

November 2016

Trust in water

Company monitoring framework

2016 assessment

Individual company report – Dŵr Cymru Cyfyngedig

www.ofwat.gov.uk

ofwat

Company monitoring framework assessment

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

Dŵr Cymru has met our expectations in most aspects of its assurance – in eight of our eleven assessments we consider that they met our expectations. In the remainder, we identified some minor concerns relating to Dŵr Cymru's approach to our targeted review on tax, the assurance plan and our casework activity.

We were pleased with much of what we saw in Dŵr Cymru's publications this year. However, we have ruled out improving Dŵr Cymru's assurance status, as this would have required it to have consistently met the high standards that customers and other stakeholders expect. We identified concerns with its assurance plan, targeted reviews and casework. These are behaviours that would lead to a reduction in the trust and confidence that stakeholders place in the company.

We have therefore decided to retain Dŵr Cymru'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
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
Minor concerns	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

Our review identified small errors in relation to disclosure of net debt and identified that the annual performance report did not initially include a tax reconciliation note. We did not consider that the small errors would have an impact on the trust and confidence of stakeholders.

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

The company met all the assurance requirements. It provided a clear explanation of its handling strategy to manage the bill increases arising from the transition of customers from its previous Welsh Water Assist affordability tariff to other tariffs. The company has worked closely with the Consumer Council for Water and other stakeholders to ensure that all current Welsh Water Assist customers are transitioned to a tariff that best meets their needs.

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.

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, Welsh 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. This included the reporting in the table 3A spreadsheet of a 2015-16 actual performance level of 'upper quartile' for

performance commitment D1: Service incentive mechanism (SIM). At the time of reporting, the industry-wide overall (weighted average of survey and complaints) SIM scores were not available and therefore Welsh Water would not have been able to state whether it had met its CPL or not. In future years we would expect the company to only report its performance in table 3A, and whether it has met its committed performance level, if sufficient information is known for it to do so.

Requests for clarification were dealt with appropriately and, where required, issues with annual performance report table 3A (outcome performance) have been rectified.

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

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. In particular, the version of the company's 'Annual performance report 2015-16 part 3' that was submitted to us includes an assurance letter from its independent technical assurer, Jacobs. The version on the company's website does not contain this assurance letter. If this was available on the website it would provide customers and other stakeholders with additional 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, processes and supporting evidence and ensured objective reporting.

There is 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. We recognise that there has been a recent change in the membership of the Customer Challenge Group ('CCG') and that the opportunity has been taken to review the terms of reference. The CCG will be fully involved in the annual performance report process in future and this will provide customers and other stakeholders with an independent 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 helps to increase transparency for stakeholders as it sets out how the board is able to provide the statement in terms of processes and systems that are in place.

However, although the whole annual performance report (in which the risk and compliance statement is provided) is signed by the chief executive on behalf of the board, the statement itself is not signed. This means that it is not sufficiently clear that the statement itself has the endorsement of the whole board. Additional sign off by an independent member of the board could 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

The risks, strengths and weaknesses exercise and subsequent draft and final assurance plan were heavily focused on the non-financial data in the annual

performance report but it is not clear if this reflected where the company had identified more risk as compared to its financial data.

The company has committed to review the scope of the assurance framework as part of a continuous improvement programme. Where existing assurance activities have been considered adequate for some areas, we consider more transparency around the internal and external assurance approach could increase trust and confidence for stakeholders that the company's assurance has been targeted at the appropriate areas.

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 company did not publish a tax reconciliation note in the annual performance report as required in the regulatory accounting guidelines.

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 process. 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 in a style that is easy to read though, and, being bound in the annual performance report, it is not 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 two cases concerning Dŵr Cymru since April 2015. One of those cases is currently open and is a determination under section 181 of the Water Industry Act 1991. In this case, Dŵr Cymru has responded to one request for information providing a full response in both Welsh and English. The other case was a private sewer transfer appeal but as the appellant withdrew its appeal shortly after opening, there is nothing to report. We also opened three private sewer transfer appeals prior to April 2015 (which have since been closed) and in these cases, since April 2015, we requested information by email and Dŵr Cymru provided responses but we had to chase Dŵr Cymru for that information in all of the cases and it took Dŵr Cymru a substantial period of time to respond.

Our assessment: **minor concerns**