

Appendix 2- FEEDBACK QUESTIONNAIRE (word format)

Thank you for taking the time to respond to our questions

We hope all the questions are understandable, If you have any difficulties please email [REDACTED]

Once the questionnaire has been completed, please send it back to us using the email address above. Please return the completed questionnaire by 4 August 2015.

Section 1 - About you	
Question	Response
What is your name	[REDACTED]
What is your job title	Partner
What is your contact detail	[REDACTED]
What is your company name	PricewaterhouseCoopers
What is the name of your group (applicable only if you are representing a user group)	

Section 2 - RIIO Accounts	
Questions	Response
1. Do you have any comments on the withdrawal of the current regulatory accounts as specified in standard special licence conditions A30 on Regulatory accounts for Gas Distribution and Transmission, standard condition B1 on Regulatory accounts for Electricity Transmission and standard condition 44 on Regulatory accounts for Electricity Distribution?	We have no comments in this regard
2. Do you agree with the use of RFRS principles as a basis for the preparation of RIIO accounts? If not, please give further information why.	<p>At this time, we are unclear how OFGEM envisages the development of Regulatory Financial Reporting Standards (RFRS), and in particular, how these standards will communicate the performance of entities under the RIIO framework.</p> <p>We believe that the development of principle based standards in the proposed timetable will be a challenge.</p>

	<p>It has been suggested that OFGEM intends to build upon the principles developed by the International Accounting Standards Board (IASB) in connection with the recent standard on Revenue from Contracts with Customers and the ongoing discussions on the accounting for Rate Regulated Activities. In this context the development of such principles generally takes several years - and it may well be a number of years before any conclusion on Rate Regulated Activities is reached and becomes effective.</p> <p>Therefore we wonder whether a comprehensive principles based framework is actually necessary to achieve the objective of OFGEM. For example, OFGEM have proposed that RAV is an important disclosure. There is a question about whether such a disclosure needs to be supported by a detailed set of principles based accounting standards for the calculation of the RAV or whether the financial statements requirements could be more simply established through reference to the RIIO framework.</p> <p>As a further example, our understanding of the RIIO frameworks is that elements of performance that might be measured during the price control period can be highly subjective as they are based on some significant judgements about the remaining period of the price control. As a result, there are different ways of approaching the accounting. Dealing with the expected outcome on TOTEX would be one such example. In these areas, ensuring consistency between companies and relevance of the measurement may be better met through a prescriptive rather than a principles based approach.</p>
<p>3. Do you agree that the new framework for reporting on</p>	<p>We support OFGEM's objective of improving the transparency and</p>

<p>Network's financial position and performance would be more beneficial to users and stake holders? If you don't please explain.</p>	<p>comparability of regulatory financial information, and that this can assist in communication with the investor and wider stakeholder community. Such an approach helps to achieve consistency and comparability especially when addressing a wide range of entities. In supporting OFGEM's initiatives, we would like to work with you going forward to develop both an accounting and auditing framework that is operational, useful to stakeholders and minimises the cost to preparers.</p>
<p>4. Do you have any comments on the principles stated in the statement of regulatory corporate governance contained in Appendix 1 of this letter and do you support the development of such principles?</p>	<p>The UK Corporate Governance Code provides a strong basis on which to build and assess the governance of regulated entities. We would note, however, that the Code has been designed for the purposes of larger listed companies, and it is recognised that as well as providing strong governance it can provide a cost and burden to the company. As an example of this, smaller companies which are listed on the Alternative Investment Market are not required to comply with the UK Corporate Governance Code - but most do to an extent which they see as appropriate for the size and complexity of the entity, in order to provide comfort to shareholders and other stakeholders.</p> <p>It is also the case that the regulated entities which operate within the RIIIO framework are of differing sizes and complexities - they are part of major UK listed groups, of overseas listed groups or are privately held. It may therefore be worthy of debate as to whether the whole UK Corporate Governance Code should be applied, whether only specific elements should be 'compulsory' or whether a 'comply or explain' approach is acceptable.</p> <p>In this context, it is worth highlighting the approach adopted by Ofwat, which was to develop a set of principles for good corporate governance that companies in the water sector are</p>

	<p>expected to follow, rather than requiring adherence to the UK Corporate Governance Code per se. This allows a more flexible approach, reflecting company circumstances.</p>
<p>5. Do you have any comments on the proposed time line in Appendix 3?</p>	<p>We would refer to our comments under question 2 above. Many of the issues that will require to be addressed will be detailed and may only become apparent on implementation.</p> <p>We therefore wonder whether a pilot implementation, including audit, with a limited number of representative entities might be a good way to ensure that on full implementation this is as successful as possible.</p>
<p>6. Do you have any comments on our proposal to develop an audit opinion that provides assurance on the proposed RIIO accounts on a 'fairly presents' basis?</p>	<p>The consultation paper envisages an audit opinion that provides assurance that the RIIO accounts <i>fairly presents</i> the regulatory financial position and regulatory financial performance. There are many misconceptions about independent assurance but perhaps the most common is that it's a highly judgmental expert viewpoint. On the contrary, as described by the International Federation of Accountants (IFAC) in their International Framework for Assurance Engagements, assurance is an independent evidence gathering exercise designed to reassure the reader as to management's statement of information assessed against formal criteria.</p> <p>In other words, management performs the initial assessment of A against B (the assessment criteria or reporting framework) then the auditor evaluates the evidence available to support that assessment. If the evidence does not support the management's assessment, the auditor qualifies his opinion. If there is insufficient evidence to make a decision either way, the auditor issues a disclaimer to that effect ('unable to form an opinion due to lack of evidence'). In order to accept the assurance engagement in the first</p>

	<p>place, the auditor needs to check that IFAC's pre-conditions for assurance are in place, including the presence of 'suitable' criteria (refer paragraph 36 of the IFAC Framework) to form the basis of an objective assessment. In IFAC's words: 'The evaluation or measurement of a subject matter on the basis of the practitioner's own expectations, judgments and individual experience would not constitute suitable criteria' and hence a report based on an auditor's subjective viewpoint would not pass the assurance acceptance pre-conditions.</p> <p>Applying these foundation principles to the RIIIO proposal, the suitability of the criteria and the availability of hard evidence to support management's reported position will be key. In the absence of one or both, independent assurance will not be an option. If management's basis of preparation is to pass the test of 'suitable criteria' it will need to be clear, objective, unbiased, neutral, available to the reader to be read alongside the reported information, etc. To maximise the usefulness of the reported information, the basis of preparation should also be as consistent as reasonably practicable between market participants or else the end result will be highly tailored to each participant and meaningful comparisons will be next to impossible for any but the most experienced, observant readers.</p> <p>The implication of this is that critical to the provision of an audit opinion will be the development of the RFRS and the extent to which they can support a basis of preparation which is clear, objective, unbiased and neutral. To that extent, we refer to our comments above.</p>
<p>7. What are your expectations on how NWO boards should report on their governance (comments from investors are particularly</p>	<p>See comments under question 4 above.</p>

welcome)?	
8. Please use this section to let us know of any other thoughts you might have on the introduction of RIIO accounts.	We have no other comments