

November 2016

Trust in water

# Company monitoring framework: 2016 assessment

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## About this document

In this document we set out the results of our annual assessment of relevant water companies' assurance practices. It applies primarily to the assurance of information that companies published during the 2015-16 regulatory year but also includes their 2016-17 charges information. This annual assessment exercise is part of our company monitoring framework (CMF), which we developed last year.

We introduced the CMF through the last price control settlement, PR14. In the assurance technical appendix to our draft determinations in August 2014, we proposed an assurance framework for 2015-20. We reiterated this proposal in our regulatory reporting consultation in September 2014.

After we published our new strategy in January 2015, with its shared vision for the sector, we considered and revised our proposals. We engaged stakeholders through workshops and last year's '[Company monitoring framework – further consultation](#)'. This informed our '[Company monitoring framework final position](#)' paper, published in June 2015. We have carried out this year's assessment in line with this approach. Our June 2015 document sets out how we will oversee the information that the largest 17 water and wastewater companies and water only companies ('the water companies') in England and Wales provide to customers. It explains the actions that we expect companies to take.

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## **1. Executive summary**

### **1.1 The company monitoring framework**

Assurance of information is important. It is a key part of our new regulatory model, which moves companies' focus from us as the economic regulator to their customers and wider stakeholders. For this to work, we need to see companies putting out high quality information so that stakeholders can understand the companies' performance, and hold them to account. We see this wider accountability to customers and society as an important complement to our continuing role in holding companies to account which also benefits from the availability of high quality information.

Alongside better use of markets and more proportionate and targeted regulation, our regulatory model aims to increase trust and confidence in the water sector through improved transparency. We want water companies to publish information that stakeholders can trust, and easily understand and navigate. Ultimate responsibility for assurance lies with companies' boards. Companies need to appropriately assure their data to give stakeholders trust and confidence in what they publish.

Through the company monitoring framework (CMF) we want to give investors and other stakeholders information about assurance to hold companies to account against the high standards of management and governance appropriate for providers of vital public services. The CMF also reminds companies that their behaviour in-period matters and that engagement and accountability is a continuous process, not simply during price reviews. Companies will need to demonstrate good assurance practices to achieve 'enhanced' status at the next price review.

Through the CMF, companies which have demonstrated strong assurance processes have discretion to put in place assurance to give their stakeholders trust and confidence in their information. Equally, we can step in where companies do not provide the standard of information that stakeholders need. Where companies have not demonstrated strong assurance, for example, we have required them to put in place specific measures to improve assurance going forward.

## 1.2 Our assessment this year

There are three assurance categories:

- **self-assurance** – a company uses its own discretion to provide assurance beyond the common assurance requirements (section 3.2 sets out the common requirements);
- **targeted assurance** – a company loses discretion on some areas of assurance beyond the common assurance requirements; and
- **prescribed assurance** – a company loses discretion on many areas of assurance beyond the common assurance requirements.

Until now, the companies had been categorised based on the quality of their assurance at the last price review in 2014. The exception to this was Bristol Water, where we changed its category in December 2015 from targeted to prescribed. We re-categorised the company because of the lack of confidence in its assurance processes, in particular in relation to its forecast wholesale costs.

This year, we have undertaken our first CMF annual assessment using the methodology set out in our [company monitoring framework final position](#) paper. Within the context of the CMF, we carried out a series of assessments covering a range of information, including the annual performance reports. Companies published these for the first time in July this year, and they cover the first year of the current price control. Companies in the targeted and prescribed categories also published draft assurance plans, as required under the CMF, during the year. These were finalised following consultation with their stakeholders. We considered the quality of these plans as part of our assessment.

As a result of our assessments, with reference to the criteria we published in the CMF, companies' categorisation has been reviewed and may have been changed (either upwards or downwards) dependent on their overall performance.

In section 2 of this document, our view on the sector's assurance, we have summarised companies' performance against each assessment. This includes a summary table, figure 1 on page 9, and summary comments on each assessment we undertook.

## 1.3 Changes to assurance categories for companies

We have decided to promote three companies to the self-assurance category this year. They are Severn Trent Water, United Utilities and South East Water. These

companies met expectations in most, if not all, of our assessments, and exceeded our expectations and demonstrated good practice in a number of areas. We found that they had adequately addressed the points for improvement that stakeholders had identified. In addition to the above we concluded that we had no evidence of behaviour that would reduce trust and confidence, and we found no significant problems with their assurance and audit plans.

We have also decided to change four companies' category to a more prescriptive assurance category. We have moved Affinity Water and South West Water to the targeted assurance category. We decided that they had not consistently met the high standards expected for companies in the self-assurance category, which lead to a reduction in the trust and confidence. Although we did not have serious concerns with their assurance, this in itself is not sufficient for companies to retain their self-assurance status.

We have also moved Yorkshire Water and Southern Water to the prescribed assurance category. We have demoted these companies because we found either a pattern of minor concerns, or one or more serious concerns with their assurance. We concluded that the number and significance of our concerns would significantly impact stakeholders' trust and confidence and did not provide sufficient assurance about their ability to deliver, monitor and report performance, leading to a reduction in trust and confidence.

## **1.4 Examples of good practice, and areas for improvement**

We found examples of good practice in many of our assessments. Our assessments of the assurance of the financial information, final 2010-15 reconciliation data submission, and our financial monitoring framework all demonstrate that generally the companies are getting to grips with their data assurance practices. We were pleased with the collaborative and open approach that most companies have taken to engaging with stakeholders on their outcomes performance. In most cases, companies' assurance plans also demonstrated this proactive approach to engaging with stakeholders, listening to their views and reflecting them in their final assurance plans. We were also pleased to find no significant concerns with the companies' charges schemes assurance.

We also found some clear areas for improvement. We had concerns with the data assurance summaries of all of the companies we have placed in the prescribed assurance category. We require all companies to produce a summary of the results of the data assurance that has been carried out to evidence that the information provided is accurate. This is a key requirement for stakeholders' trust and

confidence, and these summaries should be easy for stakeholders to find, succinctly drafted and provide a comprehensive summary of the company's approach. We also noted some issues with a few companies' compliance with our principles of board leadership, transparency and governance, and their risk and compliance statements. For our company-led approach to assurance to work, we need companies to be open and transparent about their corporate structures and decision-making processes. By providing board-level assurances that companies comply with key obligations, the risk and compliance statements also function as proportionate and targeted alternatives to more intrusive regulatory checks.

## **1.5 What happens next?**

All companies are developing their approach to assurance for the next business year. Our requirements vary according to which assurance category the company is in, with companies in the self-assurance category having more flexibility in their approach than companies in the targeted or prescribed assurance categories.

Relevant companies will need to consider how our re-categorisation decisions impact on their assurance planning. Broadly, companies that we have promoted to self-assurance do not have to publish an assurance plan. Where we have changed companies' categories to targeted or prescribed assurance, those companies will have additional assurance obligations to give their stakeholders trust and confidence. We have set this out in greater detail in section 4, what happens next. That section also provides some details about our approach for next year's assessment. This includes our plan to remove the stipulation that companies who are in the prescribed category must stay there for at least 18 months. We would generally expect most companies to take a significant time to come out of prescribed assurance, noting that demonstrating a good track record in assurance is an important factor in our categorisation. This was why we had stipulated that those in the prescribed assurance category would remain there for 18 months before they could be re-categorised. A good track record of, say 18 months, of improved assurance still seems a useful indicator of improvement to us. But we no longer think it appropriate to stipulate the companies must remain in the prescribed category for 18 months, and we are open to re-categorising companies without this length of track record where they can otherwise satisfy us that they have sustainably improved. This will provide all companies with the opportunity to reach the self-assurance category ahead of the PR19 price review.

## 2. Our view on the sector's assurance

This year, we have assessed the companies' assurance across a range of publications, as well as companies' approaches to assurance relating to regulatory submissions and bilateral engagement.

Our assessment was based on the approach in our [Company Monitoring Framework final position](#) paper. Essentially, we said that we would promote companies where there was:

- confirmation that any targeted areas had been adequately addressed,
- no evidence of behaviour that would reduce trust and confidence that stakeholders could place in the company, and
- no significant problems with assurance plans in the previous year.

In practice, we were looking for leading edge companies who had met the high standards that customers and other stakeholders expect. This meant that they needed to meet expectations in most, if not all, assessments, with examples of exceeding expectations and good practice. In contrast, we would move companies down from self-assurance to targeted assurance, or targeted to prescribed assurance, where their behaviour led to a reduction in the trust and confidence stakeholders could place in those companies. We gave examples of behaviours that may lead to demotion. We also stipulated that companies in the prescribed category would remain there for 18 months before they could be considered for a move to targeted assurance because of the time needed to establish a good track record of improved assurance. We have set this out in section 3, our methodology, later in this document.

In terms of behaviours that reduce trust and confidence, we looked at a range of data, and wider assurance that companies needed to provide. We identified concerns of some level in all but one company's assurance. We drew a distinction between a minor concern which on its own would not lead us to consider re-allocating a company to a lower category, and potentially serious concerns which would prompt us to consider a lower category.

This section summarises what we were looking for in each assessment we used this year, and the key findings at an industry level. The assessments are grouped into:

- data assurance;
- wider assurance; and
- other related issues.

For each assessment we have assessed the companies as:

- exceeds expectations (dark green in the tables);
- meets expectations (light green in the tables);
- minor concerns (amber in the tables); and
- serious concerns (red in the tables).

Figure 1 on the next page sets out our key finding at a sector level and the overall categorisation for each company. We then explain each assessment in greater detail.

Alongside this document we have also published [company-specific annexes](#) that provide additional detail about our assessments and decisions.

Figure 1 Summary of each company's assurance, grouped by assessment area

	Data assurance				Wider assurance						Other related issues	Recommended category	
	Financial Monitoring Framework	Charges Schemes assurance	Financial Information	Final 2010-15 reconciliation data submission	Outcomes	Compliance with principles of board leadership, transparency and governance	Risk & compliance statement	Assurance plan	Targeted reviews	Data assurance summary	Casework		
South East Water	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Exceeds expectations	Meets expectations	Meets expectations		Self-assurance	↑
Severn Trent Water	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Exceeds expectations	Meets expectations	Meets expectations	Exceeds expectations	Meets expectations	Exceeds expectations	Minor concerns	Self-assurance	↑
United Utilities Water	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Exceeds expectations	Meets expectations	Exceeds expectations		Self-assurance	↑
Sutton and East Surrey Water	Minor concerns	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Exceeds expectations		Targeted	↔
South West Water	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Minor concerns	Meets expectations		Exceeds expectations	Meets expectations		Targeted	↓
Affinity Water	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Meets expectations	Meets expectations	Meets expectations		Minor concerns	Minor concerns	Meets expectations	Targeted	↓
Northumbrian Water	Exceeds expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Meets expectations	Exceeds expectations	Minor concerns	Minor concerns		Targeted	↔
South Staffordshire Water	Minor concerns	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Minor concerns	Meets expectations	Minor concerns	Exceeds expectations		Targeted	↔
Dwr Cymru	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Minor concerns	Meets expectations	Minor concerns	Targeted	↔
Anglian Water	Meets expectations	Meets expectations	Minor concerns	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Meets expectations	Minor concerns	Targeted	↔
Thames Water	Meets expectations	Meets expectations	Minor concerns	Minor concerns	Meets expectations	Minor concerns	Meets expectations	Exceeds expectations	Minor concerns	Minor concerns	Exceeds expectations	Targeted	↔
Portsmouth Water	Minor concerns	Meets expectations	Meets expectations	Meets expectations	Exceeds expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Serious concerns		Targeted	↔
Wessex Water	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Serious concerns	Meets expectations	Meets expectations	Minor concerns	Meets expectations	Targeted	↔
Bristol Water	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Minor concerns	Minor concerns	Minor concerns	Prescribed	↔
Dee Valley Water	Meets expectations	Meets expectations	Minor concerns	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Minor concerns	Minor concerns		Prescribed	↔
Yorkshire Water	Minor concerns	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Minor concerns	Minor concerns	Meets expectations	Minor concerns	Minor concerns	Exceeds expectations	Prescribed	↓
Southern Water	Meets expectations	Meets expectations	Meets expectations	Meets expectations	Serious concerns	Minor concerns	Minor concerns	Meets expectations	Minor concerns	Minor concerns	Serious concerns	Prescribed	↓

Note: the grey boxes show where we had no information to assess. This was for two reasons:

Two companies did not have to produce an assurance plan because they were in the self-assurance category.

And eight companies had no open cases in the period since April 2015.

## 2.1 Data assurance

These assessments focussed on key data publications that water companies produced during the 2015-16 year. The primary purpose of our data assurance assessments was to ensure that the data were accurate, complete and accessible.

We assessed companies' assurance relating to:

- our financial monitoring framework;
- 2016-17 charges schemes assurance;
- the final 2010-15 reconciliation; and
- the financial information within the annual performance report (APR).

The results and the key findings for each of these are set out below.

<b>Financial Monitoring Framework</b>	<b>Key findings</b>	
<p>In this assessment we looked at how the companies had followed our financial monitoring framework guidance. Our assessment focused on the quality of financial information published in the annual performance report, the transparency of disclosures and consistency of financial metric data published.</p> <p>This is an area where companies' data assurance is particularly important, and companies need to ensure that the information that they publish is in line with our guidance. This enables us, and other stakeholders, to be confident that the information that each company publishes has been prepared on a consistent basis and allows meaningful</p>	<p>This was the first year that companies have reported against our financial monitoring framework guidance. We identified a range of issues, including basic data errors, misreporting of net debt figures and issues relating to the calculation of return on regulatory equity (RORE).</p> <p>In most cases companies met our expectations for this exercise. Where we identified a pattern of data errors, this did impact our assessment. We concluded that we had minor concerns with four companies'</p>	<p>Northumbrian Water                      Affinity Water                      Anglian Water                      Bristol Water                      Dee Valley Water                      United Utilities Water                      South East Water                      Southern Water                      Severn Trent Water                      South West Water                      Thames Water                      Dŵr Cymru                      Wessex Water                      Portsmouth Water                      Sutton and East                      Surrey Water                      South Staffordshire                      Water                      Yorkshire Water</p>

<p>comparisons to be made between companies.</p>	<p>assurance relating to the financial monitoring framework.</p> <p>We were however pleased that companies generally responded proactively to our queries, and resolved them quickly, updating their published data.</p>	
<p><b>Charges schemes assurance</b></p> <p>Companies must publish their forward charges schemes in February each year. We checked that companies:</p> <ul style="list-style-type: none"> <li>• Published and assured their charges schemes;</li> <li>• Complied with our charging rules;</li> <li>• Assessed and explained significant movements in charges; and</li> <li>• Had devised and put into effect effective handling strategies to address significant movements in charges.</li> </ul> <p>This is an important assessment, because our charging rules are designed to protect customers through stable, transparent and predictable charging, in the absence of competition.</p>	<p><b>Key findings</b></p> <p>This year, all companies met our expectations for their assurance relating to charges schemes. In general, companies provided a clear description of their assurance, processes and engagement undertaken with stakeholders such as CCWater.</p> <p>We did find areas for improvement - for example we would have liked to have seen more evidence of some companies' customer handling strategies. We would also like to see all companies include the impact on business customers in future statements of significant changes.</p>	<p>Northumbrian Water          Affinity Water          Anglian Water          Bristol Water          Dee Valley Water          United Utilities Water          South East Water          Southern Water          Severn Trent Water          South West Water          Thames Water          Dŵr Cymru          Wessex Water          Portsmouth Water          Sutton and East          Surrey Water          South Staffordshire Water          Yorkshire Water</p>

<b>Financial information</b>	<b>Key findings</b>	
<p>In this assessment we looked for an absence of omissions or errors, where the companies reported their actual performance and to compare aspects of this performance to the assumptions made at the PR14 final determination. We did not look at all areas but chose four key risk areas to look at this year which were:</p> <ul style="list-style-type: none"> <li>• wholesale total expenditure reporting;</li> <li>• revenue and profit statements, disaggregated by price control;</li> <li>• methodology statement on how costs are allocated across the price controls; and</li> <li>• disclosures required for transactions with non-regulated associate companies.</li> </ul> <p>We developed a log of the issues, errors and inconsistencies we uncovered as part of our analysis. We assessed the nature and number of issues identified to form a view on the quality of assurance in each company's published financial information.</p> <p>This is an area where companies' data assurance is important, because a range of stakeholders will use this information and rely on its accuracy. It also informs</p>	<p>This was the first year that companies published their financial information through the APR. Most companies met our expectations. Where we did identify minor concerns, these related to reporting errors. For example, we had minor concerns with several companies where we found inconsistencies between the data in the APR and separate data tables submitted to us.</p> <p>When we queried inconsistencies we were generally pleased with companies' responses. They were able to correct them quickly and simply. We are therefore confident that all companies will be able to meet our expectations from now on.</p>	<p>South East Water                  Severn Trent Water                  United Utilities Water                  Sutton and East Surrey Water                  South West Water                  Affinity Water                  Northumbrian Water                  South Staffordshire Water                  Dŵr Cymru                  Wessex Water                  Portsmouth Water                  Bristol Water                  Yorkshire Water                  Southern Water                  Anglian Water                  Thames Water                  Dee Valley Water</p>

<p>important preparatory work for PR19.</p>		
<p><b>Final 2010-15 reconciliation data submission</b></p> <p>In this assessment we assessed companies' adherence to our guidance (IN15/17, December 2015) covering assurance, data and commentary requirements. Our guidance covered a range of requirements including data table completion, explanatory requirements, supporting evidence and board sign-off.</p> <p>This is an important area for companies' data assurance, because the submission is used to update the final reconciliation of the PR09 incentive arrangements for the 2010-15 period which directly impacts on the companies' revenue allowances they can recover from customers.</p>	<p><b>Key findings</b></p> <p>This assessment was primarily based on company data which was not published information. In most cases, companies met our expectations by providing data submissions broadly in line with our guidance.</p> <p>We noted minor data ambiguities in most assessments, but they were easily corrected and we considered them to be in part a consequence of interpreting our guidance in a not unreasonable way. Some companies did not explicitly state their board sign-off procedures, which would have improved the trust and confidence stakeholders could place on the companies.</p>	<p>South East Water                  Severn Trent Water                  United Utilities Water                  Sutton and East Surrey Water                  South West Water                  Northumbrian Water                  South Staffordshire Water                  Dŵr Cymru                  Anglian Water                  Wessex Water                  Portsmouth Water                  Bristol Water                  Dee Valley Water                  Yorkshire Water                  Southern Water                  Affinity Water                  Thames Water</p>

## 2.2 Wider assurance

These assessments focused primarily on the approaches that companies took to engaging with their stakeholders, and to ensuring transparency and good governance. Our assessments covered six areas:

- outcomes;
- principles of board leadership, transparency and governance;
- assurance plans;
- the risk and compliance statement; and
- the data assurance summary; and
- companies’ responses to our recent targeted reviews.

The results and the key findings for each of these are set out below.

Outcomes	Key findings	
<p>In this assessment we looked for:</p> <ul style="list-style-type: none"> <li>• reliable, timely and appropriate information for customers and other stakeholders;</li> <li>• transparent and accessible information for customers and other stakeholders;</li> <li>• appropriate data assurance;</li> <li>• evidence that the company had listened and responded to its customers and other stakeholders; and</li> <li>• compliance with the outcome delivery and reporting proposals as set out in the PR14 final determination company-specific appendix.</li> </ul> <p>This is an important assessment, to ensure that stakeholders can understand what companies are doing to deliver the outcomes that customers expect.</p>	<p>This is the first year that companies have published their outcomes data. In general, companies met our expectations of reliable, timely and appropriate information. We did find minor data inaccuracies and inconsistencies in most companies’ annual performance reports. In most cases we did not consider these to be behaviours that reduce trust and confidence.</p> <p>We also found good evidence that companies are providing transparent, accessible information for stakeholders. Most companies provided accessible, stakeholder-</p>	<p>Severn Trent Water                      Portsmouth Water                      South East Water                      United Utilities Water                      Sutton and East Surrey Water                      Affinity Water                      Northumbrian Water                      South Staffordshire Water                      Dŵr Cymru                      Anglian Water                      Wessex Water                      Thames Water                      Bristol Water                      Dee Valley Water                      Yorkshire Water                      South West Water                      Southern Water</p>

	<p>friendly overviews of outcomes performance in their annual report. For example, where committed performance levels had not been met we were pleased to see that most companies provided a clear explanation of the issue and, where appropriate, provided an explanation of how it would be rectified.</p> <p>We were pleased to see that most companies demonstrated appropriate data assurance on their websites, and we expect to see all companies doing this next year.</p> <p>We were pleased to see the industry's developing approach to engaging with their customers and stakeholders about the delivery of outcomes, performance commitments and incentives. We found good practice examples of independent customer challenge groups providing feedback and challenge on companies' outcomes performance, with some providing stakeholder information on their website. We</p>	
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	<p>would encourage all companies to publish information on this, to ensure transparency for stakeholders.</p> <p>Most companies have complied with their outcome delivery and reporting proposals, agreed as part of their PR14 settlement. We found a few instances where companies had not, and we took this into account in our assessment.</p> <p>In one case we had a serious concern that a company had changed the questions it was asking its customers about its reputational performance commitments. This meant that the company cannot follow the dual reporting process described in our Information Notice IN16/07.</p> <p>We also found that one company had misreported data relating to a performance commitment which had a financial reward associated with it.</p>	
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<p><b>Compliance with our principles of board leadership, transparency and governance</b></p>	<p><b>Key findings</b></p>	
<p>In this assessment we looked for how the information the company provided demonstrated that it has met our board leadership transparency and governance principles. This included the provision of:</p> <ul style="list-style-type: none"> <li>• transparent governance information, including group structure, and information on director remuneration;</li> <li>• evidence that the board of the regulated company has full control over the company, including its long-term strategy, and is fully focused on its obligations; and</li> <li>• clear information on the composition of the board and its sub-committees.</li> </ul> <p>This is an important assessment, designed to give stakeholders trust and confidence that the company is structured appropriately and transparently, and complies with its legal obligations.</p>	<p>The principles have been in place for several years, and a majority of companies demonstrated that they have met them.</p> <p>We did however identify six companies with shortcomings against more than one of the principles. We found examples where companies had not adequately demonstrated the independence of the chair, or explained the lack of independent representation on board sub-committees. There were also companies that did not provide sufficient information for stakeholders to understand the group structure.</p>	<p>South East Water                  Severn Trent Water                  United Utilities Water                  Sutton and East Surrey Water                  Affinity Water                  Dŵr Cymru                  Anglian Water                  Wessex Water                  Portsmouth Water                  Bristol Water                  Dee Valley Water                  South West Water                  Northumbrian Water                  South Staffordshire Water                  Thames Water                  Yorkshire Water                  Southern Water</p>

<b>Risk &amp; compliance statement</b>	<b>Key findings</b>	
<p>In this assessment we looked for a statement, explicitly endorsed by the company’s board, that the company has complied with all its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate any risks it faces.</p> <p>This assessment is designed to give stakeholders trust and confidence in companies’ approach to compliance and risk management. The statement is intended to facilitate a company-led approach to compliance.</p>	<p>Most companies published a risk &amp; compliance statement that met our expectations. We were pleased to see that some companies had provided a clear statement, which had been signed by all board members, which we considered to be positive for stakeholders’ trust and confidence.</p> <p>We did note some concerns. For example several companies’ statements had either not been signed, or had only been signed by one or more executive board members. We also found one company which had not explicitly published a statement. We expect these companies to review their risk and compliance statements to improve their legitimacy, and stakeholders’ trust and confidence in them.</p>	<p>South East Water                  Severn Trent Water                  Sutton and East Surrey Water                  South West Water                  Affinity Water                  Northumbrian Water                  Dŵr Cymru                  Anglian Water                  Thames Water                  Portsmouth Water                  Bristol Water                  Dee Valley Water                  United Utilities Water                  South Staffordshire Water                  Yorkshire Water                  Southern Water                  Wessex Water</p>

<b>Assurance plan</b>	<b>Key findings</b>	
<p>In this assessment we looked for the following in companies' assurance plans.</p> <ul style="list-style-type: none"> <li>• Explanation of their approach.</li> <li>• Evidence of stakeholder engagement undertaken to develop the plan.</li> <li>• Clear scope, and rationale for targeting specific areas.</li> <li>• Appropriate language and accessibility for all stakeholders.</li> </ul> <p>This is a key test of whether companies are listening to their stakeholders and using their views to improve their provision and practices.</p>	<p>We were pleased to see that all companies had engaged with their stakeholders in developing their assurance plans. Most assurance plans were well written and accessible for stakeholders. We found examples of good practice, where companies were clear on why particular areas had been targeted, the improvements they had made or planned, and how stakeholder feedback had shaped the final assurance plans.</p> <p>We also found room for improvement in several assurance plans. We found that several had a narrow scope, and would have benefited from considering wider assurance as well as data assurance. Some did not reflect feedback on draft assurance plans in their final version, and others provided little detail on the planned assurance activities for target areas.</p>	<p>South East Water                  Severn Trent Water                  United Utilities Water                  Northumbrian Water                  Thames Water                  Sutton and East                  Surrey Water                  South Staffordshire                  Water                  Anglian Water                  Wessex Water                  Portsmouth Water                  Yorkshire Water                  Southern Water                  Dŵr Cymru                  Bristol Water                  Dee Valley Water</p>

<b>Targeted reviews</b>	<b>Key findings</b>	
<p>In this assessment we looked at:</p> <ul style="list-style-type: none"> <li>companies' tax reconciliation notes published in the annual performance report to see if they had acted on our tax targeted review recommendations; and</li> <li>improvements companies have made to 2015-16 reporting in response to our sludge and water resources targeted review.</li> </ul> <p>These are two areas we have recently highlighted to companies to focus on, and we wanted to see evidence that they were taking steps to improve their assurance.</p>	<p>We were disappointed with the response of many companies to our targeted review of tax. The most frequent shortcoming was a lack of adequate explanation of variances between our 2014 final determination and actual reported tax in this year's APR. One company did not publish a reconciliation note as required by our guidance. We did identify good practice too, with clearly quantified tax variances and helpful narrative explanations.</p> <p>The companies' responses to our targeted review on sludge and water resources were more encouraging. We found that most companies clearly explained the changes they made to their cost allocation methodology statements. However, we found that one company had not explained their changes clearly enough, and another had not disclosed its changes at all in its published statement.</p>	<p>South West Water                  South East Water                  Severn Trent Water                  United Utilities Water                  Wessex Water                  Sutton and East                  Surrey Water                  Affinity Water                  Northumbrian Water                  South Staffordshire Water                  Dŵr Cymru                  Anglian Water                  Thames Water                  Portsmouth Water                  Bristol Water                  Dee Valley Water                  Yorkshire Water                  Southern Water</p>

<b>Data assurance summary</b>	<b>Key findings</b>	
<p>We checked that companies have:</p> <ul style="list-style-type: none"> <li>published a data assurance summary for 2015-16 activities;</li> <li>covered the targeted areas from the companies assurance plans; and</li> <li>provided an overview of the companies' assurance methods and processes, the audit exercises and their findings.</li> </ul> <p>This assessment was designed to ensure that companies provided accessible assurance to stakeholders, to build trust and confidence in their data publications.</p>	<p>We were pleased to find that all but one company had published a data assurance summary for 2015-16 activities. They were mostly well-written, clear and accessible. Many companies had provided a helpful explanation of how they had assured their targeted areas, and included the views of their technical assurer. Some were published as self-standing documents, whereas other were incorporated into APRs. We considered either approach to be satisfactory, provided stakeholders could easily find them on the website.</p> <p>We did have some concerns with some companies' data assurance summaries. We were seriously concerned that one company had not published one, because this has a negative impact on the trust and confidence that stakeholders can place in a company's data.</p> <p>We also found that several summaries were</p>	<p>Severn Trent Water  United Utilities Water  Sutton and East Surrey Water  South Staffordshire Water</p> <p>South East Water  South West Water  Dŵr Cymru  Anglian Water</p> <p>Wessex Water  Affinity Water  Northumbrian Water  Thames Water  Bristol Water  Dee Valley Water  Southern Water  Yorkshire Water</p> <p>Portsmouth Water</p>

	<p>written in a technical style that some stakeholders would struggle to understand. Several other summaries lacked adequate explanation of the context and purpose of the data assurance summary, and companies' responsibilities for publishing robust information for stakeholders.</p>	
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## 2.3 Other related issues

This focused on companies' approaches to our casework investigations. The results and the key findings for each of these are set out below. It should be noted that eight of the companies had no open cases since April 2015.

<b>Casework</b>	<b>Key findings</b>	
<p>In this assessment we looked at companies' responses to cases from 1 April 2015 onwards. We considered companies' responses to our requests for information. We checked that companies had provided complete, accurate information within our timescales, and engaged effectively with us.</p> <p>This assessment focused on trust and confidence in companies' information provision, and complemented the other assessments that focused on information published by companies.</p>	<p>We had open cases relating to nine companies during the period. We were pleased to see some examples of good practice. For example, we saw companies attempting to make appropriate use of informal dispute resolution, and proactively updating us on their progress towards resolving disputes.</p> <p>We did however record some minor concerns relating to four of the companies. Some companies did not respond to our requests, or responded late. Some companies also provided information that was unsuitable or unclear. In the case of one company we had serious concerns because we found evidence of a pattern of unsatisfactory responses to several open cases.</p>	<p>Thames Water                      Yorkshire Water                      Affinity Water                      Wessex Water                      Severn Trent Water                      Dŵr Cymru                      Anglian Water                      Bristol Water                      Southern Water</p>

## 3. Our methodology

### 3.1 Aim of the CMF

Assurance of information is important. It is a key part of our new regulatory model, which moves companies' focus from us as the economic regulator to their customers and wider stakeholders. For this to work, we need to see companies putting out high quality information so that stakeholders can understand the companies' performance, and hold them to account. We see this wider accountability to customers and society as an important complement to our role in holding companies to account, which we will continue to perform. Through the CMF we are challenging companies to own their relationship with stakeholders. We want companies to be transparent about their performance, and their processes, by publishing accurate, timely, stakeholder-friendly information.

### 3.2 Our published high level framework

Last year we published our [Company Monitoring Framework final position](#) paper. In this we set out our high-level expectations for companies, and the high level tests we would apply in assessing each company's assurance. Essentially, for each company, we expect the following level of assurance, as set out in figure 2 below. We looked at companies' data assurance summaries and risk and compliance statements for evidence that they had met these common requirements.

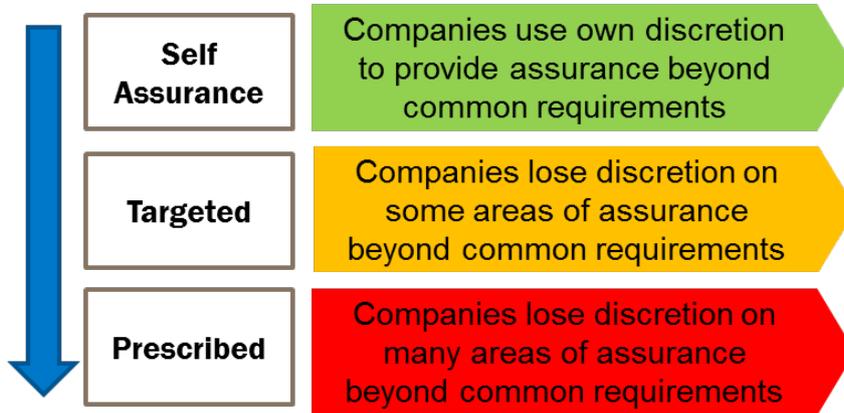
#### **Figure 2: common assurance requirements**

- Explicit sign off on assurance provided.
- Sign off of compliance with all relevant statutory, licence, and regulatory obligations, and steps being taken to manage and/or mitigate risks.
- Transparency on audit procedures re data assurance.
- Summary of outcome of data assurance undertaken.

Beyond this baseline, we make more prescriptive requirements of companies if we think that their behaviour leads to a reduction in the trust and confidence stakeholders can place on those companies, depending on the significance and

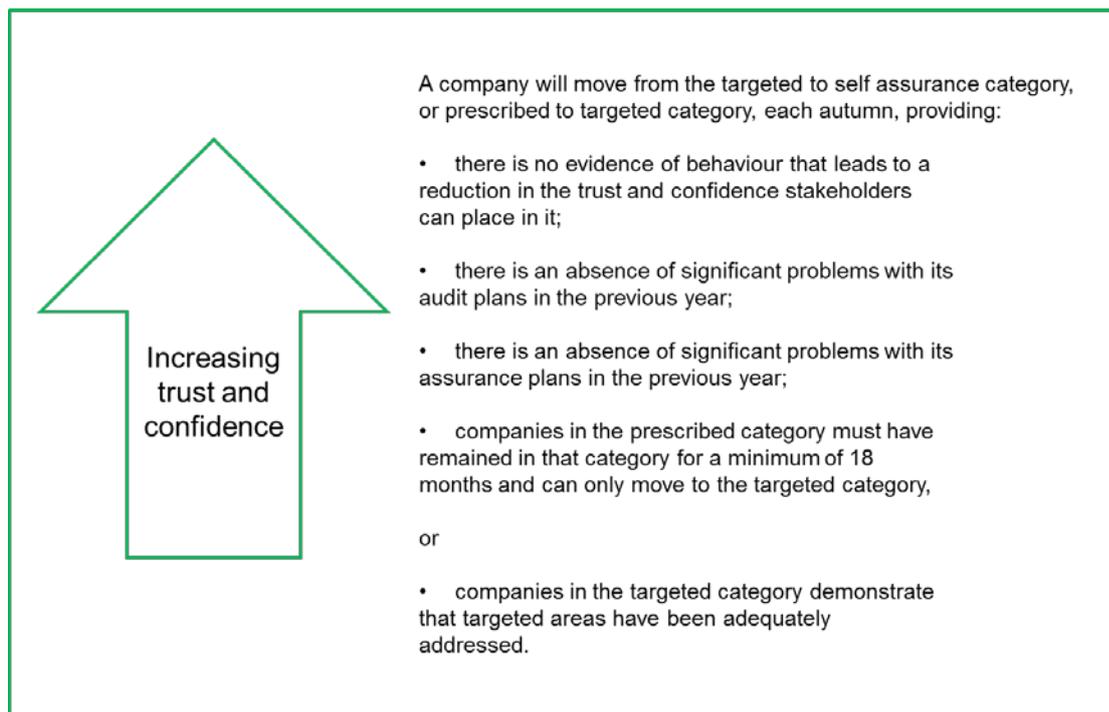
number of the issues involved. Through the CMF we assess companies as being in one of three categories, as shown in figure 3 below.

**Figure 3 Assurance flexibility for CMF categories**

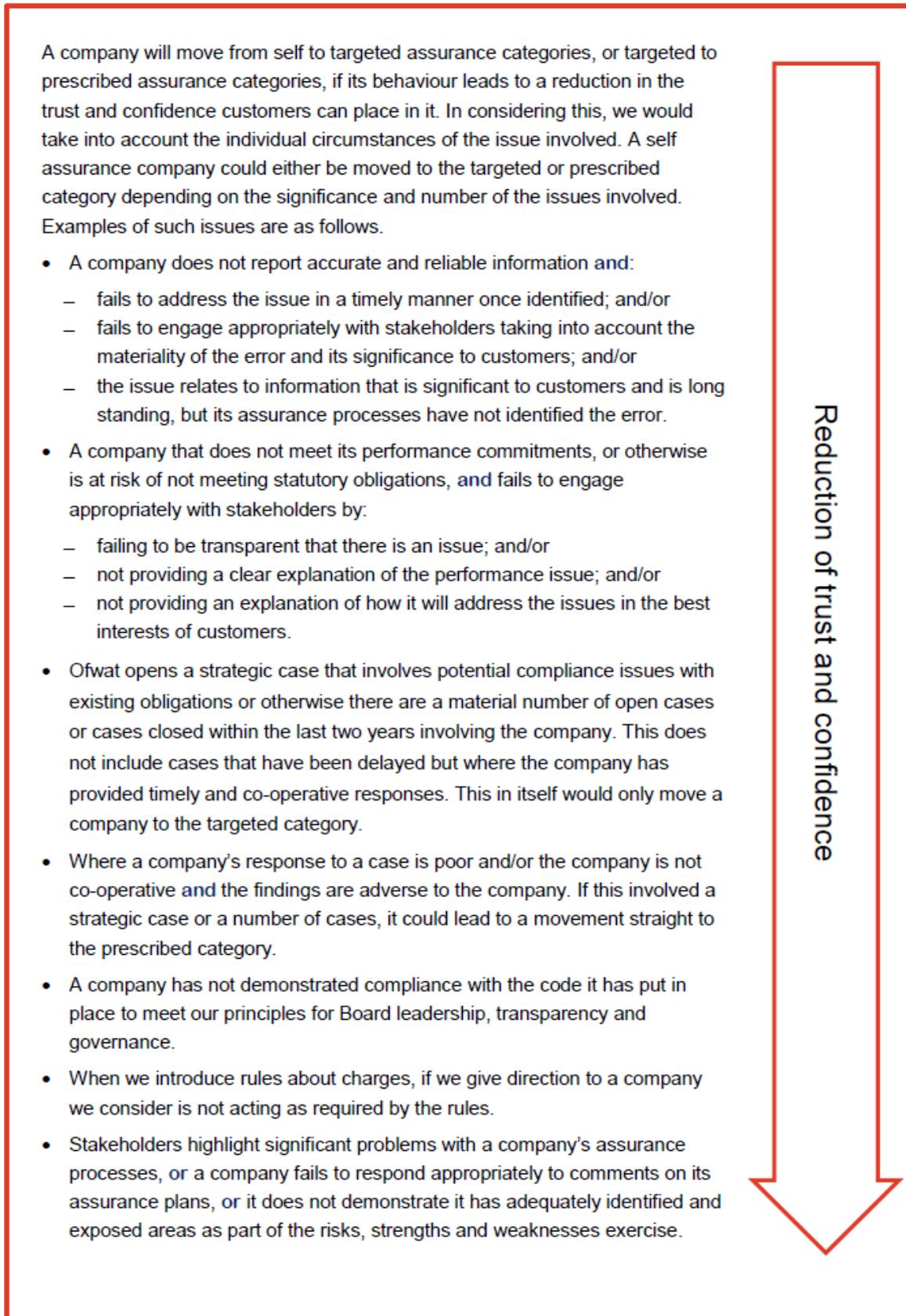


Companies in the targeted and prescribed categories conduct a risks, strengths and weaknesses exercise with their stakeholders, and use this to produce an assurance plan. The CMF final position paper sets out the high level tests in greater detail. This includes our expectations and the assurances required from companies in the different categories. Figures 4 and 5 below summarise these tests.

**Figure 4 – tests for moving companies to higher assurance categories**



**Figure 5 – tests for moving to a lower assurance category**



### 3.3 This year's assessment

We carried out a series of individual assessment exercises, to assess each company's assurance in the various areas set out in figure 1. For further information, please refer to the previous section, our view on the sector's assurance. The individual assessment exercises focussed on data and assurance documentation that companies publish and/or submit to us. This year's assessment focused on the key documents that relate to the common requirements as set out in the CMF final position paper. We also looked at a range of other documents to spot-check data accuracy, the quality of narrative explanation and accessibility.

In each individual assessment we considered both strengths and weaknesses of a company's assurance. Our individual assessments concluded by determining whether each company had exceeded, met, or failed to meet our expectations in relation to that particular assessment. Where a company failed to meet our expectations we recorded whether the failure represented a minor concern or a serious concern.

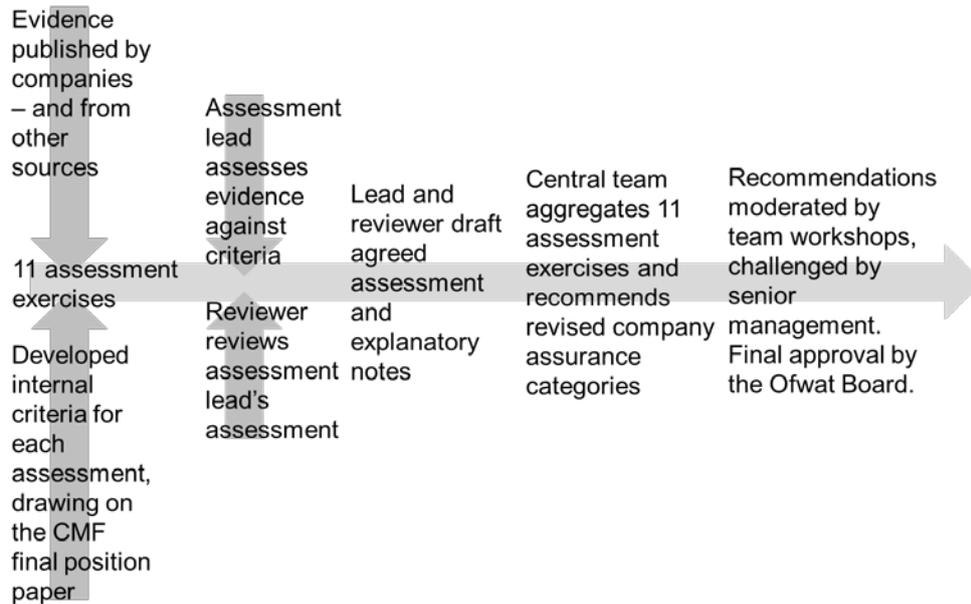
The outcome of each assessment exercise then fed into our final decision on whether to change each company's overall assurance category (self-assurance, targeted or prescribed) as set out in the CMF final position paper. These decisions were based on the following high level approach:

- We considered the results of all the individual assessments as a whole;
- We took into account the relative importance of each individual assessment, this has not been done in a mechanistic way but looked at holistically, though the financial monitoring framework, outcomes and assurance plan were particularly important this year;
- We took into account whether individual assessments had exceeded, met or failed our expectations by a clear margin or not;
- Where there was more than one minor concern in individual assessments, we considered whether there was in fact a pattern of minor concerns.

When deciding on the final category for each company, we took into account the nature of the tests in the CMF final position paper (included in figures 4 and 5 above) and whether the company is achieving the standard expected of it in its current assurance category.

Figure 6 sets out how we approached our internal assessment process.

**Figure 6: our internal assessment process**



The above points should be borne in mind when reading figure 1. Below we have explained the details of how we took decisions to re-categorise companies to a different assurance category.

### 3.3.1 Moving from targeted assurance to self-assurance

For a company to move from targeted assurance to self-assurance, a company needed to have achieved a 'meets expectations' classification in most if not all assessments, with examples of 'exceeds expectations' and good practice in some assessments. We were looking for companies who had met the high standards that customers and other stakeholders expect.

The company also needed to have demonstrated that:

- It adequately addressed its targeted areas, identified by its risks, strengths and weaknesses exercise;
- There was no evidence of any behaviour that would reduce trust and confidence; and
- It had demonstrated it had applied appropriate processes and undertaken proportionate stakeholder engagement to develop its assurance and audit plans.

### **3.3.2 Moving from prescribed assurance to targeted assurance**

Companies in the prescribed assurance category only become eligible to move to the targeted assurance category 18 months after they move into the prescribed assurance category. Note that from next year's assessment this rule will no longer apply – see section 4.1.4 for further information on this.

For a company to move from prescribed assurance to targeted assurance, it needed to have achieved a 'meets expectations' classification in most of its assessments.

As with a company moving from targeted assurance to self-assurance, it also needed to have demonstrated that:

- it adequately addressed its targeted areas, identified by its risks, strengths and weaknesses exercise;
- there was no evidence of any behaviour that would reduce trust and confidence; and
- it had demonstrated it had applied appropriate processes and undertaken proportionate stakeholder engagement to develop its assurance and audit plans.

In particular, for companies in the prescribed assurance category, we were looking for evidence of a high quality assurance plan, with clear and comprehensive commitments and evidence of engaging with and responding to stakeholders.

### **3.3.3 Moving from self-assurance to targeted or prescribed assurance**

Companies in the self-assurance category moved to a more prescriptive category where we found that they had not consistently met the high standards expected for self-assurance (set out in 3.3.1 above).

We moved companies from self-assurance to targeted assurance if we considered that their behaviour led to a reduction in the trust and confidence that customers and other stakeholders could place in their information. In these incidences, whether we moved them to targeted or prescribed assurance depended on the significance and number of concerns we identified.

Satisfactory performance – where a company had mostly achieved meets expectations classification in most of their assessments, with some minor concerns – was not good enough for companies to retain their self-assurance status.

### **3.3.4 Moving from targeted to prescribed assurance**

We moved companies from targeted to prescribed assurance where they did not provide sufficient assurance about their ability to deliver, monitor and report performance. This could, lead to a reduction in trust and confidence.

We looked for a pattern of minor concerns, and/or one or more serious concerns. We considered whether the number and/or the relative importance of the individual assessments they occur in resulted in a significant impact on customers, and a reduction in trust and confidence. If we concluded that it did, then we moved the company from the targeted to the prescribed assurance category.

## 4. What happens next?

### Assurance planning

As part of the CMF, companies in targeted or prescribed assurance categories should conduct a risks, strengths and weaknesses assessment with their stakeholders, and publish a statement by 30 November. Companies must then use their risks, strengths and weaknesses exercises to develop a draft assurance plan, for consultation, and publish a final assurance plan.

This year, we have changed the assurance categories of seven companies and their statements will need to be amended to reflect the change in category. Below, we set out what this means for companies who we have promoted or re-categorised into a category below its previous one.

#### 4.1.1 Companies promoted from targeted assurance to self-assurance

This section applies to South East Water, United Utilities and Severn Trent Water, who we have moved up to the self-assurance category.

We do not require companies in the self-assurance category to carry out a risks, strengths and weaknesses exercise, or develop and publish assurance plans, in the same way that we do for companies in other categories. This is because companies in this category have demonstrated that stakeholders can place confidence in the information that they provide.

This year, these companies will have already published their risks, strengths and weaknesses statement. We expect companies to use the information that they gathered through this process to inform their approach to assurance. However, it is up to them how they do so, as these companies need not follow the requirements we stipulate for companies with targeted or prescribed assurance.

#### 4.1.2 Companies re-categorised from self-assurance to targeted assurance

This section applies to South West Water and Affinity Water, who we have moved down to the targeted assurance category.

We expect companies with targeted assurance to conduct a risks, strengths and weaknesses exercise, to identify priority areas for them to develop assurance plans. Companies in the targeted assurance category before we published this document will have published a risks, strengths and weaknesses statement by 30 November. However, given the date of this document, we would expect companies re-categorised from self-assurance to targeted assurance to publish this statement by 31 January 2017.

The requirement to publish a draft assurance plan for consultation, and to finalise that assurance plan, applies to South West Water and Affinity Water, as it does to all other companies whose targeted assurance category has not changed. We expect all companies in the targeted and prescribed categories to publish their final assurance plans well in advance of publishing their annual performance reports data. In practice, most companies chose to publish their final assurance plans by 31 March 2016 this year.

### **4.1.3 Companies re-categorised from targeted to prescribed assurance**

This section applies to Southern Water and Yorkshire Water, who we have moved down to the prescribed assurance category.

As with companies with a targeted assurance status, the companies will need to have conducted a risks, strengths and weaknesses exercise, and published a statement by 30 November 2016. For companies who have moved to the prescribed assurance category, they may choose to revisit their risks, strengths and weaknesses as a first step towards developing wider and more detailed assurance plans. We would expect this to be completed and published by 31 January 2017.

Having identified priority areas for improvement, the companies must seek independent external assurance in these cases, or by exception explain why this is not appropriate. Companies in the prescribed assurance category must also publish all of their assurance plans on its website ahead of publishing their annual performance reports. In practice, we would expect this to be done by 31 March 2017.

### **4.1.4 Future development of the CMF**

In our [Company Monitoring Framework final position](#) paper last year, we stated that companies in the prescribed category will remain in that category for a minimum of 18 months and would move to targeted assurance before moving to self-assurance.

In practice, this meant that companies re-categorised in, for example, November 2016, would have to wait until 2018 to move up to targeted assurance.

This rule recognised that trust and confidence takes time to rebuild. We would generally expect most companies to take a significant time to come out of prescribed assurance, noting that demonstrating a good track record in assurance is an important factor in our categorisation. This was why we had stipulated that those in the prescribed assurance category would remain there for 18 months before they could be re-categorised. A good track record of, say 18 months, of improved assurance still seems a useful indicator of improvement to us. But we no longer think it appropriate to stipulate the companies must remain in the prescribed category for a specific period. We are open to re-categorising companies without this length of track record where they can otherwise satisfy us that they have sustainably improved. This will provide all companies with opportunity to reach the self-assurance category ahead of the next price review, PR19.

We remind companies that good assurance is the foundation of trust and confidence, and will be a key focus of our risk-based review. The risk-based review is a key component of PR19 and will determine the trust and confidence that we can place in companies' business plans. So in removing this prescriptive 18 month rule we are challenging companies in the prescribed category (as well as companies in the targeted category) to up their game and put themselves in contention for promotion next year.

#### **4.1.5 Our areas of focus for next year**

We invite views on how best we might take forward our CMF in time for next year's assessment. When considering the most appropriate categories for companies under our CMF final position paper, we can consider any information that a company has provided to us and to customers and stakeholders, or indeed the absence of appropriate information. This enables us to amend our focus each year, depending on our priorities. This year, we looked at one-off information, such as that relating to the final 2010-15 reconciliation data submission, and company responses to our targeted reviews. Next year we will also focus on a range of annual reporting and one-off evidence. We consider it appropriate to not reveal our particular areas of focus for next year because they are in effect spot-checks. We expect companies to achieve high standards in all of the information they publish.