

November 2016

Trust in water

# Company monitoring framework

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2016 assessment

Individual company report – Affinity Water Ltd

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## Company monitoring framework assessment

This document outlines the results of our 2016 company monitoring framework (CMF) assessment of Affinity Water's assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess Affinity Water's assurance, and our findings.

In the context of our CMF, in order to be in the self-assurance category, we were looking for leading edge companies to meet the high standards of assurance that stakeholders expect. As well as providing clear, transparent and accurate data, we expect companies to present their information in a way that stakeholders can engage with. We were looking for companies who can demonstrate a successful and positive approach to stakeholder engagement, including in their approach to developing their assurance plans where appropriate. Transparency about company structures, procedures and decision-making processes is another important area of focus that helps companies to earn their stakeholders' trust and confidence.

Further information on this year's assessment is available in our [company monitoring framework 2016 assessment](#) publication. The framework itself is available in our [Company Monitoring Framework Final Position](#), published in June 2015.

### Summary of our assessment

Affinity Water has met our expectations in most aspects of its assurance. In many respects, its approach to wider assurance is good, with evidence of having listened to, and responded to stakeholder and customer views. Affinity Water's data assurance gave us no significant concerns in our financial monitoring, charges schemes and outcomes assurance assessments.

However, we have identified minor concerns in three of our assessments, where we found that data were inaccessible, poorly explained and hard to find. In these cases Affinity Water's customers and other stakeholders might struggle to understand the facts, and the basis for its decisions.

In our view, Affinity Water has not clearly exceeded our expectations in any assessment, and has given us cause for minor concerns in several areas.

**We have decided to move Affinity Water to 'targeted' assurance status** to reflect the reduction in overall trust and confidence which we consider flows from the quality

of the information and the result that Affinity Water has not consistently met the high standards expected.

In this document we have set out a brief summary of the individual assessments that we undertook as part of our Company Monitoring Framework (CMF) assessment in 2016. The remainder of this document provides brief feedback on the company's performance against each of our eleven assessment areas for this year:

<b>Our view</b>	<b>Assessment</b>
Meets expectations	Financial monitoring framework
Meets expectations	Charges schemes assurance
Meets expectations	Financial information
Minor concerns	Final 2010-15 reconciliation data submission
Meets expectations	Outcomes
Meets expectations	Compliance with principles of board leadership, transparency and governance
Meets expectations	Risk & compliance statement
Not applicable	Assurance plan
Minor concerns	Targeted reviews
Minor concerns	Data assurance summary
Meets expectations	Evidence from casework activities

## Results of each assessment exercise

### 1.1 Financial monitoring framework

#### What we were looking for

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.

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 the guidance provided by Ofwat. This enables Ofwat, and other stakeholders, to be confident that the information that each company publishes has been prepared on a consistent basis and allows meaningful comparisons to be made between companies.

## What we found

We did identify some small errors in the information published by Affinity Water, including a spreadsheet error in the calculation of post-tax return on regulated equity. However, we did not consider that these minor errors had an impact on the overall reliability of the data. For this reason we considered that the company met our expectations.

Our assessment: **meets expectations**

## 1.2 Charges schemes assurance

### What we were looking for

Companies must publish their forward charges schemes in February each year. We checked that companies:

- published and assured their charges schemes;
- complied with our charging rules;
- assessed and explained significant movements in charges; and
- devised and put into effect effective handling strategies to address significant movement in charges.

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.

### What we found

Affinity Water published its charges schemes, described the process and provided evidence that appropriate assurance took place. For this reason, we have given an assessment of meets expectations. We did note however that the assurance statement was not signed. This did not impact the overall assessment but the company should include this next year to demonstrate company ownership of the assurance process.

Our assessment: **meets expectations**

## 1.3 Financial information

### What we were looking for

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:

- wholesale total expenditure reporting;
- revenue and profit statements, disaggregated by price control;
- methodology statement on how costs are allocated across the price controls; and
- disclosures required for transactions with non-regulated associate companies.

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.

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 important preparatory work for PR19.

### What we found

We identified no issues during our review of the four areas we chose to look at this year.

Our assessment: **meets expectations**

## 1.4 Final 2010-15 reconciliation data submission

### What we were looking for

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 signoff.

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 impact the companies' revenue allowances they can recover from customers.

## What we found

We noted minor data ambiguities in and across tables which when queried were easily corrected and we considered them to be in part a consequence of interpreting our guidance in a not unreasonable way. However there was insufficient level of detail provided in the initial commentary to allow us to assess serviceability and change protocol. Consequently we raised a number of queries seeking to clarify our understanding of the information provided in the submission which the company resolved proactively to our satisfaction.

During our analysis of the RCM information we identified an issue that confirmed the PR14 final determination and consequently the initial submission did not comply with the RCM guidance. This was resolved through discussion with the company to bring about the correct outcome for customers however we were disappointed with the company's initial reaction when we alerted it of the error affecting its final determination.

While the company omitted an explicit board sign-off statement, there is sufficient explanation of its assurance procedures and evidence the board approved the submission.

Our assessment: **minor concerns**

## 1.5 Outcomes

### What we were looking for

In this assessment we looked for:

- reliable, timely and appropriate information for customers and other stakeholders;
- transparent and accessible information for customers and other stakeholders;
- appropriate data assurance;
- evidence that the company has listened and responded to its customers and other stakeholders; and

- compliance with the outcome delivery and reporting proposals as set out in the PR14 final determination company-specific appendix.

This is an important assessment, to ensure that stakeholders can understand what companies are doing to deliver the outcomes that customers expect.

## What we found

Overall, Affinity Water provided accurate, reliable information in table 3A (outcome performance) and its annual reporting commentary.

There is very clear evidence that the company's reporting is transparent and accessible to customers and other stakeholders. In particular the publication of the 2015-16 Customer Performance Report provides customers with an easy to understand summary of the company's performance. The company's area of supply is made up of multiple geographic regions - reporting the performance commitments at a community level provides greater transparency for customers in each geographical area. For example, although the company did not meet its committed performance level for unplanned interruptions to supply over 12 hours, customers in the Dour community can see that there were no unplanned interruptions over 12 hours in their area.

There is sufficient evidence that the company has been transparent with customers and other stakeholders about the data assurance that has been put in place.

There is sufficient, though limited, evidence that the company has provided the wider assurance to demonstrate it is listening to customers and delivering the services they want and can afford. Going forward, the company's Customer Challenge Group will be monitoring how well the company delivers against what it promised its customers it would do; this will provide customers and other stakeholders with an independent opinion on the company's progress in delivering its performance commitments.

There is clear evidence that the company has implemented its proposals for outcome delivery and reporting as set out in the PR14 final determination company-specific appendix.

Our assessment: **meets expectations**

## 1.6 Compliance with principles of board leadership, transparency and governance

### What we were looking for

In this assessment we looked for how the information which the company provided demonstrated that it has met our board leadership transparency and governance principles. This included the provision of:

- transparent governance information, including group structure and on director remuneration;
- 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
- clear information on the composition of the board and its sub-committees.

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.

### What we found

The information provided in the company's annual reporting has demonstrated that it has met our board leadership transparency and governance principles.

Our assessment: **meets expectations**

## 1.7 Risk & compliance statement

### What we were looking for

In this assessment we looked for a statement, explicitly endorsed by the company's board, which confirms 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.

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.

## What we found

The company has provided a clear statement that it 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. However, given the statement has been signed by executive directors only, it may not be sufficiently clear to all stakeholders that it has the endorsement of the whole board. Additional sign off by an independent member of the board would help add legitimacy for stakeholders.

Our assessment: **meets expectations**

## 1.8 Assurance plan

### What we were looking for

In this assessment we looked for the following in companies' assurance plans.

- Explanation of the framework and their approach to it.
- Evidence of stakeholder engagement undertaken to develop the plan.
- Clear scope, and rationale for targeting specific areas.
- Appropriate language and accessibility for all stakeholders.

This is a key test of whether companies are listening to their stakeholders and using their views to improve their practices.

### What we found

As a self-assurance company, Affinity Water was not required to publish an assurance plan.

Our assessment: **not applicable**

## 1.9 Targeted reviews

### What we were looking for

In this assessment we looked at:

- companies' tax reconciliation notes published in the annual performance report to see if they acted on our tax targeted review recommendations; and
- improvements companies have made to 2015-16 reporting in response to our sludge and water resources targeted review.

These are two areas we have recently highlighted for companies to focus on, and we want to see evidence that they are taking steps to improve their assurance.

### What we found

The published tax reconciliation note identified some large variances in the reported tax charge from what was allowed at the PR14 final determination. The company noted the driver of the majority of this difference but further narrative on why this difference had arisen would be helpful to understand why the assumptions in the business plan varied so much from the actual position.

The published cost allocation methodology statement clearly set out the changes made for 2015-16 reporting as a result of the CEPA recommendations made following our targeted review into sludge and water resources.

Our assessment: **Minor concerns**

## 1.10 Data assurance summary

### What we were looking for

We checked that companies have:

- published a data assurance summary for 2015-16 activities;
- covered the targeted areas from the company's assurance plan; and
- provided an overview of the company's assurance methods and processes, the audit exercises carried out and their findings.

This assessment is designed to ensure that companies provide accessible assurance to stakeholders, to build trust and confidence in their data publications.

## What we found

The company published a brief summary of the data assurance carried out for the annual performance report. It lacks context and purpose of the data assurance summary or a clear statement about the company's responsibilities for providing/reporting robust information to all stakeholders.

The data assurance summary is written in a technical style that assumes the reader is knowledgeable and well informed about assurance practices and the water sector context. Being bound in the annual performance report, it is not prominent on the company's website and there are no search results for "data assurance".

Our assessment: **minor concerns**

## 1.11 Casework

### What we were looking for

In this assessment we looked at companies' responses to cases from 1 April 2015 onwards. We considered the company's response to our requests for information. We checked that companies had provided complete, accurate information within our timescales, and engaged effectively with us.

This assessment focused on our trust and confidence in companies' information provision, and complemented the other assessments that focused on information published by companies.

### What we found

We have opened one case concerning Affinity Water between April 2015 and August 2016 (when we conducted our assessment) and that is a determination under section 45 of the Act. In this case, during the period of our assessment we requested information from Affinity Water during our preliminary assessment and this information was provided in a clear and concise table and returned in a timely manner.

Our assessment: **meets expectations**