

Data Assurance Summary

Annual Performance Reporting 2016–17

15 July 2017

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1. About this document

This document sets out the scope and results of our assurance activities for reporting our performance in 2016–17. Customers and other stakeholders rightly expect that the information we present to them on our performance is accurate, accessible and fully assured.

The document should be read in conjunction with our Annual Report & Financial Statements 2016–17, which provides full details of our performance during the year as well as other statutory and regulatory information.

2. Background

This document is one of three which, taken together, detail how our company assures the information on Southern Water’s performance that we report to Ofwat and other regulators.

On 30 November 2016, Ofwat published its updated assessment of companies’ assurance activity in its company monitoring framework. There are three assessment categories:

- **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.*
- **Prescribed assurance** – *a company loses discretion on many areas of assurance beyond the common assurance requirements.*

Overall, Ofwat gave Southern Water an assurance rating of ‘prescribed’ which was lower than our previous rating. Ofwat’s decision is detailed in section 4.1.3 of its document, *Company Monitoring Framework: 2016 Assessment*. Ofwat’s assessment was based on two specific areas of concern. First, we did not inform it of our intention to change five of our performance commitments which were measured by customer surveys until 18 months after the Final Determination.

Second, there were three case-work activities in the reporting period where Ofwat did not consider that we had provided responses to its requests in a timely, complete and accurate fashion. Ofwat did, however, also highlight a number of areas of good practice which we will build on for the future. For example, Ofwat recognised the overall high quality of our data, the transparency of our charges-setting process, and the clarity of other financial information we supplied.

Ofwat’s assessment confirmed that the way we report our outcomes was based on an accurate level of reliable information, with evidence-based levels of transparency that demonstrated we had listened, and responded, to our customers. The report also highlighted as a strength, the independent review of our outcomes performance by our Customer Advisory Panel.

While we were disappointed with Ofwat’s assessment, we accept that there are areas where we need to improve and we fully agree that stakeholders must be able to trust the integrity of our performance reporting. Some of the actions we’ve taken are detailed in the following section.

We are also working with Ofwat in relation to the management and operation of our wastewater treatment works and the reporting of relevant information in connection with them.

3. Strengthening our controls and procedures

The first document to be made available on our website was our Statement of Risks, Strengths and Weaknesses, published on 31 January 2017. This report outlined what we have done to consult stakeholders about their views on the way we report our performance.

The second document was our Final Assurance Plan, published on 31 March 2017, which looked at our ongoing and planned assurance arrangements [southernwater.co.uk/our-reports](https://www.southernwater.co.uk/our-reports). This Data Assurance Summary, the third and final document, completes this process by reporting the results of the assurance plans we have implemented. It should be read in conjunction with our annual report for 2016–17 at [southernwater.co.uk/our-reports](https://www.southernwater.co.uk/our-reports).

These documents are an explicit part of the Company Monitoring Framework (CMF) that our regulator, Ofwat has put in place for the period 2015–20 to ensure the quality and accuracy of information that water and wastewater companies provide to their customers and stakeholders.

We have taken Ofwat’s CMF assessment of us very seriously and have addressed its concerns at multiple levels throughout the company. We took specific action to:

- 1) *Launch a new ‘Speak Up’ policy, which actively encourages all employees to raise concerns about practices or situations that could affect our business.*
- 2) *Carry out a review of the company and culture to make sure business priorities are aligned with individual and team objectives so that improvements can be made across the company.*
- 3) *Enhance the Business Assurance team which is a key part of our second line of defence (see table 3, ‘Our ‘three lines of defence’ assurance model’). The team is responsible for the assurance of our Ofwat regulatory performance data. This additional resourcing has improved our capability to review data in far greater depth than ever before.*
- 4) *Design more comprehensive assurance requirements for our recently-appointed technical assurers, PricewaterhouseCoopers LLP to fulfil so that we can assure our performance reporting in more detail.*
- 5) *Set up a specific Company Monitoring Framework Action team to address Ofwat’s concerns (also see section 4a).*
- 6) *Significantly revise our regulator engagement strategy at all levels of the organisation to improve collaboration, address specific company framework actions and carry out improvements across all of Southern Water’s operations.*

The remaining sections of this document outline our approach to the assurance of performance data and the results of that assurance work for the 2016–17 financial year.

4. The outcomes of our data assurance activities

In this section, we provide the results of our work to assure our performance data including what we have done to tackle specific issues.

We began a number of assurance processes early in the financial year. Depending on the results and any further risk assessments, we have adjusted and developed our approach as the year has gone on. We outlined our assurance plans in the Final Assurance Plan 2016–17.

The following section details the results of our assurance activities, with reference to the following tables in the Final Assurance Plan 2016–17.

- 3a. *Company monitoring framework: Our enhanced assurance actions as a response to Ofwat's 'prescribed' assessment. (Final Assurance Plan 2016–17, table 1, Targeted actions to be taken following Ofwat's company monitoring framework assessment, page 6).*
- 3b. *The financial assurance undertaken: The assurance relating to the statutory financial audit, including reviews of tariffs and cost allocations. (Final Assurance Plan 2016–17, table 2, pages 7-9).*
- 3c. *Performance commitments: Our assurance work relating to our performance commitments and outcome delivery incentives. (Final Assurance Plan 2016–17, table 2, pages 7-9).*
- 3d. *Other regulatory requirements: Assurance outcomes relating to other regulator requests or observations. (Final Assurance Plan 2016–17, table 2, pages 7-9).*
- 3e. *Reporting outcomes following stakeholder feedback on our annual report. (Final Assurance Plan 2016–17, table 3, Our reporting commitments following stakeholder engagement, page 10).*

4a. Assurance outcomes following Ofwat’s CMF assessment

As we have described in section 2 of this summary, Ofwat completed a Company Monitoring Framework (CMF) assessment on all water companies and gave Southern Water a rating of ‘prescribed’.

With the support of our Board of Directors, and overseen by our Chief Financial Officer, we have worked hard to determine the key actions that we need to take in response. Specifically we:

- *set up an executive team of senior managers to review and address each point raised by Ofwat*
- *reviewed the best practice of other companies and used these findings in our improvement plans*
- *reviewed all outcomes at executive and board level.*

Lastly, we commissioned our technical assurers, PricewaterhouseCoopers LLP (PwC), to review each specific action taken in response to Ofwat’s concerns.

We have acted on these recommendations as detailed below for each specific CMF point raised. Each area that Ofwat assessed as either a ‘Serious’ or ‘Minor’ concern is addressed below.

Serious concerns

Outcomes

We were criticised for having notified Ofwat too late about changes we had made to our stakeholder survey methodology. This was an unintentional, one-off oversight by us and we are keen to ensure that further reporting of our survey data meets the high quality of our other performance commitments.

Action

We have put in place a formal change process for any amendments to reporting methodologies. This will ensure that we are able to engage early with Ofwat on any potential issues. We have produced a detailed and robust system of reporting our performance against our commitments. All reporting procedures have been reviewed by our executive team and by our departmental directors.

Our current performance against our customer surveys is included in pages 23 to 86 of the Annual Report and Financial Statements 2016–17.

Third line of defence (PwC and Deloitte) outcomes

We asked PwC to perform a review of the narrative surrounding our performance commitments and outcome delivery incentives (ODIs) in our 2017 annual report and we have acted on their recommendations.

In addition, our corporate auditor, Deloitte LLP, has agreed procedures to assure reported performance data and the presentation of information and risks. We acted on their recommendations although no major issues were identified.

Casework

Ofwat’s assessment identified this as an area of serious concern. We agree that failing to meet formal deadlines for responses is not acceptable and understand how this can undermine trust in the quality of the information we provide.

Action

An internal responsibilities and accountabilities (RACI) document has been produced to ensure there is clarity over the ownership of casework activity and the timetable for generating responses to Ofwat’s requests for information. This process has the support of the relevant members of Southern Water’s executive leadership team.

In addition, our business assurance team has completed a check on each identified dispute case to ensure that information has been sent to Ofwat in a timely manner and followed up accordingly. The team found that this had been achieved. However, the review also highlighted the need for a number of further improvements to our processes – in particular, further quality-checking of the content and detail of our replies.

Third line of defence (PwC) outcomes

PwC completed a review of our business assurance team’s work and agreed with its results and findings, including the improvement suggestions made.

We expect all further enhancements to be completed by the end of the first quarter of 2017–18.

Minor concerns

Compliance with the principles of board leadership, transparency and governance

Ofwat identified the way we set out the independence of our chairman (given his role as chairman of our holding company) as a minor concern.

Action

The Annual Report and Financial Statements 2016–17 explains the chairman’s role in more detail on page 117. In addition, to provide further clarity, we have included more detail relating to our group structures.

Details relating to board leadership and governance are included in pages 116 to 124 of the annual report.

Third line of defence (PwC) outcomes

We instructed PwC to complete a review of how we report against Ofwat’s board leadership transparency and governance principles, and highlight any areas which can be improved.

We have acted on their recommendations as part of the update and completion of our annual report.

Risk and compliance statement

Ofwat said it had a minor concern that the statement in the 2015–16 annual report had been signed only by the chief executive officer without evidence of sign-off and approval by other board members. In addition, Ofwat commented that our statement did not directly say that Southern Water was taking appropriate steps to manage risks.

Our current risk and compliance statement is included in pages 3 to 5 of the Annual Report and Financial Statements 2016–17.

Action

The risk and compliance statement in the 2016–17 annual report, has been signed by the CEO and a non-executive director of the board. In addition, we have substantially updated our commentary relating to risks on page 5 of the Annual Performance Report.

Third line of defence (PwC) outcomes

We instructed PwC to complete a review of our Finance and Governance and Risk and Compliance statements. We have acted on their recommendations as part of our final updates and completion of our Annual Report and Financial Statements 2016–17.

Targeted reviews

Ofwat said it had a minor concern about the way we reported our tax reconciliation information. It said we should have included an explanation of how a tax charge – that had not been declared in the PR14 Final Determination – had arisen.

Actions

We have reviewed how we show our tax reconciliation information and compared it to best practice. Our current tax details are included in page 92 of the Annual Report and Financial Statements 2016–17.

Third Line of Defence (Deloitte) outcomes

Deloitte has reviewed our tax reconciliation in our annual performance report and has agreed that it fully complies with the requirements of the regulatory accounting guidelines.

Data assurance

Ofwat identified the language and detail used in describing data assurance for the final report as an area of minor concern. This was a common point that Ofwat addressed to a number of other water companies.

Actions

We have included a separate data assurance summary (this document) on our company website. Data assurance details included in the Annual Report and Financial Statements 2016–17 have been cross-referenced with this document.

Third line of defence (PwC) outcomes

We instructed PwC to complete a review of our Data Assurance Summary drafts, and they have given us advice on the report’s content and style. We have reviewed PwC’s advice and expanded this document based on that information.

4b. Financial assurance undertaken

Statutory opinion

We have employed our statutory auditor, Deloitte, to provide an audit opinion on our accounts in accordance with the Companies Act 2006.

The independent auditor's report is set out in our Annual Report and Financial Statements 2016–17 on pages 190 to 191. No material issues were noted.

Ofwat regulatory reporting

In addition, Deloitte provides an opinion on our Ofwat regulatory reporting tables. These are a significant reported segment in our annual report. Deloitte also performs assurance and validation procedures agreed with management that give us assurance on our reported information (these are known as 'agreed upon procedures').

The assurance matrix is detailed in the table below:

Table 1: Ofwat Annual Performance Report tables	
Table reference	Assurance
Regulatory financial reporting (Ofwat regulatory reporting, table 1)	Deloitte audit opinion (see below)
Price review and other segmental reporting (Ofwat regulatory reporting, table 2)	Deloitte audit opinion (see below)
Performance summary (Ofwat regulatory reporting, table 3)	PwC assurance (see section 4c of this report)
Section 4 – Additional regulatory information (includes cost allocation and segmental reporting)	PwC assurance (see section 4c of this report) Deloitte 'agreed upon procedures' for financial tables

Deloitte's Independent Auditor's report is set out in our Annual Report and Financial Statements 2016–17 on pages 190 to 191. No material issues were noted.

Deloitte completed the agreed upon procedures for the section 4 tables and our additional submission of cost assessment data. These procedures confirmed that the information was calculated in accordance with the regulatory accounting guidelines (RAGs), was consistent with information provided in other tables (where applicable) and agreed back to supporting documentation. No material issues were noted.

Tariffs and charges

Water companies are required to publish their tariffs and charges to comply with legal obligations and to have appropriate systems of control in place.

Actions

Data used to set tariffs is compiled from different areas across the business and provide appropriate separation of duties. Management review of charges is undertaken within the economic regulation team.

Third Line of Defence (Deloitte) outcomes

Corporate auditor (Deloitte LLP) assured charges according to 'agreed upon procedures'. This has been completed in the 2016–17 financial year. For the 2017–18 charges, we engaged Oxera Consulting to provide technical assurance of our charges submission. This was completed successfully. There was full sign-off on behalf of Southern Water's Board of Directors by a Board sub-committee.

4c. Assurance outcomes relating to our performance commitments and outcome delivery incentives

We made a commitment to our stakeholders in our Five-year Business Plan 2015 to 2020 that we would appoint a certifier to independently report on the system of internal controls around the production and reporting of our Ofwat performance commitments and outcome delivery incentives (see also appendix 1).

PwC is our current technical assurer, or certifier, and has completed a limited assurance review of our non-financial commitments according to the International Framework for Assurance Engagements 3000 (ISAE 3000) as issued by the International Auditing and Assurance Standards Board (IAASB). In accordance with this framework, PwC's certification of work is set out in our Annual Report and Financial Statements 2016–17 on pages 22 to 24 and in appendix 2 in this report.

No material issues were noted, however, there were a couple of risk areas identified as detailed below.

Specific risk areas previously identified during our 2016–17 assurance

Our own internal assurance working closely with PwC identified two key risk areas:

- 1) **A need to clarify the reporting methodology for bathing waters.** *We identified a mistake on the Ofwat Final Determination notice that related to the definition of the metric. This has been discussed and agreed verbally with Ofwat and we are awaiting formal approval. The error does not affect our reporting of our actual costs or targets.*
- 2) **Two data errors.** *First, our review identified that a sub-contractor had not used the correct definition to capture sewer collapse data. The result was that the previous year's data was incorrect and has had to be restated. However, as the previous year's restated value does not fall into the penalty area, there is no financial impact. Second, there was a minor miscalculation of one of our survey outcomes, which has now been verified and corrected.*

Qualified Conclusion

As detailed in Appendix 2, PwC's opinion is qualified, further details relating to Environmental Agency reporting are included in section 4d)

Specific risk areas previously identified during our 2015–16 assurance:

Our prior year audit identified two key risk areas which we have acted on during the year.

1. Wanted and unwanted calls categorisation

This was a specific critical risk area identified by our technical assurer as part of its 2015–16 assurance work. Call categorisation was specifically identified as having greater error rates than anticipated, which could affect our SIM score.

Actions

We instigated a specific internal project within our Customer Service directorate to improve call categorisation. This project identified process issues and as a result we implemented a number of improvements including new training procedures, revised quality assurance and the set-up of an independent 'check the checker' function. In addition, we commissioned

PwC to assess the progress of actions and to check the data reported. See our separate note in the Annual Performance Report 2016–17 on pages 36 to 38.

Third line of defence (PwC) outcomes

PwC completed an independent assurance of our 'wanted' and 'unwanted' call categorisation and verified the changes made to enhance accuracy. However, there is still room for improvement. As a result, we intend to continue driving down categorisation errors in 2017–18 by making further changes including implementing new call decision tools, reorganising our Customer Service division, and moving demand to online servicing to improve customer satisfaction.

2. Guaranteed service standards (GSS) payments

The 2015–16 assurance work identified that a few billing enquires could be subject to GSS payments but had not been paid.

Actions

We investigated and resolved the 2015–16 audit findings shortly after audit completion. In addition, we completed our own internal assurance review, which did identify some additional improvements to our processes. These have also now been taken up by the Customer Service division.

Third line of defence (PwC) outcomes

PwC reviewed GSS payment data and processes as part of its 2016–17 technical assurance work. PwC's overall opinion is included in appendix 2.

4d. Assurance outcomes relating to other regulator requests or observations

While Ofwat is our primary regulator, we are also regulated by other bodies reflecting the importance of water and wastewater to the country's infrastructure. In addition, as an industry we have recently undergone a market reform programme which resulted in the introduction of competition for large non-household customers.

These placed additional requirements on our performance reporting and assurance. In our Final Assurance Plan 2016–17 we outlined specific areas of assurance that related to these other regulatory bodies.

Drinking Water Inspectorate (DWI)

Southern Water is currently subject to an enforcement action by the DWI as mentioned in the Annual Report and Financial Statements 2016–17 (page 51) over the submission of information and data under the terms of the Water Industry (Suppliers Information) Direction and compliance with the Water Supply (Water Quality) Regulations regarding the collection of the required number of samples.

Details of the DWI's enforcement actions are outlined in our updated Statement of Risks, Strengths and Weaknesses and Draft Assurance Plan dated 31 January 2017 and Final Assurance Plan 2016–17 dated 31 March 2017, which are available at southernwater.co.uk/our-reports.

Actions

We have reviewed and actively strengthened our focus, governance and capability around information management of our drinking water data submissions to the DWI. This has included:

- *documenting key processes and controls*
- *setting up a new risk and controls team*
- *developing an ongoing assurance plan*
- *regular progress reports on our action plan to the DWI.*

While we have made substantial progress and improvement in some areas, we have not yet made all the necessary improvements required. We are continuing to embed further improvements and continue to work with the DWI.

Third line of defence assurers (PwC) outcomes

We requested PwC to review the processes and controls over the DWI monthly and annual returns for 2016–17 to improve confidence in our processes and governance. PwC raised some 'high', 'medium' and 'low' priority concerns relating to our processes. We have shared the overall findings with the DWI, and have kept it updated on our corrective action plans. It should be noted that all 'high' priority items are closed.

Environment Agency (EA)

We provide a significant amount of data to the EA about the performance of our assets and any wastewater or sewage discharges we make into what is known as the 'water environment' such as rivers, streams and coastal waters.

Actions

We have identified the need to review and improve our end-to-end reporting processes with a view to implementing process and control improvements.

Third line of defence assurers outcomes

Detailed process reviews have continued and a programme of improvements is being developed. We will establish a programme of rolling audits of our EA reporting and data integrity, starting with the 2017–18 internal audit programme of assurance. In addition, we will complete assurance of the 15/16 and 16/17 data. Independent external assurers will be assigned to the review, which will commence in August 2017.

Consumer Council for Water (CCWater)

CCWater had drawn attention to the high level of written complaints received about Southern Water and requested that we complete a series of separate returns to explain progress in reducing these numbers.

Actions

Improvement plans to improve the level of complaints began in the fourth quarter of 2015–16. The Customer Service division also improved training, procedures and quality control. In addition, our internal business assurance team completed a review of the process and recommended corrective actions which have been implemented.

Third line of defence assurers (Halcrow and PwC)

Written complaints information has been assured by Halcrow Management Sciences Ltd at the half-year and third quarter. A few non-material control points were raised and these have been reviewed and actions taken. Our fourth quarter results were assured by PwC as part of its year-end review of all our performance commitments. No data issues or further process problems were identified.

Market reform

Since April 2017, non-household customers have been able to change their water retailer. Southern Water decided to exit the non-household retail market and sold this customer portfolio to Business Stream. Business Stream is responsible for providing retail services to these customers. Our focus is now on ensuring that our wholesale business can operate effectively in the new market.

Actions

The market has now opened and we have systems, procedures and controls to ensure we continue to comply with Market Operator Services Limited's (MOSL) requirements and operate in the new market on a level playing field. These controls include:

- *monthly reports of performance*
- *a review of management responsibilities and accountabilities to implement an effective organisation and ensure the correct segregation of duties*
- *the completion of a Market Entry Assurance Certification (MEAC) process with MOSL (an interim preparation letter was submitted to Ofwat on 7 October 2016 to indicate our readiness)*
- *a final letter of assurance issued to Ofwat on 3 February 2017.*

We are still awaiting MOSL's confirmation of the requirements on market entrants to fulfil their ongoing assurance activity in the 2017–2018 financial year. We will ensure we have adequate assurance capabilities to meet these requirements.

Third line of defence assurers (PwC and Software Quality Systems AG)

PwC and Software Quality Systems AG provided reports to the board over the various assurance activities undertaken by our management to enable us to submit the three letters of assurance for the retail and wholesale parts of our business to Ofwat and the marketplace.

PR19 cost assessment

The Ofwat five-year business plan process requires all water companies to prepare robust business plans for the next five-year period (currently, we are in the 2015–2020 period). Before this period gets underway, water companies have to submit detailed costing information to Ofwat so it can initiate the planning process and comment on draft business plans. This part of the process is known as the price review and we are now working towards the Price Review 2019 (PR19) cost assessment. This will pave the way for our business plans for 2020–2025.

Actions

We completed a detailed exercise within the company to collate the required data and to check and assure the required information before submission. In addition, we commissioned our technical assurer, PwC, to review the data collation and assurance activities of the non-financial information. Simultaneously, Deloitte's reviewed financial costing information. Both assurers reported back separately on our work to Southern Water's management.

Third line of defence assurers (PwC and Deloitte's) outcomes

PwC completed their assignment, reporting findings to us during our detailed exercise process, which we actioned. They also recommended some future process improvements, which we will action prior to the forthcoming submission for the 2017–18 financial year. Deloitte's undertook a review of the financial tables for submission and had no issues to report.

4e. Reporting outcomes following stakeholder feedback on our annual report

As part of our engagement with our stakeholders during the 2016–17 financial year, a number of observations were made about the way we report our performance data. We detailed these observations in our Final Assurance Plan 2016–17. These observations and comments have been reviewed and incorporated into this year’s annual report. The actions we have taken are shown below. We believe that the way companies report their performance information will continue to change, especially with the advent of digital channels. Therefore, as regulation also changes, this will affect the form and content of what we report.

Table 2: Our reporting commitments following stakeholder engagement

Stakeholder Observations	Explanation for inclusion	Our actions
Signposting of reports	Feedback from our stakeholders proposing inclusion of a link to our reports on customer bills	We have now included a web link reference to our annual report in our billing information we send out to customers
Biodiversity reporting	Request from Natural England that we need to be more transparent in our reporting of our statutory biodiversity duties	We have included additional information on this subject in our annual report (pages 71 to 73)
Showcase successes	Feedback from our engagement suggesting that we should showcase our successes as well as focusing on areas for action in our reports	We will include a number of case studies of our successes in our annual report (pages 23 to 86)
Customer Advisory Panel (CAP) governance activities	Feedback from some stakeholders who are confused over the role of our CAP in assuring our data	A section on the role of our CAP is included in on page 25 of our annual report.
A few reported metric differences across regulators	Some stakeholders have noted historic differences in certain metrics due to timing or other differences that have needed reconciliation and explanation	We will continue to ensure that we clarify and explain any differences and their reasons to the appropriate regulator to avoid confusion and misinterpretation. The objective is to ensure metric reporting is entirely consistent and transparent. Some specific issues raised by CCWater have now been resolved.

5. Conclusion

This document has set out our assurance processes for key areas of our performance reporting. It should be cross-referenced with our detailed performance reporting in our Annual Report and Financial Statements 2016–17.

We believe that our stakeholders deserve to have trust and confidence in the integrity of the information we provide on our performance. We therefore acknowledge the shortcomings identified by our regulators and our duty to address these.

The comprehensive actions we have taken in tackling the criticisms levelled at us demonstrate our strong commitment to improvement. They include a greater emphasis on transparency and explanation, upgrades to our processes and procedures, and the commissioning of further resources to improve data quality.

Following publication of both this document and the annual report, we look forward to hearing the views of our stakeholders and customers on our response to dealing with areas of concern. We also welcome their feedback on the results we have achieved.

If you have any comments on this document, they should be sent to: regcorrespondence@southernwater.co.uk.

Appendix 1: Our current approach to data governance and assurance

In this section we describe our current approach to the governance and assurance of our performance data.

Our current assurance framework

Regulatory performance reporting is subject to systems of internal control and quality assurance. This ensures that the reporting of performance against regulatory targets is measured and recorded consistently within a framework of appropriate governance and quality control. This includes monthly scrutiny and challenge by the Executive Leadership Team (ELT) and the Southern Water Board of Directors.

Our framework uses the best practice ‘three lines of defence’ model, which is illustrated in table 3 below.

The key features of our three lines of defence framework of internal control and assurance are:

a. Documented processes, procedures and systems which we will continue to use for

reporting performance against our targets. These procedures cover the controls on data quality, reporting and review of information. Confidence grades – which describe the margin of error around particular data – are used to reflect the quality of the information we report.

- b. Management and director scrutiny with data sign-off to ensure our performance reporting is complete, accurate and reliable. This key control defines accountability for the delivery of the performance commitments in our business plan and provides a process to escalate issues.
- c. An ongoing programme of internal and external reviews of reporting procedures and quality assurance processes to ensure continuous improvements to remain fit for purpose.
- d. A thorough investigation process should any controls be identified as insufficient or where processes are not followed.

Table 3. Our ‘three lines of defence’ assurance model

Lines of defence		Accountabilities & activities
First line of defence Business operations	Business management process and controls	<ul style="list-style-type: none"> • Developing and maintaining sound processes and controls over operations • Reporting financial and operational performance measures including our performance commitments and other external regulatory measures • Ensuring data quality and integrity over information • Assessing changes in risk profiles and implementing mitigating actions
	Operational and financial control monitoring and measures	
Second line of defence Oversight functions	Regulation and compliance	<ul style="list-style-type: none"> • Liaising closely with business operations to ensure activities are robustly controlled and operated • Setting policy and procedures • Ensuring the ongoing challenge, monitoring, assurance and governance of business operations • Reviewing regular and ad hoc performance reporting • Identifying risks and enabling risk management processes • Gathering industry intelligence and linking closely with regulators and stakeholders • Internal governance and peer reviews of regulatory and statutory reports prior to submission
	Health and Safety	
	Financial control	
	Legal/company Secretary	
	Human Resources	
	IT security	
	Risk management	
Third line of defence Independent assurance	Internal audit	<ul style="list-style-type: none"> • Completing internal audit reviews of systems, processes and control monitoring through on-going testing and assurance of key processes using a risk based approach • Completing third party risk-based assurance of financial and regulatory accounts and performance information • Linking closely with first and second lines of defence and activity on issues identified or reported
	External financial auditor	
	Third party technical auditor	
	Customer Advisory Panel	
	Board and Audit Risk Review Committee	

Our risk and compliance statement signed by the Southern Water Board of Directors continues to form a key part of our annual report. The governance and assurance processes which underpin our board's ability to make this statement are based on defined accountability and escalation processes within the business. These comprise:

- *top-level challenge of business performance that allows for action to be taken where improvement is required. This happens through our framework of monthly performance reporting to the board and ELT*
- *internal compliance processes and procedures – including an obligation on ELT members to submit a letter of compliance every six months to confirm that the areas of the business for which they are responsible are compliant with legal and regulatory requirements, and company procedures and controls. ELT members must record any areas of non-compliance and detail actions to be taken to resolve the position. There is an ongoing obligation to report any non-compliance and areas of significant non-compliance are escalated to the board and require clear action plans to rectify the position*
- *employees are encouraged to report any issues with procedures or with information being reported. This is supported by our new 'Speak Up' campaign that started in January 2017, an initiative which actively promotes the raising of concerns about practices or situations that could affect our business.*
- *a corporate risk framework for the identification, assessment, management and communication of key risks to our business*
- *The board's Audit and Risk Review Committee which monitors assurance activities during the year, including reviews of processes and controls undertaken by internal and external audit teams, including a third party technical auditor. These reviews cover the design and operating effectiveness of controls and processes, together with audit trails of reported data.*

It is a statutory requirement that annual accounting statements (our financial information) are audited and that an independent auditor's report is produced. We believe customers should see the same principle applied to reporting on the delivery of our non-financial business performance information.

Deloitte LLP conducts an independent external audit of our financial statements every year.

Based on its independent financial materiality assessment, Deloitte also provides a 'true and fair opinion' of our annual financial statements.

Appointment of a technical assurer

In our Five-year Business Plan 2015 to 2020 we said the following:

To build trust in our performance reporting with customers and stakeholders we plan to give increased credibility to our current robust governance and assurance framework which will provide a final layer of assurance that we are measuring and reporting our commitments consistently, based on robust data. We will do this by:

- *Appointing a certifier who will have a professional background in technical, operational, financial and regulatory aspects of the water industry and who will lead the assurance work on our performance report. The certifier will be independent from Southern Water and will be engaged by the board's Audit and Risk Review Committee.*
- *Publishing a Certificate of Assurance from our certifier confirming that we have a robust system of internal controls in place for performance reporting and that performance information in the annual report fairly represents the company's progress and delivery of its commitments.*

Halcrow Management Sciences Ltd was our incumbent technical assurer until the 2016–17 year end. This contract has now ended and through a competitive tendering process, we have now selected PricewaterhouseCoopers LLP as our technical assurer for a three-year period.

Appendix 2:

Independent Limited Assurance Report to the Directors of Southern Water Services Limited

The Board of Directors of Southern Water Services Limited ('Southern Water') engaged us to provide limited assurance on the information described below and set out in Southern Water's Annual Report and Financial Statements 2016–17 for the year ended 31 March 2017.

Disclaimer

- *PwC accepts no liability (including liability for negligence) to each recipient in relation to PwC's report. The report is provided to each recipient for information purposes only. If a recipient relies on PwC's report, it does so entirely at its own risk;*
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- *PwC will be entitled to the benefit of and to enforce these terms; and*
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Our conclusion

Based on the procedures we have performed and the evidence we have obtained, except for the matter described in the basis for qualified conclusion paragraph stated below, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 March 2017 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This conclusion is to be read in the context of what we say in the remainder of our report.

Basis for Qualified Conclusion

Southern Water is required to provide to the Environment Agency the number, and details, of Category 3 Pollution Incidents, and report wastewater treatment works compliance.

We have been unable to obtain the necessary evidence to support the accuracy of the number of:

- *WW1a: Category 3 pollution incidents;*
- *WW1: Wastewater asset health – Wastewater treatment works population equivalent compliance; and*
- *WW6: Wastewater treatment works numeric compliance*

This is referenced by management on page 33 of the Annual Performance Report.

Selected Information

The scope of our work was limited to assurance over the following information in Southern Water's Annual Report & Financial Statements 2016–17 (the 'Selected Information').

- *The number of compensation payments made to customers (Guaranteed Standards Scheme)*
- *The number of customers on supportive payment schemes;*
- *Greenhouse gas emissions – KgCO_{2e};*
- *KgCO_{2e} per person supplied with treated water;*
- *KgCO_{2e} per person supplied with wastewater services;*
- *Total odour complaints;*
- *3A – Outcome performance table – wholesale water, wholesale wastewater and retail;*
- *3B – Sub-performance measure table;*

- 3C – *Abstract incentive mechanism;*
- 3D – *Service incentive mechanism; and*
- 4A – *Non-financial information.*

The Selected Information and the Reporting Criteria against which it was assessed are summarised in Appendix 2/1. Our assurance does not extend to information in respect of earlier periods or to any other information included in the Southern Water’s Annual Report & Financial Statements 2016–17.

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) ‘Assurance Engagements other than Audits and Reviews of Historical Financial Information’ and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 ‘Assurance engagements on greenhouse gas statements’, issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Our Independence and Quality Control

We applied the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control (UK & Ireland) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our work was carried out by an independent team with experience in assurance.

Understanding reporting and measurement methodologies

The Selected Information needs to be read and understood together with the Reporting Criteria (Southern Water’s reporting criteria), which Southern Water is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time. The Reporting Criteria used for the reporting of the Selected Information are for the 2017 reporting year.

Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- *Made enquiries of Southern Water’s management;*
- *Re-performed the calculation of the performance level arising from the Selection Information in the year against the Reporting Criteria;*
- *Performed limited substantive testing on a selective basis of the Selected Information at corporate head office and two other offices to check that data had been appropriately measured, recorded, collated and reported; and*
- *Considered the disclosure and presentation of the Selected Information.*

Southern Water’s responsibilities

The Directors of Southern Water are responsible for:

- *Designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;*
- *Establishing objective Reporting Criteria for preparing the Selected Information;*
- *Measuring and reporting the Selected Information based on the Reporting Criteria; and*
- *The content of the Annual Report & Financial Statements 2016–17.*

Our responsibilities

We are responsible for:

- *Planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;*
- *Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and*
- *Reporting our conclusion to the Directors of Southern Water.*

This report, including our conclusions, has been prepared solely for the Board of Directors of Southern Water in accordance with the agreement between us, to assist the Directors in reporting Southern Water's performance and activities. We permit this report to be disclosed online at: southernwater.co.uk/our-reports in respect of the 2017 reporting year, to assist the Directors in responding to their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors and Southern Water for our work or this report except where terms are expressly agreed between us in writing.



PricewaterhouseCoopers LLP

Chartered Accountants

Gatwick

15 July 2017

Appendix 2/1: Selected Information subject to limited assurance procedures

The Selected Information subject to limited assurance procedures are set out below. The Reporting Criteria ‘Southern Water’s reporting criteria’ as outlined in Appendix 2 of the Annual Performance report, has been used to prepare and report the Selected Information.

Performance commitments			
Selected Information	Reporting Criteria	Reported Performance	2016–17 Committed Performance Level met?
Number of compensation payments made to customers (Guaranteed Standards Scheme);	Number of Guaranteed Standards Scheme GSS compensation payments made to customers in the reporting year.	2,436 Payments	Yes
Greenhouse gas emissions – KgCO ₂ e;	Scope 1, 2 and 3 Greenhouse Gas Emissions expressed as kilograms carbon dioxide equivalent (KGCO ₂ e).	245 KGCO ₂ e	Yes
KgCO ₂ e per person supplied with treated water; and	Scope 1, 2 and 3 Greenhouse Gas Emissions expressed as kilograms carbon dioxide equivalent (KGCO ₂ e) per person supplied with treated water.	25 KGCO ₂ e	N/A
KgCO ₂ e per person supplied with wastewater services.	Scope 1, 2 and 3 Greenhouse Gas Emissions expressed as kilograms carbon dioxide equivalent (KGCO ₂ e) per person supplied with wastewater services.	35 KGCO ₂ e	N/A
Odour complaints total	Number of customer odour complaints (written and call) from smells from Southern Water wastewater treatment works and pumping stations.	326 Complaints	Yes

3A – Outcome performance table – Wholesale water			
Selected Information	Reporting Criteria	Reported Performance	2016–17 Committed Performance Level met?
W1: Water Asset Health			
Mains bursts	Number of mains bursts in the Southern Water main distribution network pipeline in the reporting year.	Stable	Yes
Water quality compliance (TIM)	The percentage of water supply zones compliant with the Distribution Maintenance Index (TIM). TIM distribution index is measured as the arithmetic mean for turbidity, iron and manganese measured in Water Supply Zones (%).		
WSW coliform compliance	The number of compliant water treatment works with tests containing zero coliforms as a percentage of the number of determinations of water leaving treatment works.		
WSR coliform compliance	The number of compliant water service reservoirs with no more than 5% of samples containing coliforms as a percentage of the number of service reservoirs in supply during the year.		
Turbidity compliance	The number of non-compliant water treatment works tested for turbidity levels.		
W2: Water Use Restrictions	The number of properties affected by temporary water use bans between 2015-16 and 2019-20, before two dry winters.	0	Yes
W3: Leakage (five-year average)	The total level of leakage, including customer supply-pipe leakage, expressed in mega litres per day (Ml/day).	88.11 (Ml/day)	No
W4: Interruptions to supply	Average minutes per property lost through water supply interruptions of greater than three hours.	6.66 minutes/property	Yes
W5: Drinking water quality – Mean Zonal Compliance (MZC)	The percentage of water supply zones compliant with the Water Supply (Water Quality) Regulations as measured by mean zonal compliance (MZC) (%) and reported by Drinking Water Inspectorate.	99.96%	Yes
W5a: Drinking water quality – discolouration contacts	The number of customer contacts regarding yellow, black, brown or orange discoloration of their drinking water, expressed as the number of contacts per 1,000 population.	0.74 contacts/1000 population	Yes
W6: Low water pressure	Number of connected properties that receive pressure below the reference level and are on the DG2 low water pressure register	222 properties	Yes
W7: Distribution input	The average daily amount (Ml/day) of potable water entering the distribution system.	532.28 Ml/day	No
W8: Per capita consumption (five-year average)	Average per capita consumption. Per capita consumption is the average amount of water used by each of the company's household consumers each day, measured as litres per head per day (l/h/d).	131.29 (l/h/d)	Yes

3A – Outcome performance table – Wholesale wastewater			
Selected Information	Reporting Criteria	Reported Performance	2016–17 Committed Performance Level met?
WW1: Wastewater asset health			
Sewer collapses	The number of sewer collapses.	Stable	Unable to confirm
Wastewater treatment works population equivalent compliance	The percentage of population equivalent served by wastewater treatment works discharges which are compliant with their numeric environmental consents, as reported by the Environment Agency.		
External flooding – other causes	The number of external flooding (other causes). Other causes are defined as equipment failures, blockages and collapses.		
WW1a: Category 3 pollution incidents	The total number of category 3 pollution incidents, including transferred assets and excluding private pumping stations.	143 Incidents	Unable to confirm
WW2: Internal flooding incidents	The total number of internal flooding incidents (all causes, including private sewers).	448 Incidents	No
WW3: External flooding incidents	The total number of external flooding incidents (all causes).	8,009 Incidents	Yes
WW4: Sewer blockages	The total number of sewer blockages per km of sewer length.	0.55 Blockages/km	Yes
WW6: Wastewater treatment works numeric compliance	The percentage of wastewater treatment works that are compliant with their numeric environmental consents as reported by the Environment Agency on MD109 (%).	99.3%	Unable to confirm
WW7: Proportion of energy from renewable sources	The proportion of total energy consumption that is from renewable sources.	17.0%	Yes
WW8: Bathing waters with ‘excellent’ water quality (part 1)	The number of bathing waters with categorised as ‘excellent’ water quality in the reporting year. The measure of ‘excellent’ water quality is no more than 100 Intestinal Enterococci cfu/ml and 250 Escherichia coli cfu/ml in at least 19 out of 20 samples.	51 Bathing Waters	No
WW9: Bathing waters with ‘excellent’ water quality (part 2 – additional number of bathing waters)	The total number of additional bathing waters categorised as ‘excellent’ water quality. The measure of ‘excellent’ water quality is no more than 100 Intestinal Enterococci cfu/ml and 250 Escherichia coli cfu/ml in at least 19 out of 20 samples.	N/A	N/A
WW11: Serious pollution incidents (Category 1 and 2)	The total number of category 1 and 2 pollution incidents, as reported by the Environment Agency on MD109.	3 Incidents	Yes
WW12: Avoiding blocked drains (awareness survey)	The percentage of customers who are aware of measures to avoid blocked drains, measured by customer surveys results.	79%	Yes

3A – Outcome performance table – Retail			
Selected Information	Reporting Criteria	Reported Performance	2016–17 Committed Performance Level met?
R1: First-time resolution of customer contacts	The percentage of customer contacts resolved first time, as measured by a third party	67%	No
R2: Dealing with customers' individual needs (awareness survey)	The percentage of customers agreeing with the statement that we 'dealt with their individual needs', measured by surveys.	66%	No
R3: Awareness of water hardness measures (awareness survey)	The percentage of customers with awareness of how to deal with hard water, measured by customer surveys results.	56%	No
R4: Where your money goes (awareness survey)	The percentage of customers with awareness of 'where your money goes', measured by customer surveys results.	56%	No
R5: Billing queries	Number of customer queries related to the understanding of their bills	145,962 Billing queries	No
R6: Take up of assistance schemes	The number of customers who are receiving support through one of our financial assistance schemes	194,726 customers	Yes
R7: Value for money (awareness survey)	The percentage of customers who feel they get value-for-money from our services, measured by customer surveys results.	57%	No
R8: Service Incentive Mechanism (SIM)	A customer service quality score out of 100. The scoring is made up of the following: quantitative component consisting of four customer handling metrics – unwanted phone contacts, written complaints, escalated written complaints, and Consumer Council for Water (CCWater) investigated complaints; and qualitative component based on the results of customer satisfaction surveys with a recent resolved contact (by any media for any reason).	78	No

3B – Sub-measure performance			
Selected Information	Reporting Criteria	Reported Performance	2016–17 Committed Performance Level met?
W1: Water Asset Health		Stable	Yes
Mains bursts	Number of mains bursts in the Southern Water main distribution network pipeline in the reporting year.	1,996 Bursts	Yes
Water quality compliance (TIM)	The percentage of water supply zones compliant with the Distribution Maintenance Index (TIM). TIM distribution index is measured as the arithmetic mean for turbidity, iron and manganese measured in Water Supply Zones (%).	99.9%	Yes
WSW coliform compliance	The number of compliant water treatment works with tests containing zero coliforms as a percentage of the number of determinations of water leaving treatment works.	99.9%	Yes
WSR coliform compliance	The number of compliant water service reservoirs with no more than 5% of samples containing coliforms as a percentage of the number of service reservoirs in supply during the year.	100%	Yes
Turbidity compliance	The number of non-compliant water treatment works tested for turbidity levels.	100%	Yes
WW1: Wastewater asset health		Stable	Unable to confirm
Sewer collapses	The number of sewer collapses.	233 Collapses	Yes
Wastewater treatment works population equivalent compliance	The percentage of population equivalent served by wastewater treatment works discharges which are compliant with their numeric environmental consents, as reported by the Environment Agency.	100%	Unable to confirm
External flooding – other causes	The number of external flooding (other causes). Other causes are defined as equipment failures, blockages and collapses.	7,614 Incidents	Yes

3C – Abstractive Incentive Mechanism (AIM)		
Selected Information	Reporting Criteria	Reported Performance
Abstractive Incentive Mechanism (AIM) Schemes	The number of live AIM schemes	No Activity

3D – Service Incentive Mechanism			
Selected Information	Reporting Criteria	Reported Performance	2016–17 Committed Performance Level met?
Qualitative performance	Qualitative component based on the results of customer satisfaction surveys with a recent resolved contact (by any media for any reason).	60.43	N/A
Quantitative performance	Quantitative component consisting of four customer handling metrics – unwanted phone contacts, written complaints, escalated written complaints, and Consumer Council for Water (CCWater) investigated complaints;	17.71	N/A
Service Incentive Mechanism (SIM)		78.14	No

4A – Non-financial information		
Selected Information	Reporting Criteria	Reported Performance
Retail Household		
Number of void households (unmeasured)	Average total number of unmeasured household properties, within the supply area, which are connected for either a water service only, a wastewater service only or both but do not receive a charge as there are no occupants. Expressed in 000's.	19.4 Properties
Number of void households (measured)	Average total number of measured household properties, within the supply area, which are connected for either a water service only, a wastewater service only or both but do not receive a charge as there are no occupants. Expressed in 000's.	31.94 Properties
Per capita consumption excluding supply pipe leakage (unmeasured)	Estimated per capita consumption of households that are supplied with unmeasured water excluding supply pipe leakage. Per capita consumption is the average amount of water used by each of the company's household consumers each day, measured as litres per head per day.	170.16 (l/h/d)
Per capita consumption excluding supply pipe leakage (measured)	Estimated per capita consumption of households that are supplied with measured water excluding supply pipe leakage. Per capita consumption is the average amount of water used by each of the company's household consumers each day, measured as litres per head per day.	125.25 (l/h/d)
Wholesale		
Bulk supply export	Volume of water (treated and untreated) exported to other companies in bulk supplies. Measured as litres per head per day (l/h/d).	22.17 (l/h/d)
Bulk supply import	Volume of water (treated and untreated) imported from other companies in bulk supplies. Measured as litres per head per day (l/h/d).	2.48 (l/h/d)
Distribution input	The average daily amount (Ml/day) of potable water entering the distribution system. Measured as litres per head per day (l/h/d).	532.28 (l/h/d)



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