

November 2016

Trust in water

# Company monitoring framework

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2016 assessment

Individual company report – Sutton and East Surrey Water Plc

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## Company Monitoring Framework assessment

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

Sutton and East Surrey Water has met most of our expectations for assurance practices. In general, Sutton and East Surrey Water has demonstrated strong assurance of its data, coupled to solid wider assurance, eg external independent assurance, transparent and clear publications and satisfactory board leadership and compliance statement. We were particularly impressed by Sutton and East Surrey Water's data assurance summary, which was well-written, easy to find and demonstrating a proactive commitment and plan to improving data assurance.

However, we did identify two issues in Sutton and East Surrey Water's assurance, relating to its lack of published tax reconciliation notes, and the way it prepared its financial monitoring documentation.

We were pleased with much of what we saw in Sutton and East Surrey Water's publications this year. However, we decided not to change Sutton and East Surrey Water's assurance status to self-assurance, as this would require it to have met our expectations in most if not all assessments (with examples of exceeding our

expectations and good practice). In this context, we identified evidence of behaviour that could lead to a reduction in the trust and confidence stakeholders can place in Sutton and East Surrey Water's financial data.

**We have therefore decided to retain Sutton and East Surrey Water's 'targeted' assurance status** as it has not consistently met the high standards that customers and other stakeholders expect.

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>
Minor concerns	Financial monitoring framework
Meets expectations	Charges schemes assurance
Meets expectations	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
Exceeds expectations	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

In a couple of areas, including net debt and tax, Sutton and East Surrey Water presented information by reference to its statutory accounts and not its regulated business and had not followed the existing guidance. We consider that this reduces the trust and confidence that stakeholders can have in the company's published financial information.

Our assessment: **minor concerns**

## 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

Sutton and East Surrey met all the requirements for this assessment. However, it would have been helpful for the company to have explained its consultation with CCWater on its new assessed charge for sole residential occupiers and how this new assessed charge impacts on other assessed charge customers.

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

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.

There were no minor data ambiguities in and across tables and information provided by the company. Consequently we did not need to query the information provided in the submission.

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

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

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

There is clear evidence that the company's reporting is transparent and accessible to customers and other stakeholders. Within its Annual Report 2016, the company has provided a performance overview ('Keeping our promises to customers') on the pages before the Chairman's statement, a high level commentary within the Chairman's statement, and a more detailed performance report further on in the document. Where the company has not met its 2015-16 committed performance level it has provided an explanation of the performance issue and, where appropriate, provided an explanation of how it will address the issue in the best interests of customers.

There is sufficient evidence that the company has been transparent with customers and stakeholders about the data assurance that has been put in place. It has provided an Independent Assurance Statement from Black & Veatch (Certifier to Sutton and East Surrey Water) stating that its audit work confirmed that data quality and accuracy was of high standard, and where audit checks identified anomalies either corrections were agreed during the audit or revised tables were submitted following internal review.

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. For example, the company's Customer Scrutiny Panel has a page on the company's website with hyperlinks to meeting summaries.

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 introduction section covers context and work done to date. There is adequate evidence of the company's engagement with stakeholders. The scope of information considered is sufficient and the plan contains a good summary of the company's approach to assurance starting with documented process and internal review, all the way up to board approval. The targeted areas are quite wide, and more detail around specific assurance activity planned, particularly the role of external assurance, would have been helpful.

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; 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 company has not published the required tax reconciliation notes in its annual performance report. The company has since provided some information to us that partially explains why the reported tax charge is higher than the PF14 final determination. But we understand the company has no plans currently to publish this information which is not transparent to other stakeholders. This is therefore an ongoing concern to us.

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.

The problems we identified are important, because failing to publish appropriate information reduces the trust and confidence that stakeholders can place in a company.

However, the above issues were only relatively minor weaknesses in the context of this assessment (and the overall assessment).

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 has published a succinct and comprehensive summary of the data assurance carried out throughout the year with an excellent table detailing the outcome of assurance which included learnings and new issues identified.

The data assurance summary is written as a self-standing document that is easy to read and is prominent on the company's website where there is a well presented and informative company monitoring framework page.

Our assessment: **exceeds 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 did not have any live cases against the company in the 2015-16 regulatory year.

Our assessment: **Not applicable**