

## General Requirements

The final version of this guidance shall be published on the NIAUR website.

### The business plan

The submission by the water company of the business plan, on or before 1st June 2009 in the format prescribed in this guidance is mandatory.

On or before 12:00 noon on 1<sup>st</sup> June 2009 the company shall submit to the Water Director at NIAUR, 14 Queen Street, Belfast, BT1 6ER:

- (a) its business plan submission as defined in parts A, B, C and D of this guidance;
- (b) any additional supporting information in a further separate volume.

The Company should submit:

- 6 copies of Part A (bound)
- 6 copies of Part B (bound)
- 6 copies of Part C (bound)
- 6 copies of part D (bound)
- 6 copies of the single page summary of Part D
- 2 copies (bound) of any additional supporting information,
- 2 copies of any market research material
- an electronic version of Parts A, B, C and D and any additional supporting information
- an electronic copy, preferably in portable document format (pdf) of the single page summary of Part D for the NIAUR website.

On 15<sup>th</sup> June 2009 the company Reporter shall write to the NIAUR Water Director, drawing attention to all those elements of the company's draft business plan, as it stands on that date, about which he has serious concerns. Such concerns may arise from audit activity or because audit on areas of the submission had not yet been carried out.

By noon on 15<sup>th</sup> June 2009 the company Reporter shall submit to NIAUR, 14 Queen Street, Belfast, BT1 6ER:

- a) his report on the company's business plan submission and on any company supporting information. His report shall be as defined in parts A, B, C and D of this guidance and shall comply with the reporter's protocol,
- b) a one page summary as set out in the Part D reporting guidance for the public domain. This should be submitted as a pdf file for the NIAUR website and will be placed in the public domain.

The Reporter should clearly mark this as Part D – public domain summary.

- c) The Reporter's general report which should comply with the protocol requirements relating to Additional Information, Areas of Concern and Areas of Disagreement

The Reporter should submit:

- 6 bound copies of the Reporter's report on Part A,
- 6 bound copies of his report on Parts B, C, D and any supporting information.
- 6 hard copies of the single page summary of his public domain report and an electronic copy (in pdf format).
- an electronic version of parts A, B and C and D.

It is the responsibility of the company to work in conjunction with their Reporter and Auditors to achieve these deadlines. All parties are expected to ensure delivery by the dates specified. It is the responsibility of the company to ensure that all parts of its draft business plan, its Reporter's and Auditors' reports, are submitted by themselves and their Reporter and Auditors by the due dates.

The Auditors should submit by 15<sup>th</sup> June 2008:

- 6 bound copies of the Auditors' report and all supporting documentation
- an electronic version of all parts of the Auditors' report and supporting documentation
- A pdf version of the Auditors' report and supporting documentation

It is the responsibility of the company to work in conjunction with their Reporter and Auditors to achieve these deadlines. All parties are expected to ensure delivery by the dates specified. It is the responsibility of the company to ensure that all parts of its draft business plan, its Reporter's and Auditors' reports, are submitted by themselves and their Reporter and Auditors by the due dates.

## Common assumptions and line definitions

A series of common assumptions that shall apply throughout the business plan are set out below.

- (a) The price base for all financial information shall be 2007-08 average prices unless specifically defined differently. Average prices are derived from the RPI All Items index taken across the financial year. The official definition of RPI given in the Annual Information Return is:

*“The average of the monthly all items RPI (published to 1 d.p.) for the twelve month period from April to March. The financial year average is displayed to 1 d.p.”*

Unless otherwise specifically stated, the figures for RPI should refer to the following table.

Year	RPI 12 Month Ave Index	Annual % change
1997-98	158.8	
1998-99	163.8	3.1
1999-00	166.4	1.6
2000-01	171.3	3.0
2001-02	173.9	1.5
2002-03	177.5	2.1
2003-04	182.5	2.8
2004-05	188.2	3.1
2005-06	193.1	2.6
2006-07	200.3	3.7
2007-08	208.6	4.1

On occasion the company may be asked to rebase figures using the Construction Output Price Index (COPI). This index is defined as:

*“The average of the four quarterly COPI figures for the period April to March. The financial year average is displayed to 1 d.p.”*

Unless otherwise specifically stated, the figures for COPI should refer to the following table.

Year	COPI	% Change
1997/98	106.5	
1998/99	111.3	4.5
1999/00	116.3	4.5
2000/01	121.3	4.3
2001/02	125.5	3.5
2002/03	128.3	2.2

2003/04	135.3	5.5
2004/05	145	7.2
2005/06	151	4.1
2006/07	156.5	3.6
2007/08*	161	2.9

- (b) Wherever possible unit costs/expenditure formulations have been used in the tabular information. Where unit costs are presented the relevant denominators are also included to enable the easy calculation of the absolute value.
- (c) Unless otherwise specified data and information should be presented to no more than 3 significant figures. Presentation of data or information to greater degrees of precision is likely to mislead. In many instances 2 significant figures will be of sufficient precision.
- (d) Confidence grades, following the alphanumeric convention set down for the Annual Information Return, have been called for where relevant.
- (e) The base year for understanding the projections of service, compliance, denominators, expenditure and costs shall be 2007-08.

### **Taking account of assumed improvements in efficiency.**

One of the key series of assumptions that the company will need to make in developing its preferred strategy in the business plan are the assessments of relative efficiency and the scope for future improvements.

The business plan has been designed so that the company's assumptions about improvements in efficiency are articulated clearly and then applied in a consistent way across all areas of expenditure that the company has identified.

## **Taking account of interactions between capital expenditure purpose categories**

The method used by the company to assess its expenditure needs is not prescribed in these reporting requirements. It is expected that the company will explain in its plan its general approach paying particular attention to the scope for overlaps between the different expenditure areas. NIAUR needs to understand these assumptions, for example the implications of a substantial quality enhancement programme for the assessment of the company's capital maintenance expenditure.

The quality enhancement tables B4-3 and B4-4 and those for base service B3-5, B3-6, B3-7 and B3-8 expenditure tables provide for the company assumptions about these overlaps to be exposed in separate lines.

In many instances it is likely that there will be no overlap and hence zero inputs are to be expected. In some areas, particularly associated with water service infrastructure expenditure projections it is expected that the allocation procedures may imply adjustments to tables B3-5, B3-6, B3-7 and B3-8. This may be downward or upward depending on the proportional allocation system adopted by the company.

In addition it is expected that some overlaps will lead to downward adjustments to the level of total capital expenditure compared to an investment projection based on separately costed outputs. Such adjustments will appear in tables B4-3 and B4-4. However if this is not the case then the company will need to explain clearly the basis for its assessment.

The Reporter shall comment on the process adopted by the company in calculating these adjustments and whether the company has sufficiently taken account of synergies between different outputs.

## **Implications of improvement programmes for operating expenditure**

The expenditure tables provide for the company's forecasts of changes in operating expenditure. These fall into two categories.

- (a) In tables B3-3 and B3-4 there is provision for adjustments to the base service operating expenditure projections to reflect the improvement programmes. It is assumed that these will be negative.
- (b) In the other main expenditure projection tables there is provision for forecasts of additional operating expenditure and for these to be adjusted to remove any overlap with the base service operating expenditure projections.

As elsewhere the provision of these adjustment lines does not imply the need for such adjustments but to clarify when and where such adjustments have been made by the company in arriving at its final forecast.

## **Role of Reporter and Auditors**

NIAUR requires the whole of the business plan and the prescribed supporting information and any additional supporting information submitted by the company, to be subject to effective and focused scrutiny by the Reporter and, where appropriate, by the company Auditors.

The objective of the Reporter is to scrutinise the company business plan and the process by which the company has reached its decisions, and to comment and provide a professional opinion in a report to NIAUR on the company's business planning process and the strategies proposed.

The Reporter's scrutiny of the business plan and its preparation must be such as to expose and report all material assumptions that underpin the estimates. The extent of the challenge of material assumptions must be identified.

The output of this work will be the Reporter's report to us. The Reporter's work will help us achieve consistency of the business plan information submitted by the company and assist us to gauge the comparability, reliability and accuracy of that information.

The general requirements for the Reporter and his relationship with the financial auditors are described in the Reporter's Protocol. For ease of reference sections of that Protocol have been reproduced below, and additional guidance or clarification added where necessary.

To further focus the Reporters' work further guidance is set out where appropriate in sections of parts A, B, C and in part D, of these reporting requirements. The auditors should refer to the section below entitled "Auditors' guidance" for specific guidance in addition to this general guidance.

## **Material Assumptions**

The audit of the information submitted by the company must be such as to ensure full exposure within its business plan of all material assumptions that the company has made.

The Reporter shall comment on any material omissions including the consequences of the omission.

The Reporter shall identify all assumptions that, in his opinion, are material to the development of reliable and accurate output and cost estimates, and explain the basis for their materiality. Material in this context should be taken as any assumption that singly or in combination with other assumptions directly affects the level of proposed price limits by an increment of 0.2% each year of the review period.

The material assumptions should be subject to scrutiny and where appropriate challenged. The extent of challenges is a matter for the Reporter's judgement. In all cases the scope, extent and reason for the challenge, or non-challenge, must be clear in the Reporter's report.

In the areas of financial and accounting assumptions the Reporter shall obtain sufficient advice from the Auditors properly to comment on the proposals and to confirm that the assumptions are understandable and reasonable in the context of the information available at the time.

Further details of the areas in which we would expect the Auditors to be included are given in the section on Reporter/Auditors relationship below. This list is not exhaustive but is intended as an indication of the areas where the Auditors may be best placed to assist.



## **Comparative Information**

The Reporter is required to have regard to the relevance of information regarding the performance of other water and water and sewerage companies in Great Britain and draw any interpretation which may assist the process of certification and preparation of accompanying commentaries.

**The Reporter shall also take account of other relevant information about other company performance which is in the public domain.**

## **Allocation of Expenditure**

The Reporter must pay particular attention to the allocation of projected expenditure between the different purpose categories. Reporter shall highlight any changes in the company rules or policy on proportionally allocating expenditure compared with those used for previous reports particularly in relation to the quality programme and capital maintenance. This must cover the challenge of assumptions and check that the correct allocations are applied in practice (i.e. in tables B3-5, B3-6, B3-7, B3-8, B4-3 and B4-4)

## **High expenditure areas**

The Reporter's audit should be directed at those areas of the water company proposals where expenditure is projected to be or has been high. In this way the limited resources of the Reporter can be directed at these areas that are likely to have the greatest influence on the determinations.

It is assumed that company estimates are central estimates, i.e. the probability of actual costs being higher or lower than the estimate would be equal. Reporter should test the hypothesis that estimates are plausible central estimates. If the Reporter believes that the company actual costs would be likely to be higher or lower than estimated costs, he should comment accordingly, and give an opinion on the percentage size of the extent to which they are skewed, e.g. 'I believe in the light of my audit that the projected costs are conservative and a reduction of x-y% would be appropriate to generate a reasonable central estimate. In other circumstances the Reporter should confirm that the estimates are, in his opinion, reasonable central estimates.

## **Auditors' Guidance**

The guidance refers to specific procedures that need to be performed on the Business plan tables B3.3 (deals with water service base operating expenditure projections, B3.4 (deals with sewerage service base operating expenditure) and the tables in part B7 and B8. In addition, the Auditors will also need to be familiar with parts B1 to B6 to ensure that the business plan is internally consistent.

Many of the following procedures include checking figures in the B7 and B8 series tables to those reported in the Annual Information Return 2008 and underlying accounting records. In addition, the Auditors should comment on the reasonableness of the projections made in the B7 and B8 tables. The submitted audit report needs to be clear what dataset the Auditors have used when carrying out the following procedures.

## **General Procedures**

For each of the relevant tables, ensure that the company has complied with the line definitions or has included a commentary as to why the guidance has not been followed.

Document the company's sign off procedures for the business plan including involvement of the non-executive directors, following discussions with management and sight of underlying documentation. Describe the nature of the underlying documentation observed and the names of management spoken to on this procedure.

The company will provide the Auditors with a written response to queries from the regulator. The Auditors will check that any figures included within the response and any explanations attributed to the figures agree to the Regulatory Accounts and/or underlying accounting records, and will document the underlying source to which they have been agreed to.

## **Financial Projections – Part B7**

Check that the figures reported for 2007-08 agree to the underlying accounting records and the Annual Information Return 2008. Obtain management's commentary on any inclusions or exclusions, assumptions or changes in assumptions that will have a material impact on the financial projections. Also obtain management's commentary on the assumptions used where the balance sheet at 31 March 2008 is not consistent with the regulatory accounts. Read both of the company's commentaries and, where relevant, agree details set out in the commentary to the underlying accounting records or other supporting documentation. Where applicable, document the nature of the underlying accounting records or other supporting documentation.

Read the commentary on Part B7 provided by the company and check, where relevant, that any statements made by the company on accounting policies are consistent with the financial projections.

Obtain management's commentary on the weighted average cost of capital (WACC) and the basis of its calculation which will be included in the commentary on Part B7. Using the company's calculation of WACC, check that all component parts have been included in the commentary.

If the company has presented any alternative calculations of indicators within table B7.17. commentaries, check the accuracy of the calculation to that described in management's commentary and check the inputs agree to the Regulatory Accounts and/or underlying accounting records. Document the nature of the underlying accounting records or other supporting documentation.

Obtain management's commentary on the assumptions used by the company to calculate the working capital inputs in table B7.4. Read the company's commentary and, where relevant, agree the components of the calculations set out in the commentary to the underlying accounting records or other supporting documentation. Where applicable, document the nature of the underlying accounting records or other supporting documentation.

## **Operating Expenditure**

In tables B3.3 and B3.4 check that the total operating expenditure reported in line 1 is consistent with that reported in the Annual Information Return 2008. Document management's explanation for any differences and where these explanations are supported by documentary evidence; describe the nature of the supporting documentation.

In tables B3.3 and B3.4 check that the adjustments reported in line 2 are consistent with the adjustments reported in the Annual Information Return 2008 for atypical costs. Document management's explanation for any differences and where these explanations are supported by documentary evidence; describe the nature of the supporting documentation.

At the earliest opportunity, the Auditors should discuss with the company the nature of the adjustments included in lines 4 to 7 of table B3.3 and B3.4. It is assumed that the Auditors will perform the following procedures on these adjustments but in some cases depending on the nature of the adjustment the reporter may be best placed to complete work on these because of their expertise. The Auditors must agree the scope of work on each adjustment, within the engagement letter. For the adjustments allocated to the Auditors, perform the following procedures:

Obtain management's commentary in relation to the underlying assumptions used to determine the projections. Read the company's commentary and, where relevant, agree details set out in the commentary to the underlying accounting records or other supporting documentation. Where applicable, document the nature of the underlying accounting records or other supporting documentation.

Where historical figures are used as the basis of the calculations of future projections, check that the figures agree to historical accounting records or other documents. Where they have been checked back to other documents, list the documents they have been agreed to.

### **Income**

Check that the revenue all revenue groups and tariff and non tariff basket items in table B8-1 agree back to the billing system or other supporting documentation. Where applicable, document the nature of the underlying accounting records or other supporting documentation. If adjustments are required to the figures extracted from the billing system, the Auditors should read the company's explanation and list what supporting documentation they have been agreed to.

Where applicable, document the nature of the underlying accounting records or other supporting documentation.

The Auditors should agree the respective customer groups, tariffs and non tariff groups and numbers to the NI Water's financial reporting systems or other supporting documentation.

### **Taxation**

Obtain management's commentary on the assumptions used by the company to prepare the taxation projections and to satisfy the requirements as set out in the guidance in tables B7.6 and B7.14. Read the company's commentary and, where relevant, agree details set out in the commentary to the underlying accounting records or other supporting documentation. Where applicable, document the nature of the underlying accounting records or other supporting documentation.

Check that the tax assumptions included in the table and the commentary are consistent with the underlying projections submitted in table B7.14 and provide details of any inconsistencies.

Check that the company's tax information has been correctly extracted from the underlying records. Document the nature of the underlying accounting records or other supporting documentation. Where the information provided is notional because the company has a statutory year end other than the 31 March check the calculations to the underlying accounting records or other supporting documentation. Where applicable, document the nature of the underlying accounting records or other supporting documentation.

Where agreements with the HMRC are disclosed by the company for the treatment of projected expenditure for tax purposes, agree the nature of these agreements to supporting documentation. Document the nature of the supporting documentation. Check that the relevant expenditure has been treated in line with the agreements within the table. If the company has identified areas subject to agreement with

HMRC, read the company's commentary and check that these items have been treated in table B7.14 in line with the company's expected resolution as detailed in the commentary. Provide details of any inconsistencies.

Check that the company's explanation of the types of expenditure included in each line reflects the figures included in each line.

Check that block F in table B7.14 (other deductions and adjustments made in calculating taxable profits) can be agreed to underlying accounting records or other supporting documentation. Document the nature of the underlying accounting records or other supporting documentation. Also obtain the company's explanation of the items included and, where relevant, agree details set out in the commentary to the underlying accounting records or other supporting documentation. Where applicable, document the nature of the underlying accounting records or other supporting documentation.

Check that the average asset lives reported in lines 29 and 30 in table B7.14 are consistent with those used for depreciation purposes elsewhere in the submission.

Check that the figures used in the company's calculation of losses brought forward in the base year (line 25) in table B7.6 have been correctly extracted from the underlying records. Read the company's commentary and check details set out in the commentary to the underlying accounting records or other supporting documentation. Document the nature of the underlying accounting records or other supporting documentation.

**Table B7.6.** The Auditors should recalculate all elements of this table and comment on any assumptions made, particularly with regard to asset lives, allowance, depreciation and amortisation rates and assumptions and the appropriateness of any deductions and adjustments (sections E and F). Tax calculations should be agreed to the actual financial accounts for 2007/08. The Auditors should consider the reasonableness of projections.

**Table B7.14** The Auditors should recalculate all elements of this table and comment on any assumptions made, particularly with regard to asset lives, allowance, depreciation and amortisation rates and assumptions and the appropriateness of any deductions and adjustments (sections E and F).

### Financial statement tables

**Table B7.1.** Verify that the historic cost and current cost profit and loss line items are in accordance with the relevant accounts for the financial year 2007/08 and the underlying accounting records.

**Table B7.2 and table B7.3.** Verify that the historic and current cost balance sheet line items are in accordance with the relevant accounts for the financial year 2007/08 and the underlying accounting records.

**Table B7.4.** Verify that the cashflow items are in accordance with the relevant accounts for the financial year 2007/08 and the underlying accounting items.

### Working capital

**Table B7.5.** Verify that the working capital items are in accordance with the relevant accounts for the financial year 2007/08 and the underlying accounting items. The Auditors should consider the reasonableness of projections.

### Debt profile

**Table B7.7.** Verify that the closing embedded debt profile of government and non-government embedded debt is in agreement with the financing of NI Water for 2007/08 and the future debt profile is in agreement with the loan terms, covenants and agreement.

### Indices

**Table B7.9.** Verify that the RPI and COPI rates are reflective and the reasonableness of projections. Obtain management's commentary on the company's assumptions for these indices and ensure they are representative and in accordance with water and sewerage industry best practice.

**Table B7.10.** Comment on the applicability and magnitude of the financial measures in this table and the assumptions made by NI Water. The Auditors should comment on the calculation and accuracy of the WACC and its constituents for NI Water for the year 2007/08 and for future financial years and also on the assumptions made in predicting WACC for future years. The Auditors should agree the financing and borrowing elements and dividends foregone (if applicable) to underlying accounting records and comment on the accuracy of any assumptions made. The Auditors should comment on the applicability and reasonableness of assumptions made in the RCV calculation and any adjustments to RCV made and additionally, determine its arithmetical accuracy (section D).

### Assets

**Table B7.8.** The Auditors should ensure that the depreciation and amortisation aspects in this table are in accordance with underlying accounting records and projections. The Auditors should consider the reasonableness of projections.

**Table B7.11.** The Auditors should agree the maintenance and enhancement and grant and contribution elements contained in this table to underlying accounting records and projections.

### Miscellaneous accounting assumptions

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**Table B7.13.** The Auditors should recalculate all elements in this table and comment on any assumptions made. The Auditors should consider the reasonableness of projections

### **Tariffs and revenue**

**Table B7.15.** The Auditors should verify that the elements of this table are in accordance with the constituents of table 8.1 and comment on any assumptions made. The Auditors should consider the reasonableness of projections.

**Table B7.16.** The Auditors should verify that the elements of this table are in accordance with the constituents of table 8.1 and comment on any assumptions made. The Auditors should consider the reasonableness of projections

### **Financial ratios**

**Table B7.17.** The Auditors should recalculate and comment on the calculation of the financial ratios and ensure they are consistently calculated and in accordance with water and sewage industry best practice. The Auditors should comment on any assumptions made in the calculation of these ratios. The Auditors should consider the reasonableness of projections

### **Accounting Charges**

**Table B7.12.** The Auditors should agree the cost, accumulated depreciation, annual depreciation and net cost of asset disposals for both the current and historic cost accounts to underlying accounting records. The details of any cash proceeds from disposals should be agreed to underlying accounting records and bank statements, where applicable (line 5). The Auditors should consider the reasonableness of projections

Obtain management's commentary on the company's accounting rules used for depreciation purposes. Check that the company's accounting rules used for depreciation on additions and WIP in the tables and commentary are the same as those used within the 2007/08 regulatory accounts (with the exception of the use of CCD as opposed to HCD).

Obtain management's commentary on asset lives. Check that the asset lives stated in the tables and commentary agree to those stated within the 2007/08 regulatory accounts. The Auditors should consider the reasonableness of projections.

Obtain management's commentary on the consistency of historic cost depreciation profile on existing assets. Check the consistency of the historic cost depreciation profile on existing assets and that projected for current cost purposes. The Auditors should consider the reasonableness of projections

Check that the accrual and/or prepayments reported in line 6 of table B7.3 agree to the amount reported in the 2007/08 regulatory accounts and underlying accounting records. The Auditors should consider the reasonableness of projections.

### **Reporter/Auditors Relationship**

The Reporter needs to obtain advice from the Auditor to provide the necessary effective and focused scrutiny of the business plan.

The Reporter is responsible for ensuring the work is co-ordinated and the appropriate skills and expertise are deployed. The following points are drawn to the attention of the Reporter and the Auditors:

Scrutiny of the information in the business plan could be allocated to either the Reporter or the Auditors, depending on who normally reviews such information.

It is anticipated that the area in which the Auditors should be most involved is in the review of financial projections and in providing commentary on the significant financial assumptions which underpin them.

This would typically include but not be limited to assistance with the following:

- Reviewing the commentary provided by the company and confirming that any material statements made by the company on accounting policies have been incorporated into the financial projections.
  - Confirming that the financial projections are materially consistent with the key assumptions stated elsewhere in the submission.
  - Providing a commentary on the significant assumptions used by the company on operating expenditure and the analysis of atypical factors used in the base year. This could include commenting on adjustments for atypical factors given the overlap with the work completed on the statutory audit. Such atypical factors may include sewer flooding, insurance costs, pension charges, changes to business rates, power costs, costs relating to lane rental etc.).
  - Confirming that the weighted average cost of capital (“WACC”) and its components have been clearly stated together with the basis of its calculation and commenting on whether the WACC has been consistently used in the financial projections.
  - Reviewing interest and financial ratio calculations with commentary provided on any issues.
  - Commenting upon the material assumptions used by the company to prepare the taxation projections and completing required work as set out in the guidance in Table B7-14.
  - Providing comments on the calculation of the Regulatory Capital Value and on whether the calculation is consistent with the projections of capital expenditure
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and depreciation included elsewhere in the Business Plan and calculated in accordance with industry practice.

- Audit arrangements must be sufficiently robust to rebut challenge on the grounds of weaknesses in the scrutiny which is due to:
  - either skills or experience gaps associated with scrutiny of engineering or financial information; or
  - where the audit practice of accepting a statement of adequacy from water company officers falls short of these requirements.
- Such weaknesses could be overcome by the Reporter and the financial Auditors agreeing exactly how relevant issues are dealt with at a working level, and properly documenting the financial auditing work to be done in support of certification.
- The Reporter may use their own financial specialists to carry out the necessary certification work provided that the financial Auditors are consulted on issues where future reporting on accounting matter is affected. However, it is anticipated that this situation will only arise in exceptional circumstances.

## Levels of Auditing, Audit Priorities & Time allocation

The levels of sample audit trailing, inspection and examination used for the assessment of the submission shall reflect the objectives of reporting. The Reporter shall be responsible for deciding on the level of audit necessary to satisfy our guidelines or specific questions. The level of audit must be sufficient for the Reporter:

- to be satisfied as to the adequacy of the company methods and procedures to provide information that conforms with our information requirements;
- to be satisfied that the water company's work is consistent with the methods, procedures, policies and assumptions stated by the water company;
- to test that there are coherent and explained links between the current and earlier relevant company submissions;
- to identify the extent to which the methods and procedures adopted by the company for the production of submissions;
  - cover the scope of the work as outlined in our guidance;
  - provide a credible system of quality assurance;
  - are adequate for producing estimates of expenditure needs or records of costs incurred; and
- to test that the methods and procedures are followed rigorously and accurately by the company.

The importance to price setting of the information submitted in the business plan varies. The Reporter should therefore give priority to topics, and allocate their time as set out below. In following that guidance the Reporter should take account of the individual circumstances of the company. The Reporter should also have regard to the timetable for decision making by ministers, and ensure that sufficient time is allowed towards the end of the audit programme to permit the appropriate level of audit of quality information.

Priority	Topic	Indicative percentage of audit time to be allocated
1	Scrutiny of overall <b>business planning process</b> ; Board involvement in decisions; internal consistency of submission, including revenues and Tariff switching	10%
2	<b>Quality programme</b> ; exposure/challenge of material assumptions; Costings; Phasing of outputs.	20%
3	<b>Efficiency</b> ; Exposure of material assumptions (limited challenge). Internal consistency; cost base & links to capital programmes	20%
4	<b>Serviceability &amp; capital maintenance</b> ; Exposure & challenge of material assumptions. Comparability of CCD and MNI expenditure.	15%
5	<b>Allocation of expenditure</b> ; Exposure & challenge of allocations. Internal consistency; trade offs between capex and opex, allocation to depreciable life categories, capital maintenance and quality enhancement	10%
6	<b>Special reasons</b> ; Scrutiny and challenge of claims for special circumstances affecting cost projections	10%
7	<b>Sustainability &amp; water balance (inc. leakage) and supply &amp; demand balance expenditure.</b> Scrutiny & challenge of material assumptions. Work with <b>Auditors</b> on revenue and tariff assumptions.	Less than 10%
8	<b>Enhanced service levels.</b> Scrutiny & challenge of projections and particularly overlaps with other purpose categories	Less than 5%

It should be noted that there is no specific allocation of audit time by the Reporter to the review of financial projections and related issues. (These are primarily set out in Tables B7, and B8). This is deliberate since it is anticipated that the Auditors will spend the majority of their time on these areas.

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## Audit Plans

The company should cooperate fully with the Reporter during the preparation of their Report on the business plan. The company shall inform the Reporter of their own work plan for producing the business plan. This will enable the Reporter to develop a robust and well founded audit schedule as part of their outline audit plan.

The timetable for audit plan approval for the draft business plan is set out below. This timetable does not preclude the commencement of the reporting activity at any time before assessment of the audit plan. The Reporter shall include such audit activities in his audit plan so that the full scope of the plan is evident and assessed.

Submitted by 19 Jan 2009	Reporter submits to NIAUR a draft outline audit plan, including a work schedule and indicative costs. He will have discussed the guidance with NI Water and obtained its agreement to the audit plan and work schedule.
16th Feb 2009	NIAUR notifies the Reporter of any necessary changes to draft outline audit plan.
9 March 2009	Reporter agrees any amendments with the company and submits amended outline audit plan to NIAUR.
16 March 2009	NIAUR gives final feedback on the audit plan, including balance of workload, and sets ceiling costs. Audit plan becomes a controlled document against which progress will be measured.

The Reporter shall notify NIAUR of any significant changes in his audit plan and schedule as work proceeds.

The Reporter shall respond to any queries made by us about progress.

## Reporter's Report

The Reporter's Report shall be free standing. The reader should be able to understand from the Report the broad thrust of the company business plan and the business model and assumptions underpinning the company's strategy and estimates. The Reporter's opinion must be explicitly stated.

Any Report or comments provided separately by the Auditors should be included as an appendix to the Reporter's report. Where appropriate this should be referred to in the main body of the report.

If the Reporter makes use of or refers to documents not within the scope of the draft or final business plan, he should include one copy of the material with his submission.

The Reporter's report shall cover as a minimum the following:

- (1) whether the business plan has been prepared in accordance with the guidance issued;
- (2) disclosure (if not fully exposed in the business plan) of the material assumptions that underpin the explanatory factors, demand forecasts and related charges/income for the company, and the scope and extent to which these material assumptions have been challenged by the Reporter and/or the Auditors;
- (3) the Reporter's assessment and opinion on the material assumptions, and in particular whether all foreseeable alternatives have been considered;
- (4) any material/significant areas where the Reporter's opinion is different from that of the water company;
- (5) the response to specific questions or areas of concern raised by us;
- (6) an assessment of the quality assurance procedures used in relation to the production of the business plan and supporting information;
- (7) an assessment of any allocation of forecast expenditure and assumptions on transfer prices between:
  - appointed and non-appointed businesses
  - appointed business and associated companies
  - water and sewerage services (if appropriate)
  - purpose categories
- (8) an assessment of the assumptions, exclusions, policies and obligations adopted by the company and the resultant expenditure needs identified in respect of the following areas:
  - capital maintenance;
  - quality enhancements and the compliance programmes;
  - efficiency improvements;
  - enhanced service levels;
  - supply/demand balance;
  - leakage.

- (9) an assessment of the extent to which the appropriate quality regulators have confirmed their agreement to the content, timing and phasing of the compliance programme outputs;
- (10) an assessment of the methods and procedures adopted by the company for the production of the business plan in respect of the following general aspects:
  - statistical methodology;
  - identification of shortfalls in outputs;
  - serviceability and asset condition identification;
  - changes in explanatory factors;
  - the achievement of the appropriate economic balance between capital expenditure and operating expenditure solutions;
  - estimating methodology;
  - standard costs (cost base);
  - special circumstances claimed by the water company.
- (11) an assessment and opinion of the water company assessment of the ranges of uncertainty of cost estimates and output figures and in the light of these points, any further comments on the water company's strategy.
- (12) disclosure (if not fully exposed in the business plan) and assessment of the reasons for changes in information submitted previously, particularly the 2007-08 Annual Information Return.
- (13) an opinion of the company's assessment of the accuracy and reliability of the expenditure data and explanatory factors.
- (14) any modifications to or omissions from these requirements in respect of the Reporter's role and responsibilities.

Additional information shall be annexed to the reporter's report. This shall include:

- the organisation, structure and personnel used by the Reporter;
- arrangements made to ensure satisfactory liaison and co-ordination of certification and financial audit with the company Auditors;
- the quality assurance procedures used in relation to the certification of the company submission;
- a schedule of the specific documentation that exists in support of the report;
- a summary of the meetings held, inspections carried out and audit trails followed, and
- a breakdown of time and costs.

We would also like to fully understand areas of concern and disagreement between the Reporter and the company. Areas of concern or challenge identified by the Reporter shall normally be resolved with the company prior to submission. The company should address these concerns in its business plan or make the necessary changes to remove the cause for concern, all to the Reporter's satisfaction. The Reporter shall include in his General Report a summary of these concerns and challenges and how they have been resolved, together with any significant areas where agreement cannot be reached.

## **Further Explanations and Clarifications**

The Reporter shall provide such further explanation or clarification as may reasonably require following receipt of the submission and Reporter's report. The Reporter should be available to respond quickly to such requests.

## **Specific Guidance**

### **Prior Submissions**

The Reporter shall review all queries raised with the company about the prior cost base and Capital Maintenance Econometric Return and AIR08 submissions and satisfy himself or herself that each has been satisfactorily dealt with.

NI Water specific guidance will be issued to the Reporter by 29 August 2008.

## **Assessment of the process adopted by the company to prepare its business plan**

The Reporter shall describe the process established by the company to ensure that for the company's preferred strategy and each reference plan Part A is well founded and consistently supported by the information in Parts B and C (only applies for the company's preferred strategy). The audit trails linking Parts A and B of the business plan with the supporting information shall be reviewed and their adequacy commented upon. The Reporter shall audit the process on a sample basis. As a minimum, the Reporter shall audit and report on how assumptions about efficiency have been reviewed by the company board and developed into the approved company Board statement of assumptions on efficiency improvements in Part A6. The Reporter shall give an opinion on the effectiveness of the process and whether it has been followed. In addition the Reporter shall audit the company's proposals on quality enhancements and comment on how they integrate with and affect other areas of the business plan.