

November 2016

Trust in water

Company monitoring framework

2016 assessment

Individual company report – Dee Valley Water Plc

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Company monitoring framework assessment

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

In our initial assessment of company assurance in PR14, we placed Dee Valley Water in the 'prescribed' assurance category. At the time, it was the only company that we placed in the bottom category, until we re-categorised Bristol Water in 2015. More than 18 months has elapsed since we placed Dee Valley Water in the 'prescribed' category, so it is now eligible to be considered for re-categorisation to 'targeted' assurance.

In general, Dee Valley Water has met our expectations in most of our assessment exercises. Dee Valley Water has demonstrated that it is publishing accurate information, and generally addressing any inaccuracies proactively. Its compliance statement is signed off by the whole board, and the outcomes assessment reflects a company that is listening, and responding, to customer views in developing its assurance and wider business practices.

We did, however, identify minor concerns in four areas of Dee Valley Water's assurance. Its assurance plan is an important document for companies in the

prescribed category to demonstrate their plans to improve their approach, and how their engagement with stakeholders has shaped it. We found that the document did not give sufficient transparency on work being undertaken. We also found some inconsistencies in its coverage of audit practices.

We also found that Dee Valley Water needs to redouble its focus on data accuracy. For example, we found that Dee Valley Water's financial information had a number of basic errors in both its figures and its data labels. We expect these errors to be picked up to avoid stakeholder confusion. We also found that in several assessments, Dee Valley Water had not provided adequate, clear explanations that meet their stakeholders' needs.

To move a company from the prescribed to the targeted assurance category, we would need it to show that there was no evidence of behaviour that would reduce trust and confidence, and no significant problems with its assurance plans in the previous year. Using our approach to assessment described in the 'Company monitoring framework 2016 assessment' this means we would expect the company to meet our expectations for most assessments, although we would tolerate some minor concerns.

We found minor data assurance issues, and wider assurance gaps. We also found missing evidence of implementing assurance plan commitments, which we would expect companies to have demonstrated in order to move from the prescribed assurance category to the targeted category. **We do not consider that the elements required for promotion have been fulfilled and have retained Dee Valley Water's 'prescribed' 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
Minor concerns	Assurance plan
Minor concerns	Targeted reviews
Minor concerns	Data assurance summary
Not applicable	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 we considered that the company had followed our financial monitoring framework guidance. Our review did identify some minor errors including in relation to the disclosure of net debt and the incorrect disclosure of an interest rate. However we assessed that the information and the explanation provided was of sufficient quality to meet 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

Dee Valley's charges schemes met our expectations for this assessment. The company provided evidence that it had complied with our charging rules. We did consider that the company could have explained its assurance process and engagement better, however this was not significant enough to raise concerns.

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 noted that two tables in the company's published annual performance report had incorrect unit labels and incorrect headings on the customer numbers data.

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 sign-off.

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 serviceability. Consequently we raised a query 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, Dee Valley Water has provided accurate, reliable information in table 3A (outcome performance) and its annual reporting commentary.

There is sufficient evidence that the company's reporting is transparent and accessible to customers and other stakeholders. The 'Annual performance report year ended 31 March 2016' provides clear and easy to understand performance commitment commentary.

There is sufficient but limited evidence that the company has been transparent with customers and stakeholders about the data assurance that has been put in place. An area for further improvement is the publication of a statement or report from the company's technical assessor, Black & Veatch. This would provide customers and other stakeholders with additional assurance that the assessment of the company's performance has been reviewed, and the data, methodologies, processes and supporting evidence has been challenged.

There is sufficient evidence that the company has provided the wider assurance to demonstrate that it is listening to customers and delivering the services they want and can afford. An area where there remains room for further improvement is the publication of stakeholder feedback as a result of the company's wider assurance and engagement; for example, minutes of Customer Challenge Group (CCG)

meetings and/or a CCG statement or report to provide opinion on the company's progress in delivering its performance commitments.

There is sufficient evidence that the company is implementing 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 background section of the company's plan sets out context and work done to date. The company demonstrates its engagement with stakeholders and comments on the feedback it received. There is a brief summary of the company's assurance framework. The scope of information considered is very wide as expected. A tabular format is used to indicate which information is covered by what assurance activities, but the high level descriptions in boxes do not give much transparency on work being undertaken. The stated coverage of the audit opinion on the annual performance report does not align with audit engagement letters.

Our assessment: **minor concerns**

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 tax reconciliation note published in the annual performance report is an inappropriately brief note of only two sentences that quantifies the variance and only partly explains the difference between the reported tax charge and the PR14 final determination. Table format would have been more helpful as the note does not explain all of the difference.

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 short summary of the data assurance carried out for the annual performance report. The data assurance summary is written in an overly technical style that assumes the reader is knowledgeable and well informed about assurance practices and the water sector context. As the data assurance summary is not a self-standing document, it is not prominent on the company's website.

As a 'prescribed' company the coverage should align with the assurance plan but it is focused solely on the annual performance report. The data assurance summary lacks context, background, overview of company's assurance framework, process and methods and procedures for Board sign-off.

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 did not have any live cases against the company in the 2015-16 regulatory year.

Our assessment: **not applicable**