Assurance Framework

Version 3

April 2017

Document Amendment History

Version	Amendments	Date
Nov 2015	First issue for consultation.	30 Nov 15
Apr 2016	Amended to include November consultation feedback. Final 2015/16 version published.	4 Apr 16
Apr 2017	Annual review update.	7 Apr 17

Introduction

Welcome to South Staffs Water's assurance framework. This document sets out the processes that we will use for assurance for all information that we publish.

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 transparent, 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, including the Board, 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 process?

Ofwat, our economic regulator, recently introduced its 'Company Monitoring Framework' which places the onus on all water companies to develop appropriate assurance processes and to engage with their stakeholders on data assurance. We must endeavour to discover our stakeholders' views on the data and assurance that we provide, to ensure that there can be trust in the process.

Ofwat has introduced a new categorisation system for companies which reflects the level of trust and confidence that our regulators have in their assurance processes. This is a live process. Companies that fall short of expectations can expect to move into lower categories, and companies that demonstrate strong assurance processes that give stakeholders confidence can expect to move into higher categories. The categories are:

- Self assurance (2 of 18 companies)
- Targeted (14 of 18 companies)
- Prescribed (2 of 18 companies)

South Staffs Water is currently in the 'targeted' category, which means that we need to ensure that we provide additional assurance on identified areas where we could improve (the targeted areas), and have action plans in place for how we will address these.

We initially published our framework on 30th November 2015 and asked our stakeholders for their views. We have subsequently made some amendments and this document is now our final version of the framework for 2015/16. However, assurance is a process which can (and should) change and evolve over time and therefore we are commited to an annual review to ensure that this overall framework is fit for purpose. We will do this before the end of each financial year.

We welcome feedback from our customers and stakeholders at any time. Please direct comments to regulation@south-staffs-water.co.uk

Our Vision

Our vision is to be a company which has the full trust of customers, regulators and other stakeholders; and which operates with full transparency. To achieve this, we must do the following things:

1. Communicate our performance to our stakeholders effectively. We shall be open about areas of performance which could be better and what we are doing about this;

2. Demonstrate that the data we produce for our stakeholders is robust by taking ownership of our own assurance and sign off processes.

There are many ways in which we intend to realise this vision. For communicating performance we can use South Staffs Water's independant Customer Panel (the Customer Panel) to scrutinise our performance throughout the year and challenge us where we are falling short. The Customer Panel can also challenge us on how we communicate that performance information to our stakeholders and the wider world. We will look into how we can use the various channels of engagement we have available, such as our website and social media, to effectively communicate performance information.

For ownership of assurance, we have developed this overall framework to guide our assurance decision making. We have also engaged with our various stakeholders to understand their requirements and any areas of data or assurance where they think we can improve.

Our Assurance Framework - A Risk Based Approach

This document sets out our overall framework that we will use to guide our assurance decisions. In developing this proposed framework, we have taken particular note of the 'Data Assurance Guidance for Electricity and Gas Network Companies', produced by Ofgem in December 2014.

We employ a risk based approach to data assurance. This means that we will generally provide more assurance on data that is high risk, compared to low risk data. In determining risk, we look at two main elements, underpinned by a range of more detailed factors, as follows:

1. The **likelihood** that the data may contain an error (7 sub factors):
    a. Complexity of the data sources;
    b. Completeness of the data set;   ⎤
    c. Extent of manual intervention;   ⎬ Inherent likelihood
    d. Complexity and maturity of the reporting rules;   ⎦
    e. Control activities already established;   ⎤
    f. Experience of our personnel;   ⎬ Management controls
    g. Evidence of historical errors and last audit.   ⎦

2. The **impact** that inaccurate, incomplete or late data will have on the recipient or other parties (4 sub factors):
    a. Customers;
    b. Competition;
    c. Financial;
    d. Compliance and regulation.

Tables 1 and 2, below, show the criteria we will use to score our assurance risks.

Table 1: Assessment criteria for scoring the likelihood element[1]:

Score	Complexity of data sources	Completeness of the data set	Extent of manual intervention	Complexity and maturity of the reporting rules	Control activities already established	Experience of our personnel	Evidence of historical errors and last audit.
4	Reliance on data from outside of the organisation which has no assurance provided.	A one off data request, or compilation of the data less often than 5 year intervals.	A significant proportion of the data set is manually collated or manually processed, after its initial input into the source system.	Complex rule set that has been issued or significantly altered within the last 12 months.	There are no existing control activities or control activities have not been assessed.	The data is being collated by personnel with no previous experience of data set and no method statement available to explain prior approach.	Material issues were identified at the last audit or any time since.
3	Reliance on data from outside of the organisation which has assurance provided.	There is significant extrapolation from a smaller data set.	A moderate proportion of the data set is manually collated or manually processed, after its initial input into the source system.	The rule set requires significant interpretation, judgement or assumptions.	Control activities have been assessed but been in place for less than 12 months.	The data is being collated by personnel with previous experience of data set but no method statements are available to explain prior approach.	Last audit 5 or more years ago and no material issues found at the audit or since.
2	Data is required from two or more corporate systems.	There is some extrapolation from a smaller data set.	A low proportion of the data set is manually collated or manually processed, after its initial input into the source system.	The rule set requires some interpretation, judgement or assumptions.	Control activities have been assessed and been in place for more than 12 months but less than 2 years.	The data is being collated by personnel with no previous experience of data set but method statements are available to explain prior approach.	Last audit 3 or more years ago and no material issues found at the audit or since.
1	Score of 1 applies when none of the above criteria apply.						

[1] Record the score for each attribute column, and the final score is the maximum score obtained for any attribute.

**Table 2: Assessment criteria for scoring the impact element[1]:**

Score	Customers	Competition	Financial	Compliance and regulation
4	A significant impact on a large number of customers.	High impact on the operation of the market or the ability to demonstrate compliance with the Competition Act or level playing field.	An error or omission that could potentially give rise to a major financial impact, equivalent to greater than±5% of the annual baseline TOTEX allowance.	A significant impact on compliance with license or any other statute. **or** A significant impact on data that is used within comparative regulation, for example costs and performance metrics.
3	A moderate impact on a large number of customers. **or** A significant impact on a small number of customers.	Moderate impact on the operation of the market or the ability to demonstrate compliance with the Competition Act or level playing field.	An error or omission that could potentially give rise to a moderate financial impact, equivalent to greater than ±2% but less than ±5% of the annual baseline TOTEX allowance.	A moderate impact on compliance with license or any other statute. **or** A moderate impact on data that is used within comparative regulation, for example costs and performance metrics.
2	A moderate impact on any number of customers.	Low impact on the operation of the market or the ability to demonstrate compliance with the Competition Act or level playing field.	An error or omission that could potentially give rise to a low financial impact, equivalent to greater than ±1% but less than ±2% of the annual baseline TOTEX allowance.	A low impact on compliance with license or any other statute. **or** A low impact on data that is used within comparative regulation, for example costs and performance metrics.
1	Score of 1 applies when none of the above criteria apply.			

[1] Record the score for each attribute column, and the final score is the maximum score obtained for any attribute.

Once the likelihood and impact assessment criteria have been applied for any piece of data or activity, then two scores are obtained between 1 and 4 allowing a 4x4 matrix to be used to define the level of assurance required. There are four categories – critical, high, medium and low. This is shown below in figure 1. The boundaries between the assurance categories being based on the multiplication of the likelihood score and the impact score (shown in grey numbering) as follows:

- Up to and including 4, low assurance risk
- 6 and 8, medium assurance risk
- 9 and 12, high assurance risk
- 16, critical assurance risk

Figure 1

Critical assurance risk

High assurance risk

Medium assurance risk
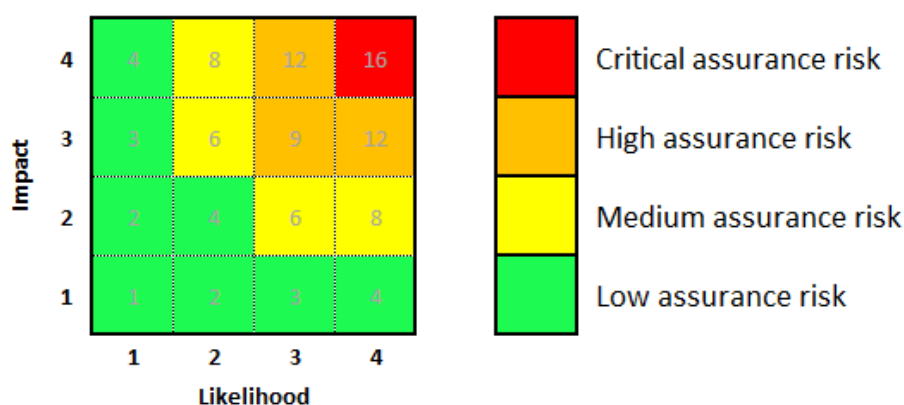
Low assurance risk

Assurance Options

Having defined our scoring system, assurance matrix and assurance risk categories, we now need to consider what types of assurance would be most appropriate for each of these categories.

We consider that the provision of assurance activity falls into the following major categories:

- Planning
- Audit
- Sign off
- Annual overall check on process

Within these categories there will be varying levels of activity which can be undertaken, depending on the assurance risk category identified as part of the risk assessment process. Table 3, below, shows the options available within each of the above categories and when we propose that they apply in terms of our four assurance risk categories of critical, high, medium and low.

Table 3: Assurance options:

Activity	When applies	Who is responsible	Content / coverage
Planning			
Methodology statement and submission plan.	All assurance categories.	Person(s) or team managing or compiling the submission.	Explains process to produce the submission and should include details of: systems, responsibilities, timing, methodologies, calculations etc. Details the plan to complete the submission, including details of timetable, responsibilities, sign off and governance meetings as relevant.
Audit			
Second person review.	Low assurance category.	Person with reasonable understanding of requirements. Not status related. Separate from person who compiled the data.	Must check the submission in detail and any associated commentary. Confirm adherence to and adequacy of the methodology statement. Confirm accuracy of data through checking inputs, including any management assumptions and reviewing evidence to support entries or statements.
Internal audit.	Medium assurance category and high assurance category as appropriate.	An independent internal assurance provider, eg a Group internal audit function or a subject matter expert not directly involved in the return.	Responsible for providing independent evidence of verification of data and to define a level of confidence that can be placed on the overall reported data. Reported/documented through formal governance channels.
External audit.	High assurance category and critical assurance category.	Audit carried out by a third party outside the company or group. Independent registered audit organisations or independent experts.	Responsible for providing independent evidence of verification of data and to define a level of confidence that can be placed on the overall reported data. Formal report produced.

Sign off			
Manager sign off	Low assurance category.	Accountable manager.	Detailed review of data and the narrative by a manager.
Senior manager sign off.	Medium assurance category.	Accountable senior manager.	Detailed review of data and the narrative by a senior manager. Complete and sign a record of evidence attesting to confidence in the accuracy of the submission.
Director sign off.	High assurance category.	A single board level director of a business function.	Must complete and sign a record of evidence attesting to accuracy of the submission. Derives an overall confidence assessment for the submission.
Board sign off.	High assurance category and critical assurance category as appropriate.	Company Board.	High-level oversight. Board reviews summary of submission and assurance activities followed, as presented by a relevant Director. Approval of submission must be minuted to enable completion of a record of evidence attesting to accuracy.
Annual overall check on process			
Annual overall check	All assurance categories	Finance, Regulation and Business Services Director.	Undertake checks that the assurance framework has been followed and that appropriate assurance information is available. Provide a summary of the assurance carried out over the reporting year to the Board and the Customer Panel.

The above table 4 can be summarised into table 5, below, showing the selected assurance option for each of the four assurance risk categories:

Table 5: Assurance summary:

Category	Low assurance risk	Medium assurance risk	High assurance risk	Critical assurance risk
Planning	Methodology statement and submission plan.			
Audit	Second person review.	Independent internal assurance.	Third party assurance.	Third party assurance.
Sign off	Manager sign off.	Senior manager sign off.	Director sign off.	Board sign off.
Annual overall check	Annual overall check and assurance summary.			

Please note that we see these as our minimum standards of assurance for each category, and it is likely that the Board would still wish to sign off certain data or submissions that may not necessarily be in the critical risk category but which are high profile.

Role of Our Board

The Board of Directors recognise the responsibilities that come from providing a public service and is therefore fully committed to maintaining high standards of leadership, transparency and governance.

We continue to apply the principles of our Corporate Governance Code on board leadership, transparency and governance. Although we are not a public listed company, the Board recognises that they should act, where applicable, as if we were and therefore our code has drawn on principles of the UK Code that may be applicable to a privately owned regulated company.

In conjunction with the Board's Audit Committee, the Board as a whole is responsible for the Group's systems of internal control, evaluating and managing significant risks to the Company and the Group. The role and responsibilities of the Audit Committee include:

- Monitoring the integrity of financial statements and reviewing significant financial reporting judgements contained therein;
- Reviewing the Group's internal financial controls;
- Monitoring and reviewing the effectiveness of the Group's Internal Audit function;

The work of the Audit Committee specifically covers business risks, the work of Internal Audit and the external auditor.

Role of the Customer Panel

At PR14 Ofwat introduced the concept of the Customer Challenge Group (CCG), which was a forum comprised of representatives from various industry stakeholders. The purpose of the group was to collectively challenge companies on their plans and provide assurance that companies were effectively engaging with their customers, listening to their views and taking account of their priorities. We strongly believe that this concept has a role to play in assurance across the AMP6 delivery period and into the next price review.

For the 2015-2020 delivery period we have reformed a Customer Challenge Group (CCG) in the form of an independant Customer Panel. We have independently recruited a chair and set up a structure whereby the Customer Panel is fully independent from us.

We have asked the Customer Panel to review our assurance framework and provide us with its views on how best we can provide assurance on data across the period and into the next price review.

The Customer Panel will have the independence to request any assurance it wishes as part of its remit, and we will provide the Customer Panel with the assurance we carry out at various points throughout the year. We will ask the Customer Panel to give us its views on the ongoing adequacy of our assurance, and to independently consider how the assurance we are providing gives it trust in our company.

Timescales

Our assurance review process has a number of steps which repeat each year as shown below.

Early November	Publication of our annual assurance review, and our risks, strengths and weaknesses assessment. We invite stakeholder feedback on our assurance processes.
End November	Ofwat publish their company monitoring framework annual review.
By April	Consultation followed by publication of our assurance plan, setting out details of our assurance for the forthcoming annual reporting.
July	Main annual reporting submissions, although there are a range of other reporting submissions throughout the reporting year.

Process repeats each year