



Company Monitoring Framework Consultation Response

Ofwat

Centre City Tower

7 Hill Street

Birmingham B5 4UA

09 April 2015

Dear Sir

RE: Company monitoring framework – further consultation

Thank you for providing us with the opportunity to comment on your proposals for the company monitoring framework both via this consultation and through the recent industry workshop. Our specific responses to the consultation questions are set out below.

Q1. Do you agree that companies in the self assurance category should provide explicit sign off on the assurance that has been provided?

Yes, companies in the self-assurance category should be required to provide explicit sign off on the assurance provided.

Q2. Do you agree that the assurance process, and the outcome of that assurance process, should be transparent? Do you have any suggestions of how this could be accomplished?

Yes, although we would request some clarification on the levels of transparency required. It is important to the assurance process that Boards know that assurance providers can give confidential advice. Under certain circumstances, if Boards know that they will have to publish all advice received and potential corrective actions taken as a result, the integrity of the process may be compromised. We are encouraged that you recognise that companies will need to work with auditors to be able to publish information relating to audit reports. We are fully supportive that final reports should be published and widely available.

Q3. Do you agree that a company in the prescribed category should consult on its assurance plans with stakeholders? If not, what approach to prescribing assurance would you suggest?

We agree that 'prescribed' companies should consult with stakeholders with regards to its assurance plans.

Q4. Do you consider the outline approach that we have set out to be practicable, or can you suggest improvements?

Yes, the proposed approach is practicable.

Q5. Do you think that our guidance could be minimal or do you think that it is necessary for us to define a high level of prescription to protect customers?

Whilst clear guidance is critical, a high level of prescription is appropriate only for prescribed companies.

Q6. Do you think that companies in the targeted category should publish an assessment of risks, strengths and weaknesses, to be used to target more prescriptive assurance requirements? If not please suggest how we should target the areas that require more prescriptive assurance.

This is a reasonable thing for a targeted company to do. Indeed, one might expect a targeted company to be doing something along these lines. However, it is important that companies are given some degree of flexibility as to how this analysis is carried out.

Q7. Do you think that the prescription for targeted areas should be the same as for the prescribed assurance category? If not please suggest how assurance should be prescribed.

Yes, the prescription should be the same.

Q8 Do you think that for areas that are not targeted that the prescription for these areas should be the same as the self assurance category? If not please suggest how assurance should be prescribed.

Yes.

Q9. Do you think that companies should move to a tighter assurance category immediately an issue that reduces trust and confidence comes to light, rather than wait for an annual review? Do you think that the examples which we have provided are appropriate?

For administrative simplicity, we do not believe it will be necessary to move companies between categories more than once per year. We think that companies should move between category at one point in time.

Q10. Do you think it is appropriate that companies can move up from the prescribed to targeted category or targeted to self assurance category without the need for a positive relative assessment?

Yes.

Q11. Do you think that an annual relative review is unnecessary? If you think Ofwat should undertake an annual relative assessment, do you consider it necessary for moving companies both up and down or only in one direction?

We think an annual review for all movements is appropriate. If this was not the case, companies may be constantly seeking upward movement. This may be difficult for Ofwat to administer in an equitable manner.

Q12. Do you think that it is appropriate for companies to spend at least two years in the prescribed assurance category?

Yes.

Q13. Do you agree that the overall package of proposals leads to appropriate incentives for companies? Are there ways you consider that these incentives could be improved?

Yes, we support the package of proposals. We think reassessment would be best conducted on an annual basis.

Please do not hesitate to contact me if you would like to discuss any of the points raised in more detail.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "C Offer", with a blue circular stamp or seal partially visible behind it.

Christopher Offer
Head of Regulation