



# **Consultation on Portsmouth Water's draft Assurance Plan – the Company Monitoring Framework**

**1 March 2018**

## Consultation on Portsmouth Water's draft Assurance Plan – the Monitoring Framework

### About this document

The purpose of this consultation is to invite views on our Draft Assurance Plan over regulatory information which we will publish as part of our Annual Performance Review (APR).

The first stage of the exercise was to consult on a Statement of Risks, Strengths and Weaknesses (the "Statement") and invite comments from customers and other stakeholders on:

- the overall approach to the risk assessment undertaken;
- whether or not they agreed with our assessment of the Risks, Strengths and Weaknesses highlighted in the Statement; and
- which particular Performance Measure was of greatest importance to them.

The consultation closed formally on the 22 December 2017. The outputs of this exercise have been used to inform the proposed assurance activities.

Having discussed our process and the Statement with a number of key stakeholders, and having regard to written comments received from Ofwat in particular, we have prepared this draft Assurance Plan (the "Draft Plan") and are now seeking further feedback.

This draft Plan explains what we are doing to provide assurance that the information we will publish in our 2017/18 Annual Performance Report, is reliable and complete. Specifically this plan deals with non-financial data in the APR – primarily the Performance Measures which are the service level commitments we have made to our customers, whilst financial data is reported on through the audit of the APR Financial tables by the financial auditors.

This data will also be used as part of our next Business Plan to Ofwat, due in September 2018. It is therefore important that the performance data underpinning our future plans is well founded and has appropriate third party assurance so that stakeholders can have trust and confidence in our Business Plan.

The APR is a document required by Ofwat and published annually. It contains both financial and non-financial information and is prepared in line with Regulatory Accounting Guidelines (RAGs) and other guidance published by Ofwat. The financial components of the APR are subject to financial audit by our auditors KPMG in line with UK auditing standards and the RAGs. This is a well understood external assurance process.

---

#### Who we are

We have been supplying water to Portsmouth and the surrounding area since 1857. The area supplied by the Company extends through South East Hampshire and West Sussex from the River Meon in the west to the River Arun in the east, encompassing 868 sq. km.

#### Our vision

To supply high quality drinking water whilst providing excellent levels of service for our customers at the lowest price in the country.

#### Our values

Our values underpin how we behave in delivering all aspects of our work. These are Excellence, Respect & Integrity.

---

## Contents

Responding to this consultation	4
Overview and consultation questions	5
1. Background	6
2. Assurance Framework	7
3. Sources of Assurance	8
4. Feedback from Stakeholders	10
5. Next Steps	12
Appendices:	
1: Outcome of Impact and Probability Risk	13
2: Matrix showing assurance levels for each Performance Measure	14
3. Targeted audit plan	16

## **Responding to this consultation**

We welcome your response to this consultation by close of business on 23 March 2018. You can email your responses to [s.morley@portsmouthwater.co.uk](mailto:s.morley@portsmouthwater.co.uk) or post them to:

Monitoring Plan Consultation  
Portsmouth Water  
PO Box 8  
Havant  
Hampshire  
PO9 1LG

---

Information provided in response to this consultation, including personal information may be published or disclosed in accordance with access to information legislation – primarily the Data Protection Act 1988 and the Environmental Information Regulations 2004.

If you would like the information you provide to be treated as confidential, please explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on us.

## Overview and consultation questions

### Overview

In this document we set out the background to this Draft Assurance Plan and explain how we will ensure we publish information is of appropriate quality and meets the needs of our customers and other stakeholders.

We also explain:

- The outcomes of the risk, strengths and weaknesses assessment including feedback from stakeholders, including Ofwat, and how this has informed this Draft Assurance Plan; we include a selection of these in this document.
- The activities associated with data quality assurance for each of our Performance Measures. We have focused on those Performance Measures contained within the 2014 Final Determination as well as additional pieces of data identified by our CCG; and
- The next steps

### Consultation questions

**Q1 Do you have any comments on the content or layout of this Draft Assurance Plan?**

**Q2 Are the processes outlined in this consultation document sufficient to provide you with appropriate assurance that reported data is accurate and reliable?**

**Q3 Is there any further information that you feel could be provided that would help build stakeholder and customer confidence and trust in the company?**

**Q4 Any other comments**

We welcome your responses to this consultation by close of business on 23 March 2018.

We will use your responses to our consultation questions to inform the Final Assurance Plan, which we intend publishing in early April 2018.

## 1. Background

1.1. We published our “Annual Performance Report” (APR) for the first time, reporting on the year 2015/16. It enabled stakeholders to assess how we performed against those measures of success that are regarded by our customers as being the most important factors (the “Performance Measures”). The targets for the Performance Measures were the commitment the Company made to its customers following extensive customer engagement exercise carried out when we were preparing our business plans for the 2015-2020 period.

1.2. The Company recognise the importance of providing information to customers and other stakeholders that is; customer-led, relevant, reliable, complete, accurate and timely. Our ongoing objective is to make information available that is easy to understand and which enables stakeholders to see how we are performing; this helps build trust and confidence in the business.

1.3. In June 2015 Ofwat published guidance, “The Company Monitoring Framework” which formalised the process through which they will oversee that stakeholders can have confidence in companies’ published Performance Measures.

1.4. Ofwat has acknowledged that Companies and their Boards are best placed to identify the risks, strengths and weaknesses associated with providing such information. To allow us to develop a “targeted” assurance plan, in November 2017 we again undertook a risk assessment for all relevant non-financial data that will be contained in the APR. This was an important exercise and was the basis of a Statement of Risks, Strengths and Weaknesses upon which we consulted. The consultation closed on the 22 December 2017. This statement is available on our website at

[www.portsmouthwater.co.uk/news/publications/company-monitoring-plans/](http://www.portsmouthwater.co.uk/news/publications/company-monitoring-plans/)

1.5. Having regard to discussions and comments received, we have prepared this Draft Assurance Plan. This plan sets out the processes we propose to follow in the case of each individual Performance Measure, to demonstrate that the data we will report in the 2017/18 Performance Report is of appropriate quality. In Sections 2 and 3 we provide details of the overarching Assurance Framework and the assurance processes currently in place, as well as the additional steps we propose to introduce for 2017/18 where we (and stakeholders) think it necessary. Further illustration is given in Appendix 3.

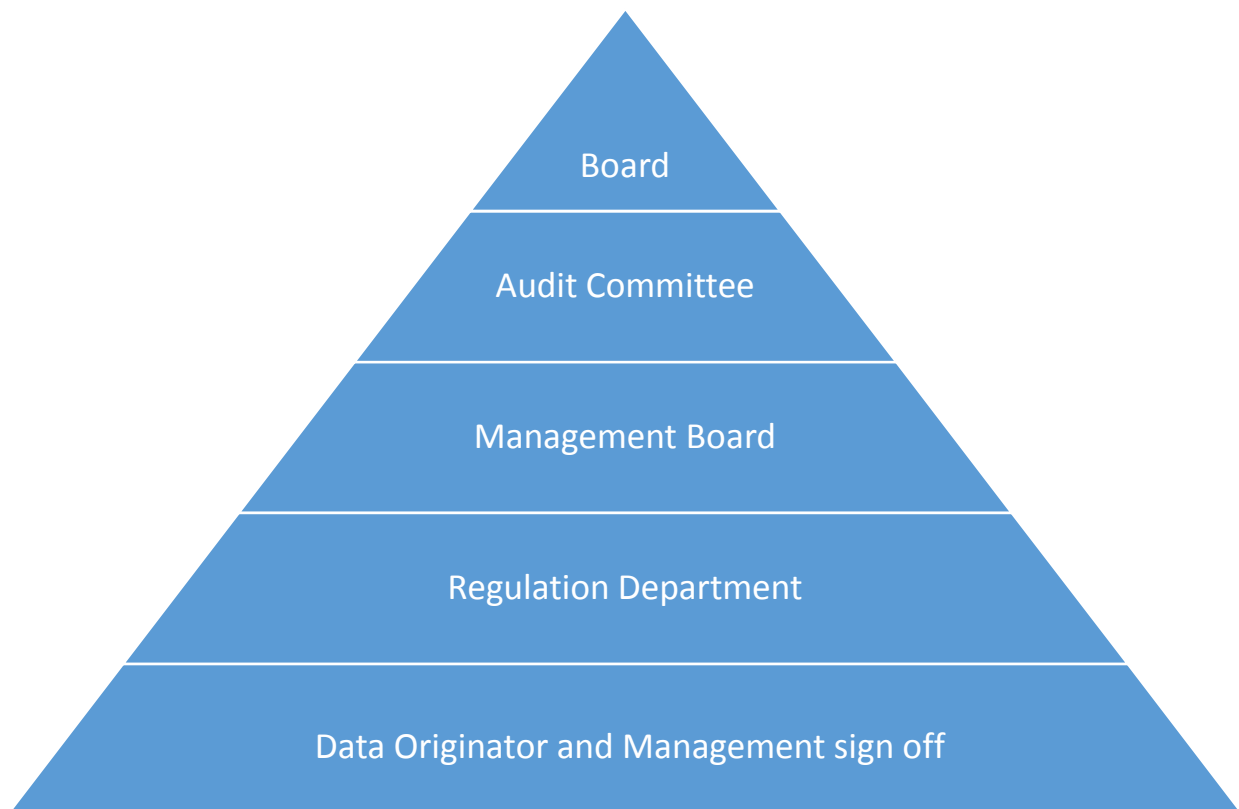
1.6. The next steps are set out in Section 5.

## 2. Assurance Framework

2.1. The information that we publish on our performance will be assured by the Board to maintain and build a high level of trust and confidence from our customers and stakeholders. For this to be effective, performance needs to be reported in a clear way and assured to an appropriate level. We adopt a risk based approach to assurance, using internal and external review, to provide robust challenge and scrutiny of our published performance.

2.2. Within the business we have well-established governance and accountability processes. This is shown in Figure 1.

**Figure 1 Governance structure**



2.3. Supporting this process is an audit framework designed to allow monitoring and evaluation of the various aspects of our performance, to ensure that standards of data quality are being met.

This involves:-

- having appropriate governance arrangements
- close involvement by our Board in the assurance process
- the right level of independence in the process to provide third party review and challenge

This gives assurance to our Board, stakeholders and customers to supports legitimacy as to the level of performance and service that we are providing and reporting.

### 3. Sources of Assurance

3.1 We consider that we already have in place robust processes and systems of control that provide the necessary internal assurance in respect of the reliability and completeness of the information published. For each of the Performance Measures, we will continue to apply these. However, in making this assessment we have undertaken robust challenges and sought feedback, as described in Section 1. The following summarises the processes and systems of control in place.

#### Board

3.2 The Board seeks assurance that risk management systems and processes are identified and risks are managed through the following:

- Monthly performance reports to the Board outlining achievement against Performance Measures
- Compliance with standards and guidance
- Assurance from the Audit Committee that the company's data reporting is accurate, complete, reliable, relevant and timely
- Annual review of the Data Assurance Plan
- Board Assurance Framework
- Company's progress against its strategic and corporate objectives.

This allows the Board to sign off the Annual Performance Report

#### Audit Committee

3.3 The Audit Committee has responsibility for the review and approval of reporting information including the annual statutory accounts and the APR. Following review the Audit committee makes recommendation for approval to the Board. As part of this responsibility the Committee monitors the effectiveness of internal control processes across the business.

The Committee also has an oversight and approval role with respect to the provision of third party assurance. This primarily relates to the provision of financial assurance by the Financial Auditor (KPMG) and non-financial (technical) assurance by the Reporter (WS Atkins) but also includes other third party assurance generally of a specific technical nature (together the "Assurance Provider").

The Committee reviews the scope, quality, results, cost effectiveness, independence and objectivity of any Assurance Provider.

The responsibility of the Committee is:

- To assess the qualification, expertise and independence of the assurance provider
- To review the nature and scope of the assurance
- To review, with management, the fee and letter of engagement/terms of reference
- To consider the results, findings and recommendations of the Assurance Provider and to make such reports and/or recommendations to the Board as considered necessary
- In the case of recurring appointments to consider the ongoing independence and effectiveness of the Assurance Provider and to make appropriate



recommendations to the Board regarding the continuance or re-selection process if considered necessary.

### **External Reporter**

3.4 The Reporter is a professional commentator and certifier of regulated activities. He is a qualified engineer and has a good understanding of the water industry and has conducted audits of data for Portsmouth Water since 2013. The Reporter carries out a formal audit of the key performance indicators that will be included in the Annual Performance Report.

The Regulation department coordinate the Reporter's audit timetable and ensure key data experts from each department meet with the Reporter. The Reporter examines the source of data, checks calculations and assesses the accuracy and compliance to the data requirements of the reported data. The Reporter then produces a report on each audit carried out. This includes key findings from the audit and a list of any issues found.

The Reporter attends the Audit Committee before we publish our Annual Performance Report and answers questions raised on the audits and data contained within the Annual Performance Report. The Reporter provides assurance on the data contained in the report.

### **Internal control**

3.5 The Regulation department coordinates the Annual Performance Report which contains our key performance indicators. The Regulation department coordinate the collection of data from all areas of the company which have a key data provider. These data providers are experts in the data from their department and for the majority of the Performance Measures have experience in preparation an annual submission of data. In order to provide robust information into our data reports, we have developed Methodology Statements for most measures which outline the processes and procedures for collecting data and reporting our Performance Measures.

Data from each department is signed off by the data owner and the senior manager from the department. The Regulation department review the data, compare the data to previous years, ensure compliance with definitions and guidance and enquire on the methodology followed and any assumptions made.

Performance Measures are reported to the Management Board monthly. The Regulation department prepares this. Part of this monthly process includes reviewing the data from each department. The report is reviewed by the Regulation Manager who signs it off. Discussions are held with data owners on any issues found with the data.

3.6 A table setting out each Performance Measure and the sources of assurance is shown in Appendix 2.

3.7 The final detail of the targeted enhanced assurance activities for each relevant Performance Measure will be finalised and documented when we publish our Final Assurance Plan. However, we have included in Appendix 3 some indicative actions which may apply to, and form part of, the Reporter's Targeted Audit Plan for "High" risk Performance Measures.

#### 4. Feedback from stakeholders

- 4.1 This section provides details of our engagement thus far with key stakeholders this year on our Risks, Strengths and Weaknesses.
- 4.2 We received responses from only one stakeholder, David Howarth from the Environment Agency, who sits on our Customer Challenge Group.
- 4.3 In addition, on 29 November 2017 Ofwat published its assessment of the 2017 Company Monitoring Framework.

Companies are assessed into one of categories as follows:-

- Self-assurance – a company uses its own discretion to provide assurance beyond the common assurance requirements
- Targeted assurance – a company loses discretion on some areas of assurance beyond the common assurance requirements; and
- Prescribed assurance – a company loses discretion on many areas of assurance beyond the common assurance requirements.

In November 2017 we were assessed as “Targeted.” This remains the same categorisation as for 2015 and 2016.

The table shows the classification of the 9 assessment areas made in the year by Ofwat.

	Area	Assessment
1	Financial monitoring framework	Meets expectations
2	Charges engagement	Meets expectations
3	Outcomes	Meets expectations
4	Compliance with principles of board leadership, transparency and governance	Meets expectations
5	Risk & compliance statement	Meets expectations
6	Assurance plan	Minor concerns
7	Data assurance summary	Meets expectations
8	Evidence from casework activities	Not applicable
9	Wider Assurance and Information	Meets expectations

We are not assessed on case work activities, as we have no case work issues with customers for Ofwat to adjudicate upon.

The Company met most of Ofwat's expectations on assurance practices as shown above, but Ofwat noted some shortcomings relating to the detail we provided in our 2016 Assurance Plan. Specifically Ofwat commented that the detail provided in our Final Assurance Plan was brief and very high level. We acknowledge this is the case but believe much of the information that Ofwat expected to see was actually included in the draft Assurance Plan. The links to both documents is given below.

[www.portsmouthwater.co.uk/news/publications/company-monitoring-plans/](http://www.portsmouthwater.co.uk/news/publications/company-monitoring-plans/)

For our Final Assurance Plan this year, 2017/18 we will repeat the assurance processes we have documented in this draft plan.

4.4 Our responses to questions posed by stakeholders in our Risks, Strengths and Weaknesses consultation is shown below, with our observations in red and italic text.

#### **Q1 Do you have any comments on our overall approach to this Risk Assessment?**

The approach seems to be a standard one.

In para 1.2 you state "*The targets for the Performance Measures were **agreed** with customers as part of an extensive customer engagement exercise carried out when we were preparing our business plans for the 2015-2020 period.*

This feels like you are 'over-egging' a little. Customers are not qualified to 'agree' targets with you. I think if you reported that you listened to your customers and took their views into account when setting your performance commitments that is all the CCG is looking for.

***This is an interesting observation. The wording has been revised.***

#### **Q2 Do you agree with our assessment of the "Risks, Strengths and Weaknesses" summarised in this Statement?**

I'm not sure how you can separate pcc and leakage on probability score. Any under/over-estimate of pcc will be reflected as an error in leakage. So shouldn't they be in the same category?

***Whilst we acknowledge the issue being made we feel the confidence we have around leakage is greater than that of pcc and thus the two assessments are not the same in our risk matrix. Further, an error in the pcc calculation was identified as part of the 2017 review process and this resulted in a higher risk ranking for pcc.***

Weaknesses: *Some of the reporting processes are not fully covered by formal procedure documents. What is the timescale for bringing those reporting processes into formal procedures?*

***The Company has committed to updating its procedures for this reporting cycle, i.e. 2017/18.***

#### **Q3 Which particular performance measure is of greatest importance to you?**

1. Leakage, pcc, abstraction compliance,
2. Meter optants, WFD, greenhouse gases, Biodiversity, carbon, AIM, communication pipes.

## **5. Next Steps**

It is important that we get stakeholder views as we move towards the finalisation of the Assurance Plan. We would therefore welcome comments. In the meantime, we continue to engage with key stakeholders during this consultation phase and are available to meet to discuss any aspect of this consultation.

We are not restricting consultation to those key stakeholders identified and welcome responses from customers and any other stakeholders.

We welcome your responses to this consultation by close of business on 23 March 2018 and we repeat the questions below.

We will have regard to comments received and intend publishing our Final Assurance Plan in early April 2018.

**Q1 Do you have any comments on the content or layout of this Draft Assurance Plan?**

**Q2 Are the processes outlined in this consultation document sufficient to provide you with appropriate assurance that reported data is accurate and reliable?**

**Q3 Is there any further information that you feel could be provided that would help build stakeholder and customer confidence and trust in the company?**

**Q4 Any other comments**

## Appendix 1

### Outcome of Risk Assessment

In November 2017 the Company published the outcome of its risk assessment of the data it places in the public domain. This was the subject of the Risk Strengths and Weaknesses consultation.

The grid below shows the ranking we have determined for each of our 25 data items. The degree of audit / assurance we would expect to provide is guided by this assessment. Thus the degree of assurance we expect to provide for say leakage is that might greater than for meter optants.

Our results from our consultation supported our assessment of risk and our Audit Plan, the subject of a third document, will be produced accordingly.

#### Impact and Probability Risk Matrix

Impact Score	4	MZC Developer Survey WQ contacts SIM			
	3	TUB Bursts LOS - New development Interruptions Written complaints WaterSure Abstraction Compliance	GSS Leakage Social Tariff	Per Capita Consumption	
	2	Meter optants WFD Pumping Head RoSPA Award AIM Biodiversity Carbon		Communication pipes Greenhouses gases	
	1			Meters renewed	
		1	2	3	4
		Probability Score			

## Appendix 2

### Sources of Assurance

We have four levels of review. Our high level performance measures are reviewed at our monthly Board meeting, which the Non-Executive Directors attend, with other performance measures reviewed at the Monthly Management Board Meeting. Internally there is a weekly Operations meeting where certain KPIs are also reviewed.

All of our performance measures are subject to external review. This includes audits undertaken by our technical Reporter. We report performance measures to several bodies including CCWater, Drinking Water Inspectorate, Environment Agency, Health and Safety Executive, Natural England, Ofwat and Water UK.

We also report these to our Customer Challenge Group every six months with updates on specific issues such as leakage as required.

Further, we include data requested by stakeholders in the past. This includes abstraction compliance, levels of service to developers, green-house gases and a number of customer service metrics.

In light of the recent Ofwat data collection exercise we will also report against pumping head as well.

Ref	Performance Measure	Board	Management Board	Other review	External review
RA1	Service Incentive Mechanism	Monthly review	Monthly review		Reported to CCWater on quarterly basis. Audited by Atkins at the end of reporting year. Reported in Annual Performance Report (APR).
RC1	Developer Survey	Yearly review	Yearly review		Reported in APR.
RB1	Per capita consumption	Yearly review	Yearly review		Reported to CCWater. Audited by Atkins at the end of the reporting year. Reported in APR and in the Annual Return to the Environment Agency.
WA1	Number of bursts	Monthly review	Monthly review	Reported at weekly Operations meeting	Audited by Atkins at the end of reporting year. Reported in APR.
WA3	Mean Zonal Compliance	Monthly review	Monthly review	Reported at weekly Operations meeting	Reported in Chief Inspectors Annual Report. Reported in APR.
WA4	Number of water quality contacts	Monthly review	Monthly review	Reported at weekly Operations meeting	Reported in Chief Inspectors Annual Report. Reported in APR.
WA5	Temporary usage bans				Reported in APR and in the Annual Return to the Environment Agency.
WB1	Leakage	Monthly review	Monthly review	Reported at weekly Operations meeting	Reported to CCWater on a 6 monthly basis. Audited by Atkins at the end of the reporting year. Reported in APR and Annual Return to the Environment Agency.

<b>Ref</b>	<b>Performance Measure</b>	<b>Board</b>	<b>Management Board</b>	<b>Other review</b>	<b>External review</b>
WC1	Interruptions to supply	Monthly review	Monthly review	Reported at weekly Operations meeting	Reported quarterly to CCWater. Audited by Atkins at the end of the reporting year. Reported in APR.
WD1	Biodiversity	Yearly review	Six monthly		Reported in APR. Progress discussed with CCG and Natural England every six months
WD2	Water Framework Directive	Yearly review	Six monthly		Reported in APR. Progress discussed with CCG and Natural England every six months
WD3	Carbon commitment to renewables	Yearly review	Electricity consumption reviewed.		Audited by Atkins at the end of the reporting year. Reported in APR.
WG1	RoSPA	Accidents reported monthly	Accidents reported monthly		Reported to the Health and Safety Executive. Reported in APR.
O1	Abstraction Incentive Mechanism	Yearly review			Reported in APR.
O2	Optional meters installed	Monthly review	Monthly review	Reported at weekly Operations meeting	Reported annually to the Environment Agency. Audited by Atkins at the end of the reporting year.
O3	Abstraction - compliance with licence conditions	Yearly review		Reported at weekly Operations meeting	Reported annually to the Environment Agency.
O4	Guaranteed Standards of Service	Monthly review	Monthly review	Reported at weekly Operations meeting	Audited by Atkins at the end of the reporting year.
O5	Watersure	Yearly review	Monthly review	Reported at weekly Operations meeting	Reported quarterly to CCWater. Audited by Atkins at the end of the reporting year.
O6	Social tariff	Yearly review	Monthly review	Reported at weekly Operations meeting	Reported quarterly to CCWater. Audited by Atkins at the end of the reporting year.
O7	New development – levels of service	Yearly review	Monthly review		Reported quarterly to Water UK. Audited by Atkins at the end of the reporting year.
O8	Green House Gas Emissions	Yearly review	Yearly review		Audited by Atkins at the end of the reporting year.
O9	Written Complaints by class and cause	Monthly review	Monthly review	Reported at weekly Operations meeting	Reported to CCWater on a quarterly basis. Audited by Atkins at the end of the reporting year. Will be reported in APR
O10	Communication pipes	Yearly review	Yearly review		Audited by Atkins at the end of the reporting year.
O11	Meters renewed	Yearly review	Yearly review		Audited by Atkins at the end of the reporting year.
O12	Pumping Head	Yearly review	Yearly review		Audited by Atkins at the end of the reporting year.

## Appendix 3

### Targeted audit plan

Our Audit Plan, which will be the subject of a third document in April 2018 will develop a Targeted Audit Plan. By way of illustration we comment upon our 6 “high” risk performance measures, as identified in our Risk Strengths and Weaknesses consultation. These are per capita consumption, leakage, GSS, Social tariff, green-house gases and communication pipes.

#### Per capita consumption

- Review the Company Methodology Statement for appropriateness and completeness
- Compare with the convergence project methodology for this measure.
- Review the calculation of pcc including all elements of the water balance
- Confirm the accuracy of the figure to be reported for pcc.
- Confirm the magnitude of the change in leakage methodology in particular on this measure.

#### Leakage

- Review the Company Methodology Statement for appropriateness and completeness
- Compare with the convergence project methodology for this measure.
- Confirm the accuracy of the figure to be reported for leakage.
- Confirm the magnitude of the change in leakage methodology as a result of the new methodology.

#### Guaranteed Standards of Service

- Review the Company processes underpinning GSS
- Report the compliance (or otherwise) of all departments (including payment of the GSS) in this process
- Confirm the accuracy of the value and number of GSS payments made by the Company in the year.

#### Social Tariff

- Confirm the number of customers on the Social Tariff as at year end
- Confirm the value of the “discount” given in the year
- Comment upon the application of the Company procedures

#### Greenhouse gases

- Confirm the accuracy of the Company estimate of GHG for the year.
- Confirm the appropriateness of the assumptions underpinning the value
- Confirm adherence to the UKWIR best practice methodology

#### Communication pipes

- Confirm the accuracy of the Company estimate for communication pipes by material for the year.
- Confirm the appropriateness of any assumptions underpinning the value
- Confirm the accuracy of the GIS records underpinning the analysis.