

November 2016

Trust in water

# Company monitoring framework

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2016 assessment

Individual company report – South East Water Ltd

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## Company monitoring framework assessment

This document outlines the results of our 2016 Company Monitoring Framework (CMF) assessment of South East Water's assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess South East 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

We were impressed with the quality of South East Water's assurance practices. The company met all of our expectations, and in some cases exceeded them. For example, we found evidence of good data quality assurance, and we noted that the company took care to manage the handover to a new external auditor mid-year. We also found evidence of good transparency, accessible, well-written documentation and other valuable wider assurance such as South East Water's use of its Customer Panel to challenge its delivery of performance commitments and participate in 'deep' dives. We were particularly pleased to see an excellent assurance plan that is well-written with evidence of stakeholder engagement and resulting actions taken, including drawing on best practice from other companies.

We identified a few minor weaknesses in South East Water's assurance, relating to financial monitoring and outcomes assessment, but these were low-impact and the company corrected them quickly. We also felt that it could have made the data assurance summary easier to find on the website. In no instances did our

assessments conclude that South East Water has behaved in a way that would lead to a reduction in the trust and confidence that stakeholders place in it.

Because we were satisfied with South East Water's assurance across the board, and noted examples of good practice that exceeded our expectations, **we have decided to promote South East Water to 'self-assurance' status**. We considered that South East Water had consistently met the high standards that customers and other stakeholders expected.

In this document we have set out a brief summary of the individual assessments that we undertook as part of our 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
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
Exceeds expectations	Assurance plan
Meets expectations	Targeted reviews
Meets 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

Overall South East Water demonstrated that it followed our guidance, and the quality of data and the transparency of the published information met our expectations. Our review identified a small number of minor errors, in relation to disclosure of financial derivatives and presentation of information about dividends, however these were not assessed to have had an impact on the overall trust and confidence in the information presented.

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
- had 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

South East Water's charges schemes complied with our charging rules and provided a clear assurance statement. The company met our expectations for this assessment.

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 had 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 were 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.

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 had 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, South East 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. The 'Performance, People and Planet 2015-2016' report is clear and easy to understand. 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. The company appointed a new assurance partner, during the 2015-16 financial year so there had been a transition phase with a combination of two auditors undertaking audits on performance commitments and table 3A (outcome performance). The company explained that it undertook half year audits for all areas being audited by one auditor – this was to provide additional assurance around the robustness of internal processes and the information provided to stakeholders.

There is clear 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. To accompany the Annual Report and Financial Statements / Annual Performance Report, the company has published a report from their Customer Panel. This is an independent group, whose role is to monitor the company's performance and provide challenge to other business-as-usual activities. The Customer Panel's report provides customers and other stakeholders with an independent opinion on the company's progress in delivering its performance commitments. The Panel also challenged the company in more detail on key aspects of its performance, including a series of 'deep dives' at Customer Panel meetings.

There was 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 information 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 provided a clear statement that it had complied with all its relevant statutory, licence and regulatory obligations and was taking appropriate steps to manage and/or mitigate any risks it faced. 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 company's assurance plan was clear, well written and accessible to non-technical audience. It sets out the context for and purpose of the assurance plan and work done to date. There is a clear summary of the company's approach to assurance. We were encouraged by the level of stakeholder engagement and the explanation of how the company took account of the stakeholders' comments. The risk, strengths and weaknesses assessment undertaken appeared thorough and the scope of information considered was sufficient. The plan set out the mitigating actions/activities for each risk area the company identified.

We note the company appears to have updated its draft assurance plan based on examples of good practice from other companies.

Our assessment: **exceeds 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 tax reconciliation note published in the company's annual performance report highlighted the small increase in the reported current tax charge compared to the PR14 final determination but there was no explanation for this 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.

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

Our assessment: **meets expectations**

## 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 data assurance summary is a short section within the company's published annual performance report. Whilst the data assurance summary is not a self-standing document on the company's website the search function returns the company monitoring framework in the search results for "data assurance" though not either of the two reports that make up the company's annual performance report.

The data assurance summary was written in a style suitable for a wide audience. It was informative on the majority of issues that it covered. The shortcomings were the lack of a summary table to cover the assurance audits performed and their respective outcomes and the lack of reference to financial auditors.

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

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

Our assessment: **not applicable**