidence that can be placed in the information that each company produces. Companies are then allocated categories, in line with the tests set out above.

Most changes will occur in the autumn, but we may, especially with significant issues, move companies immediately. We will endeavour to check the factual accuracy of our explanation of the move in advance – although in some cases this

may not be appropriate, such as on the conclusion of a strategic case. This will not stop us from discussing issues as we become aware of them.

Below, we set out examples of behaviour for which we would take action.

A company will move from self to targeted assurance categories, or targeted to prescribed assurance categories, if its behaviour leads to a reduction in the trust and confidence customers can place in it. In considering this, we would take into account the individual circumstances of the issue involved. A self assurance company could either be moved to the targeted or prescribed category depending on the significance and number of the issues involved. Examples of such issues are as follows.

- A company does not report accurate and reliable information **and**:
  - fails to address the issue in a timely manner once identified; and/or
  - fails to engage appropriately with stakeholders taking into account the materiality of the error and its significance to customers; and/or
  - the issue relates to information that is significant to customers and is long standing, but its assurance processes have not identified the error.
- A company that does not meet its performance commitments, or otherwise is at risk of not meeting statutory obligations, **and** fails to engage appropriately with stakeholders by:
  - failing to be transparent that there is an issue; and/or
  - not providing a clear explanation of the performance issue; and/or
  - not providing an explanation of how it will address the issues in the best interests of customers.
- Ofwat opens a strategic case that involves potential compliance issues with existing obligations or otherwise there are a material number of open cases or cases closed within the last two years involving the company. This does not include cases that have been delayed but where the company has provided timely and co-operative responses. This in itself would only move a company to the targeted category.
- Where a company's response to a case is poor and/or the company is not co-operative **and** the findings are adverse to the company. If this involved a strategic case or a number of cases, it could lead to a movement straight to the prescribed category.
- A company has not demonstrated compliance with the code it has put in place to meet our principles for Board leadership, transparency and governance.
- When we introduce rules about charges, if we give direction to a company we consider is not acting as required by the rules.
- Stakeholders highlight significant problems with a company's assurance processes, **or** a company fails to respond appropriately to comments on its assurance plans, **or** it does not demonstrate it has adequately identified and exposed areas as part of the risks, strengths and weaknesses exercise.

Reduction of trust and confidence



To provide further clarity, we set out the following case studies to explain particular examples of where we would and would not take action.

In the following examples we have referred to relevant stakeholders. The stakeholders that are relevant will depend on both the issues and a company's circumstances. It is for companies to engage with its stakeholders and be able to explain the choices it has made in engaging with stakeholders. These choices should be made on the basis of what is in the best interests of customers.

**The following are examples that would lead to a company being moved from self assurance to prescribed, or from targeted to prescribed.**

1. A company is aware it has published inaccurate information **and** attempts to address this in a way that conceals it from relevant stakeholders **or** does nothing to address the issue.
2. A company is aware of clear evidence that it is likely not to meet a performance commitment or statutory duty **and** does not proactively engage with relevant stakeholders **and** fails to meet its performance commitment or statutory duty.
3. A company's performance for a performance measure is below the penalty collar – that is, it is returning the maximum amount of money to customers under the defined outcome delivery incentives (ODIs) – **and** the company has not set out what additional actions it is putting in place or otherwise explained how it is acting in the interests of its customers.
4. If a company that reaches the self assurance category reports inaccurate information and has not provided a transparent explanation of the assurance processes it has carried out, including revealing the results of the assurance process to stakeholders, it would be moved to the targeted category. If it attempted to conceal the error, it could be moved to the prescribed category.

**The following are examples that would not be an impediment to a company moving from prescribed to targeted, or from targeted to self assurance.**

1. A company does not think that meeting a performance commitment is in the best interests of customers and is planning not to meet the commitment, but:

- is proactive and seeks to engage with customers and stakeholders at an early opportunity;
- explains how its plans are in the best interests of customers – for instance, if the extra costs that it thinks customers would bear would be greater than the benefits that customers would receive;
- it is clear on how customers are not worse off – for example, how money will be returned under financial ODIs; and
- receives broad acceptance from stakeholders for its approach.

While we may not agree with the company's position, appropriate engagement should limit any impact on trust and confidence. We have already put in place measures to protect customers by setting outcome ODIs that will recompense customers for benefits that are not received.

2. There are errors in data that are not significant to customers. The company:

- is proactive and seeks to engage with relevant stakeholders at an early opportunity;
- is able to demonstrate that the issues are not the result of failings in its assurance procedures; and
- sets out in a timely fashion how it will address the errors.

If the information is not of significance to wider stakeholders, it may just be regulators that are proactively engaged. A risk-based approach to assurance may lead to minor errors occurring; as long as these are dealt with appropriately, trust and confidence can be maintained.

## 5. Process

In the table below we have included the processes that the companies will carry out during the reporting year. We appreciate that to provide an effective assurance plan that builds trust and confidence, it is important to allow flexibility for companies to manage their own timescales.

Activity	Categories (minimum)	Description
Engagement on risks strengths and weaknesses exercise	Targeted and prescribed	Companies proactively engage to give stakeholders the opportunity to provide input to the exercise.
Publish risks, strengths and weaknesses statement	Targeted and prescribed	Companies complete and publish statements on their risks, strengths and weaknesses exercise. They need to publish this before they can publish draft assurance plans. Companies must consider how they can effectively engage with stakeholders on assurance plans when deciding on the timing of publication. All statements must be published well in advance of 30 November in the same year.
Publish draft assurance plans	Targeted and prescribed	Companies publish draft assurance plans. They must consider how they will be able engage stakeholders before publishing final plans when deciding on the timing.
Engagement on assurance plans	Targeted and prescribed	Companies proactively engage with stakeholders the opportunity to provide comments on assurance plans.
Ofwat revises categorisation on website	All	By 30 November, Ofwat will revise the categorisation. This will follow the publication of the statement on risks, strengths and weaknesses for each of the companies in the targeted category.
Publish final assurance plans	Targeted and prescribed	Companies publish final assurance plans, providing responses to any comments they have received.

Activity	Categories (minimum)	Description
Companies publish information	All	<p>Throughout the year, companies consider what information they need to provide to their customers and stakeholders.</p> <p>Companies produce an annual performance report (APR). This will include:</p> <ol style="list-style-type: none"> <li>1. regulatory financial reporting;</li> <li>2. price control and additional segmental reporting;</li> <li>3. performance summary;</li> <li>4. additional regulatory information; and</li> <li>5. The APR reflects a base level of reporting and assurance, which is set out in the reporting accounting guidelines<sup>3</sup>. The additional minimum steps we expect all companies to take in relation to assurance are set out in section 3 of this document.</li> </ol> <p>As a minimum for companies in all three categories, sections 1 and 2 of the annual performance report should be covered by a financial audit opinion.</p> <p>For the APR, we expect all companies to include a summary, or links to, their assurance plan, assurance findings and company response. This should be accessible for all customers and stakeholders.</p> <p>Companies must publish their charges schemes each year and provide us with (and publish) an assurance statement from its Board of Directors on its charges schemes.</p>

We also recognise that if a company moves down categories in the company monitoring framework the company will need to revisit its approach which may affect these timings, given we will make our assessment in the Autumn. For targeted companies this would mean undertaking a risks, strengths and weaknesses exercise.

For a company moving to prescribed, we would expect it to revisit (or undertake) its risks, strengths and weaknesses exercise as a first step towards developing wider and more detailed assurance plans. We would generally expect this to be published by the end of January.

<sup>3</sup> See <http://www.ofwat.gov.uk/wp-content/uploads/2017/05/Audit-Opinion-for-the-Annual-Performance-Report-2016-17.pdf> and [http://www.ofwat.gov.uk/wp-content/uploads/2016/08/prs\\_web20161031regrep309.pdf](http://www.ofwat.gov.uk/wp-content/uploads/2016/08/prs_web20161031regrep309.pdf)

We would generally expect any subsequent assurance plans to be published on companies' websites ahead of publishing their annual performance reports.