

November 2016

Trust in water

Company monitoring framework

2016 assessment

Individual company report – Anglian Water Services Ltd

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Company monitoring framework assessment

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

Anglian Water has met our expectations in most aspects of its assurance. In most areas, it published accurate information and explained it clearly to stakeholders. It has also demonstrated transparency in terms of its clear information on board and group structure.

However, we have identified minor concerns in three of our assessments. In each case, we found minor discrepancies in Anglian Water's data assurance, which we consider could have an impact on the trust and confidence of stakeholders. We were nonetheless pleased with Anglian Water's proactive approach to correcting its mistakes once they were identified, and adjusting its publications. We also found that Anglian Water had lost information pertaining to a case against it, whilst moving to a new IT system.

In our view, Anglian Water has broadly met our expectations, with some minor concerns relating to data and wider assurance. We have not identified any clear examples where it has exceeded our expectations.

We found some evidence of behaviours that would reduce stakeholders' trust and confidence in the information it publishes. We do not consider that Anglian Water has consistently met the high standards that customers and other stakeholders expect. **We have therefore decided to retain Anglian Water's 'targeted' assurance status.**

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:

Our view	Assessment
Meets expectations	Financial monitoring framework
Meets expectations	Charges schemes assurance
Minor concerns	Financial information
Meets expectations	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
Meets expectations	Assurance plan
Minor concerns	Targeted reviews
Meets expectations	Data assurance summary
Minor concerns	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

Overall Anglian Water demonstrated that it had followed our financial monitoring framework guidance. We also found that the quality of the financial metric data was sufficient to be assessed as having met our expectations. A number of relatively minor issues were identified during our review which have now been fully resolved.

We assessed the published information on disclosures to be generally transparent. However, the company could further improve transparency in the future by providing additional disclosure in the reporting of net debt for the appointed company, this would help to fully explain the differences between the borrowings figures on the balance sheet and the figures shown in the net debt note.

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

Anglian Water published good quality charges information which complied with our charging rules. We found that it had adopted sensible handling strategies for the changes in the tariffs it had identified.

We noted one isolated issue, whereby some customers on the SoLow tariff were not notified in time of the changes to the tariff. We would expect the company to consider this more carefully in future.

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 a minor error regarding the allocation of developer services costs to households which we queried with the company.

Our assessment: **minor concerns**

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

Overall we have no concerns with the assurance of the final 2010-15 reconciliation submission. The company met our expectations for the submission in respect of all the elements that are relevant to the company.

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 the RCM 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.

Our assessment: **meets expectations**

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, Anglian Water provided accurate, reliable information in table 3A (outcome performance) and its annual reporting commentary, however we did find instances where information was inaccurate or inconsistent. We considered that these particular instances did not reduce stakeholders' trust and confidence.

There is sufficient evidence that the company's reporting is transparent and accessible to customers and other stakeholders.

There is clear evidence that the company has been transparent with customers and other stakeholders about the data assurance that has been put in place. For example, the publication of a Technical Assurance Executive Summary that provides independent technical assurance provides customers and other stakeholders with assurance that the assessment of the company's performance has been reviewed by an independent technical auditor, who has challenged the company's data, methodologies and processes.

There is sufficient 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.

There is sufficient 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. The statement has been appropriately signed to demonstrate endorsement by the whole board.

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

The assurance plan clearly sets out context and background to the plan. The assurance framework and approach to the exercise has been clearly explained and the section on the 'in-year' audits clearly explains the rationale. There is reference to third party assurance being only a part of the process but no further detail provided. The scope of the exercise is sufficient and plan sets out the targeted areas clearly. Considering the change in reporting from 2015-16 with the new Annual Performance Report, more detail around the existing and any revised assurance processes in place for financial data could have given stakeholders greater trust and confidence in the exercise.

Our assessment: **meets expectations**

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.
- 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

Generally, the quality of the tax reconciliation note was acceptable but more detail and explanation around how prior year adjustments had arisen would have been helpful.

The company acted on the recommendations of the CEPA report following our targeted review of sludge and water resources but it did not disclose this transparently in its published cost allocation methodology statement.

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 succinct and comprehensive summary of the data assurance carried out throughout the year.

A summary of assurance review is presented in a tabular format. The table indicates which external assurer has looked at what topic area. We note all the annual performance report assurance activity is presented in a single line. It would be helpful for this to be expanded commensurate with the size of the annual performance report. The data assurance summary could be improved by setting out the detail on each assurance review carried out and the results.

The data assurance summary is written as a self-standing document that is easy to read and is prominent on the company's website.

Our assessment: **meets expectations**

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 Anglian Water since April 2015 but this was a new connection dispute that was closed prior to a draft determination so there was no information to review. We also had one case open prior to April 2015 which we closed in January 2016. This was a determination under section 42 of the Water Industry Act 1991. In this case, we requested information prior to April 2015 but had to go back to Anglian Water post April 2015 seeking further information and clarification on existing information. In response, Anglian Water informed us that it had lost a large amount of relevant historic information as a result of swapping to a new IT system. This reduces trust and confidence in the company.

Our assessment: **minor concerns**