



South Staffs Water

incorporating



**Final Assurance Plan for  
2015/16 Reporting**  
(including stakeholder views on  
our November consultation)

May 2016

## Introduction

In November 2015 we consulted on our proposed assurance framework following engagement with our stakeholders and an assessment of our strengths and weaknesses for assurance.

This document is the follow up to that consultation. In this document we set out the feedback we have received from stakeholders; explain what changes we have made to our framework in response to those comments; and we set out our final 2015/16 assurance plan (following further comments received in April 2016) which covers the assurance activities for the 2015/16 annual performance report, including our targeted areas.

We welcome any continued comments on our assurance plans at any time. Please direct comments to [regulation@south-staffs-water.co.uk](mailto:regulation@south-staffs-water.co.uk).

## Stakeholder Responses

### Feedback from our customer panel chair – Mr Simon Speryn

At the time of the November publication the full customer panel member recruitment was not complete. Our Customer Panel chair, Mr Speryn, reviewed the document, and commented that he would like to see an explanation of what assurance actually is, for the benefit of customers that may read this document, as it is quite technical in nature.

We agree with Mr Speryn's observation and we have amended our document introduction to include a short explanation of what assurance is and why good assurance is important to customers.

We will continue to discuss assurance with our Customer Panel as we meet with them over the summer period and will incorporate any feedback in future versions of our document.

### Feedback from the Consumer Council for Water (CCW)

CCW – “We aren't in a position to second guess the score and level of risk you have given the different items but we haven't identified any significant areas where we would want to argue for a different score.”

We are pleased that CCW has not identified any concerns with our risk scoring and we believe our proposed level of assurance is appropriately targeted to the level of risk.

CCW – “We welcome South Staffs' commitment to use the newly formed Customer Panel to scrutinise and challenge not only the company's performance, but also the way in which the company communicates information to its customers. More work will be needed to decide exactly what role the Panel will have in assurance and how much detail it will go into. This could possibly include a detailed look into areas the panel feels are important to customers.”

We are pleased that the principles of the Customer Panel are supported by CCW, who also participate in the group and therefore have an influence over how it develops. The panel's role is wider than assurance and will continue to develop as they become more familiar with our business activities. The Customer Panel will have flexibility and will be able to provide a strong challenge on our activities and assurance processes.

CCW – “We would like to see a more explicit statement about how the Board will sign off assurance as a whole and integrate assurance risk with the other organisational risks.”

We have included a new section in our assurance framework document entitled ‘The Role of the Board’ describing their responsibilities and the links to other organisational risks through the audit committee.

CCW – “We are pleased to see that the Consumer Council for Water’s quarterly reports are mentioned in the plan under published data.”

We recognise the importance of CCW’s quarterly report information and how the data feeds into the annual report at the end of each financial year. We had identified an issue with how we assured the year end data that we sent to CCW and have put in place a process to address this. We will provide an assurance statement on this as it was an area we identified for action.

#### **Feedback from Ofwat**

Ofwat – “We have no detailed comments at this time as we intend to do this at the draft assurance plan stage if necessary.”

This document contains our proposed assurance plan for 2015/16 annual performance report and targeted areas and we welcome stakeholder comments on this. We have also revised our November assurance framework document to take on board these comments from stakeholders. Our assurance plan covers the Annual Performance Report (APR), including cost allocation which was identified as one of our targeted areas by Ofwat. We decided to include the APR in total due to the importance of the financial information and outcome delivery incentives in this first year of AMP6.

Ofwat – “The scope and depth of your risk, strengths and weaknesses exercise appears very comprehensive and the scope of information considered was wide.”

We are pleased that the wide scope of our assessment was recognised, as we were keen to ensure that all published data was included in the scope of our framework. We intend to continue with this approach.

Ofwat – “We are encouraged by the stakeholder engagement and explanation of your approach in the statement. The documents transparently detail how you have applied your framework, clearly demonstrating where assurance should be targeted, allowing stakeholders to have trust and confidence.”

We believe it is important to engage with our stakeholders on assurance and to maintain transparency of the process, and we intend to continue with this approach.

We have taken this stakeholder feedback on board and have published a final version of our assurance framework document on our website. We have also updated the document to reflect where we are now in the timing of this year’s process and additionally a control sheet to record revision history.

# Final Assurance Plan for 2015/16 Annual Performance Report and Targeted Areas

This section of the document sets out the assurance processes that we will follow for the 2015/16 annual reporting process, including the relevant targeted areas that we identified in our November 2015 strengths and weaknesses assessment.

## What is assurance?

Water is a vital public service that we all rely on. It is critically important that our customers, and our wider set of stakeholders and regulators, can trust that the information we publish is accurate and well explained, across all of our areas of performance.

Assurance is the set of processes that we follow to give other people or organisations confidence that the information we have published is at the right level of accuracy, is complete, and is explained where necessary. It is a layer of protection, that ensures that our published data is signed off by the people in our organisation who are responsible for transparency and trust. It is also a process that helps us identify areas where data needs to be improved to ensure that we can report accurately.

## Why have we documented our proposed assurance plan?

It is important that our customers and stakeholders have visibility of our assurance processes to foster trust and confidence in our data and activities.

The areas of focus for this assurance plan were derived from our previously published assurance framework, strengths and weaknesses assessment, and stakeholder engagement. Our plan covers:

- The 2015/16 Annual Performance Report (APR)
- The Consumer Council for Water (CCW) quarterly data return (specifically the end of year post audit figures)
- Cost allocation assurance
- Effectiveness of our website for customer communication

Part 1 of this document details our draft assurance plan for the 2015/16 annual reporting process. This includes cost allocation and given the similarity of the data sets this also includes the end of year CCW data. On reflection of our November assurance framework we felt it was important to widen the scope of our first draft assurance plan to cover the full four sections of the annual performance report as this is the first year of the new format, and the first set of outcome delivery incentive results.

In our November publications we also highlighted the need to ensure that customer communication was effective and that our website delivered information to customers in a clear way. This is an ongoing process and we have already made some improvements. We have set out our high level plans for the website and our plans for customer communication of the 2015/16 APR in part 2 of this document.

## Part 1 – Final Assurance Plan for 2015/16 APR

This section details our final assurance plan, covering the following:

- APR section 1 – financial information
- APR section 2 – financial information
- APR section 3 – ODIs
- APR section 4 – additional financial and non-financial information
- Cost allocation
- Year end CCW data

### *APR Sections 1 and 2 – Financial Information*

The data for sections 1 and 2 of the APR is compiled from two main data sources; our financial system (Oracle) and our billing system (Rapid).

Deloitte will audit this section of our APR in line with the Regulatory Accounting Guidance parts 1 through 5, and covering the full range of points set out in Ofwat's document 'Audit opinion for the annual performance report 2015/16' published on 19<sup>th</sup> February 2016. This is consistent with our approach in previous years, and with Deloitte's role as the Company's financial auditor.

Reports produced by Deloitte will be submitted to the Board. The Board will sign off this section of the APR once satisfied that all reporting requirements are met and that there are no outstanding audit issues.

We will discuss our financial performance with the Customer Panel and respond to any challenges they make. The panel will also have visibility of the Board's sign off processes for the financial information in the APR.

### *APR Section 3 – Outcome delivery incentives*

Outcome delivery incentives (ODIs) cover a wide range of performance areas and therefore the approach to audit will need to be specifically focused on each indicator, how it operates and the underlying data sources.

Our assurance risk assessment process identified risk levels ranging from low to high for ODIs, and due to their wide scope and variation this range is expected.

Eight ODIs are financially incentivised and so have a higher consequence associated with them from a regulatory and customer perspective. These ODIs ranged from medium to high on our framework. We will use independent third party external assurance for all eight financial ODIs given their significance to customers and their financial impacts. Each ODI will have its own audit report focussing on specific data and processes, and a summary report will be produced bringing together the key audit findings. All of these reports will be available to the Board, who will sign off the final performance values and any financial incentives arising.

We will use Monson Engineering Ltd for the audit on financial ODIs. Monson have experience of these indicators and our processes and systems, from their audit work on

previous year's annual KPIs, which cover many of the same themes as ODIs do in this period. Monson Engineering Ltd were our Reporter prior to this requirement being removed from regulatory requirements and have a great deal of experience of assurance processes with ourselves, other companies, and Ofwat. We will undertake audits on the financial ODIs in May 2016.

We also have a range of non-financial ODIs. These are not financially incentivised in this period and scored between low to medium in our assurance framework, primarily due to their lower regulatory and customer consequences. We will use independent internal assurance for these non-financial ODIs. As with our financial ODIs, we will produce audit reports for each of the non-financial ODIs and these will be available to the Board.

Many of the non-financial ODIs are activity led, and it will be important to report the activity we have been undertaking as well as the year end value for the ODI. We discuss this requirement further in part 2 of this document.

We will also discuss our current ODI performance with the Customer Panel at their first meeting in April 2016. We will then have time throughout April, May and June to respond to the challenges of the Customer Panel and to ensure we reflect any suggestions they may have into our customer facing presentation and customer engagement strategy. In June, we propose a further Customer Panel meeting for us to issue year end audited values and commentary, and our proposed customer facing documentation. This will be shortly after our Board sign off of the APR, and the Customer Panel will then have visibility of the end to end assurance process and access to the same external and internal audit reports that have been produced.

#### ***APR Section 4 – Additional Financial and Non-Financial Information***

Section 4 of the APR contains a mix of financial and non-financial information.

For all financial information in section 4 we follow the same internal process as for sections 1 and 2. Therefore all financial data in this section is audited by Deloitte.

For non-financial data we have internally mapped the source of that data and its risk level, in line with our assurance framework criteria and we will use independent internal audit for these data items. Again a report will be produced and be available to our Board for sign off.

As with sections 1, 2 and 3 we will discuss our performance with the Customer Panel along with the processes for assurance and Board sign off.

## **Cost Allocation**

In our November assurance framework consultation we identified that cost allocation was a targeted area due to feedback from PR14 where Ofwat noted some concerns with the assurance provided.

Cost allocation links directly to RAG 2.05 and good cost allocation is necessary for accurate completion of financial data within sections 2 and 4 of the APR. Therefore we propose to include additional cost allocation assurance in the audit activity that Deloitte is undertaking on the APR.

We will engage with Deloitte on this issue and we propose that the additional assurance activity will be targeted at the following areas:

- Comparison of our methodology statement in relation to the allocation of costs between wholesale and retail with RAG 2.05, noting exceptions.
- Comparison of our methodology statement in relation to the allocation of retail costs between household and non-household with RAG 2.05, noting exceptions.
- Performing a walk through of the process used to prepare the cost allocation tables in the APR to confirm that it is in accordance with our methodology statement.
- In response to a comment from Ofwat, we will review the materiality limits for looking at costs allocated between price controls with Deloitte, to ensure that we appropriately assure smaller cost allocations which are more material to the smaller price controls.

A separate focussed report on cost allocation assurance will be produced and be available to the Board at the same time as the APR itself for review and sign off.

## **Year End CCW Data**

Our November assurance framework consultation identified the year end CCW data return as a targeted area due to some errors that had been identified in previous years' data returns.

The issue had arisen because of mismatched timing between the quarterly data to CCW and the annual regulatory KPIs process, leading to draft end of year numbers not being properly updated with CCW upon completion of the annual reporting cycle.

The data within the CCW return is all business as usual and in many cases is the same data used in the ODIs. Therefore we will align the year end CCW data update with the assurance process for the APR. We will directly issue final year end numbers to CCW using their template at the same time as we publish our APR ensuring that the data in both submissions is aligned. We will issue a short focused internal audit report to CCW to accompany the year end data set summarising the assurance activity we have carried out for each data item and highlighting its link back to the APR where relevant.

## Part 2 – Website and Customer Communication

The APR data in the Ofwat prescribed tabular format may not be in a format which is transparent to customers on the whole. We will therefore produce and publish a separate customer facing report alongside our formal APR, for publication on the same date. We will link to this customer facing report from the main page of our website, as a news item. This will then provide a further link to the Ofwat format tables.

The customer facing report will focus mainly on ODI performance and the wider links to activity levels arising from the ODIs. We will also include a short financial performance overview however we believe ODI performance would be the more relevant topic for customers. We intend to explain our level of performance for each ODI and demonstrate the various activity that has been undertaken in the reporting year. We will highlight areas of concern, for example where performance has not been satisfactory and our plans for how we will improve these areas; and we will highlight areas where we have performed well. Within this report we would set out at a high level how we have assured the ODIs and the involvement that our Customer Panel has had in challenging us on our performance.

We have considered benchmarking, and although it would be useful to include benchmarking information in the customer facing report on the common ODIs, this information is not available until after the publication date of 15<sup>th</sup> July. Therefore benchmarking will need to be the subject of a future publication or information on our website and we will continue to consider how best to achieve this post the 15<sup>th</sup> July publication.

Our plan is to bring the regional websites into greater alignment retaining the regional branding but having fundamentally the same site layout. By doing this we will be able to give a more consistent level of information to customers and stakeholders across both regions. We will do this during 2016.