



# Data Assurance Summary

Annual Performance Reporting  
2019–20

from  
**Southern  
Water** 

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# Introduction

**This document sets out the scope and results of our assurance activities for reporting our performance in 2019–20. It should be read in conjunction with our Annual Report and Financial Statements 2019–20 and our Annual Performance Report 2019–20, which provide full details of our performance during the year.**

This document is one of three documents relating to assurance that we publish during the year as part of our annual reporting for customers, stakeholders and regulators:

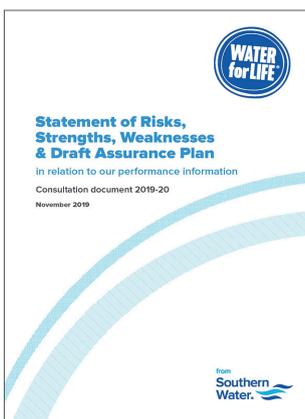
- Data Assurance Summary (in July in parallel with our Annual Performance Report)
- Statement of Risks, Strengths and Weaknesses and Draft Assurance Plan for consultation (published in November)
- Final Assurance Plan (March) which takes on board comments from the consultation on the Statement of Risks, Strengths and Weaknesses and Draft Assurance Plan

All three documents focus on the quality of our information reporting and governance. They can be found at [southernwater.co.uk/our-performance/reports/annual-reporting](https://southernwater.co.uk/our-performance/reports/annual-reporting).

We take full responsibility for the information we publish on our performance and seek to provide confidence to customers and stakeholders through a transparent approach to data assurance. The assurance we have performed and commissioned is designed to provide greater levels of trust and confidence in our reported performance and the delivery of promises made in our 2015–20 Business Plan.

In addition to our own internal assurance teams and processes which we strive to continually improve, our performance data is assured by an independent technical assurer PricewaterhouseCoopers (PwC), who has completed its fourth year in this role.

Assurance is rarely able to provide absolute certainty over the quality of reported information, however, we aim for the assurance that we perform and commission to provide our internal and external stakeholders with sufficient comfort over the robustness and quality of the information that we report.



# Summary of opinion

We are pleased that internal and external assurance processes did not identify any material issues in the data reported or the processes and controls underpinning our Annual Report and Financial Statements and our Annual Performance Reporting in 2019–20. Both our financial auditor Deloitte LLP (Deloitte) and our technical assurer, PwC, have provided independent opinions and summaries which we have published. See Appendix 1 for the independent opinion of our technical assurer.

Our technical assurer has issued us with an unqualified limited assurance ISAE 3000 opinion over our 2015–20 Business Plan Performance Commitments in Section 3 of our Annual Performance Report. We are also particularly pleased that our plan has delivered significant improvements to processes and controls which resulted in an ongoing reduction in the number of audit findings and improvements in the quality of data in comparison to previous years. PwC has provided the following Assurance Statement below.

## **PwC Assurance Statement**

We have provided Southern Water with an ISAE 3000 opinion for the last four years over the Performance Commitments (PCs) in Section 3 of the Annual Performance Report. In our first two years as Technical Auditors (2016–17 and 2017-18 reporting years), our opinion was qualified as we were unable to obtain the evidence to confirm the accuracy of certain PCs. As a result of ongoing and material improvements in processes and controls in the regulatory reporting process, and a cultural shift in the organisation, we have been able to issue Southern Water with an unqualified ISAE 3000 opinion for the last two years across all PCs (excluding low risk PCs which are assured internally by the second line of defence, in line with Southern Water's Assurance Framework).

# Context

## Regulatory background

We are now entering a new five-year Asset Management Period (AMP7) which will take us from April 2020 to end of March 2025. Our Final Determination (FD) was published by Ofwat on 16 December 2019 and sets out a number of promises and performance commitments we are making to our customers. In addition to ensuring our performance data is transparent and accurate, we also strive to ensure that our customers and stakeholders can access and understand our performance.

For the period 2015–20, Ofwat developed its Company Monitoring Framework (CMF) to encourage water and wastewater companies to conduct high-quality assurance of the information

companies provide to their customers and stakeholders. Ofwat is evolving its approach to performance monitoring to ensure it is able to assess companies' performance in the round (including financial and operational performance, company governance and culture). This is an important element of its new strategy launched in autumn 2019. In the meantime, Ofwat will not publish further annual CMF assessments, but will continue to scrutinise and challenge companies' approaches to data quality and assurance of performance reporting.

Ofwat expects companies to continue to strive for best practice in their assurance arrangements, and it expects all companies to adopt as a minimum the standards shown at Table 1.

**Table 1 – Ofwat Minimum requirements for all companies**

Activity	Requirement	Comment
Engagement on risks, strengths and weaknesses exercise	Companies should carry out an exercise each year to consider these aspects in order to target areas to improve. This should consider both data assurance and how companies provide assurance to customers more generally.	Southern Water maintains ongoing dialogue with its customers and stakeholders. Outcomes from these discussions are considered when pulling these documents together. We have had specific input from our Customer Challenge Group, Strategic Environment Panel and the Environment Agency around our work on becoming more transparent about our environmental performance.
Publish risks, strengths and weaknesses statement	Companies should complete and publish statements on their risks, strengths and weaknesses exercise. All statements should be published before 30 November each year.	In line with previous years, it will be published and available on our website by 30 November 2020.
Publish draft assurance plans	Companies need to complete the risks, strengths and weaknesses exercise before they publish draft assurance plans. The Draft Assurance Plan should include any areas that are targeted based on this exercise.	In line with previous years, it will be published and available on our website by 30 November 2020.
Engagement on assurance plans	Companies should proactively engage with stakeholders, giving them the opportunity to provide comments on draft assurance plans.	Our Draft Assurance Plan includes details of how to respond to the document and we proactively seek responses from key stakeholders. The responses we receive are incorporated into our Final Assurance Plan.
Publish final assurance plans	Companies publish final assurance plans, providing responses to any comments they have received.	We publish our final assurance plans on our website each year and will be available on our website by 31 March 2021.
Other requirements	Companies should provide: <ul style="list-style-type: none"> <li>transparency on the audit procedures they have put in place in relation to data assurance; and</li> <li>a summary of the outcome of the data assurance that has been carried out.</li> </ul>	We publish our Data Assurance Summary on our website each year. This will be published alongside our Annual Performance report in July 2021.

## Wastewater investigations

The Ofwat investigation that commenced in 2017 has resulted in Ofwat taking enforcement action against us. In October 2019 Ofwat issued a decision to impose a financial penalty of £3 million, details of which were initially published in June 2019. In addition, we have agreed to make significant customer bill rebates, totalling £122.9 million (in 2017–18 prices), between 2020–25, in recognition of our failure to meet the expectations of our customers and wider stakeholders, as well as our regulators. On 8 October 2019 we signed the formal undertakings pursuant to S19 Water Industry Act 1991 (the Undertakings) relating to the numerous changes we have put in place, and are putting in place, to ensure that the issues identified in the investigation have been stopped and cannot be repeated.

The undertakings contain a wide range of corrective actions and interventions across seven themes:

- A. Customer redress measures;
- B. Technical review of wastewater treatment works;
- C. Organisational compliance process measures;
- D. Organisational cultural change measures;
- E. Ensuring transparency;
- F. Condition I certificate assurance undertaking and
- G. Reporting on compliance with the undertakings.

Compliance with the Section 19 undertakings and progress of these actions was reported to Ofwat in our February 2020 Compliance Monitoring Report. They are also subject to a formal assurance regime which is being independently externally assured by our technical assurer, currently PwC, and reported to both our Audit Committee and Board and to Ofwat on a regular basis. The outcome of the first assurance from PwC stated that it agreed with our assessments of compliance with the undertakings, that we had made good progress so far against our plan and in delivery of them.

A set of customer and stakeholder FAQs has been uploaded to our website to provide clear information about the key points raised by the investigation and can be found at [southernwater.co.uk/our-performance/working-with-ofwat-to-make-amends-to-our-customers](https://www.southernwater.co.uk/our-performance/working-with-ofwat-to-make-amends-to-our-customers).

Like other wastewater operators, in the normal course of operations we occasionally face Environment Agency investigations regarding wastewater matters following incidents. In addition to those the company has been subject to a detailed investigation regarding permit breaches at some of our wastewater treatment works at two locations during the period 2010–15. In February 2020 the Environment Agency presented charges before the court and we have

entered guilty pleas to these charges. We will be as open and transparent as possible and are committed to working with the agency to ensure a swift conclusion to resolve the case. Since Chief Executive Ian McAulay joined in 2017, he has been driving thorough internal reviews of our wastewater business and is leading a major transformation programme.

We have also assisted and continue to support the Environment Agency with its separate investigation into sampling compliance and reporting issues. As the investigation is ongoing, we are not able to say any more about it at this time.

## Condition I assurance

In order to meet the Licence Condition I Certificate requirements of the undertakings, the Southern Water Board needs to be able to clearly evidence the level of diligent enquiry that it has undertaken, to ensure that it is able to demonstrate that the company will have, for at least the next 12 months, sufficient:

- Financial resources and facilities
- Management resources
- Methods of planning and control

The Southern Water Board will sign-off Condition I assurance statements. This will enable the Board to clearly demonstrate it has discharged its responsibilities and has made diligent enquiry into the principal risks facing the wastewater business (to support the undertakings).

In February 2020 Ofwat published new guidance (IN 20/01) on the requirements and expectations for ring fencing certificates (in our case the Condition I statement). The information notice reminds companies of their responsibilities and provides prescriptive guidance on the subject.

The Condition I certification process will be subject to external assurance. The assurance will:

- Consider the Board assurance statements
- Review the evidence packs and diligent enquiry statements that support the Board assurance statements
- Review Board papers and minutes around the Condition I certificates
- Undertake some questioning, including Board members, around the quality of the evidence supporting the board statements
- Attendance at relevant Board meetings
- Judging the above against the overall requirements of the Certificates and the undertakings requirement
- Providing a report and opinion and potentially present its findings to Ofwat

## Drinking Water Inspectorate

In 2017, we had four outstanding Final Enforcement Orders from the Drinking Water Inspectorate (DWI): three were associated with new asset improvement schemes, and one with improvements in water quality sampling and information management. Three years on, we have successfully closed three of these orders, with the most recent being revoked in January 2020. One remains in place – a final asset improvement scheme at Shoreham water supply works. We have a varied programme of activity helping to improve our information management systems and process, including a risk-based review of monitoring, procedures, and manual intervention involved in all critical information systems. This package of work, which commenced in 2018 will continue through 2020 and beyond. A programme of asset and IT improvements designed in cooperation with the DWI has now begun and will continue through to 2025. This work is within the scope of our Section 19 Information Management Undertaking (IMU) with the DWI which formalises this element of our programme.

The resulting programme contains a package of actions to assess and address the risks to data management and improve systems that are required to ensure compliance with the regulations. An assurance and governance process has been developed and submitted to the DWI. The assurance will look at compliance with the IMU commitments and statutory requirements. The assurance will be carried out internally by the separate (2nd line) Risk and Assurance team, commencing with an initial assessment in July 2020, repeated at six monthly intervals in January and July each year. We are required to submit annual progress reports to the DWI by 31 March each year until 2025.

## Engaging our customers and stakeholders

The role of all of our regulators is of paramount importance to the effective operation of the water industry. We engage with them to understand their concerns and to work with them effectively.

Employees at all levels of the company meet with our regulators routinely to share information. We believe that strong working relationships are crucial to helping us to meet our regulatory requirements. We regularly review the effectiveness and strength of our relationships with our different regulators and other stakeholders, including key stakeholder groups and central and local government.

Our customers have told us that the way we present our information is positive, recognising that there is unlikely to be a single method that will work for every customer and stakeholder. We have improved how we listen to customers on the information we provide, by using a variety

of feedback channels, including inviting direct feedback on our reports via a dedicated email address.

In our Annual Report we outline our approach to customer and stakeholder engagement in order to create a resilient water future for customers in the South East; our approach seeks to co-imagine and co-create it with them. Our Customer Participation Strategy was designed with our leadership team, Board and Customer Challenge Group by using 12 guiding principles under each of our company values; doing the right thing, succeeding together and always improving.

Our Customer Challenge Group was primarily used during the Price Review processes, and as such it has now ceased and been replaced with the Customer Action Group and the Strategic Environmental Panel. We have expanded the reach of our engagement by using a segmentation to help design solutions for different customer needs and worked more with harder to reach audiences and stakeholders in our approaches. We have been running joint projects and are partnering with a range of organisations and sharing with other water companies. We are innovating in our approaches to participation such as the use of our Customer Action Group Panels.

As we move into 2020–21, our Customer Participation Strategy continues to evolve with changing trends and expectations, with the COVID-19 crisis not only adapting how we approach but the priorities of our customers. Our ongoing approach means we are able to tap into these trends and understand not only the desired outcomes for our customers but the reasons for change.

In November 2019 we published a written consultation on our Statement of Risks, Strengths and Weaknesses and a Draft Assurance Plan for 2020–21 which took into account our customers' and stakeholders' views, along with our own internal risk assessment. Our assurance plan set out how we proposed to respond to the risks we identified. We asked for our stakeholders' views about our proposals. The responses we received during the consultation were used to shape our Final Assurance Plan for 2020–21, which was published in March 2020 on our website at [southernwater.co.uk/our-story/final-assurance-plan](https://southernwater.co.uk/our-story/final-assurance-plan).

## Our Statement of Risks, Strengths and Weaknesses

Our latest risks, strengths and weaknesses assessment was published in November 2019. It highlighted the areas of reporting that have the most significance or are of greatest risk to customers. For these areas, we put in place independent external assurance as part of our assurance plans. For more details see Appendix 2.

# Our approach to assurance

In our 2020–21 Final Assurance Plan published in March 2020, we detailed our approach to assurance in relation to our performance information and acknowledged the importance of accurate information in building trust and confidence.

At Southern Water we are adopting the ‘three lines of defence’ framework for our reporting governance and assurance activity. This helps

to assure performance information by applying multiple levels of control.

We apply internal controls and have improved processes in place to mitigate the risk of supplying incorrect or inaccurate information on all our non-financial regulatory reporting. Table 2 describes the activities undertaken by each line of defence. Ultimately, all assurance activity has oversight from the Board and Audit Committee.

**Table 2 – Our application of the ‘three lines of defence’ assurance model**

Lines of defence	Business function	Activities
<b>First line</b> <b>Business operations</b>	<b>Business management processes and controls</b>  <b>Operational and financial monitoring and measures</b>	<ul style="list-style-type: none"> <li>• Developing and maintaining sound processes and controls over operations</li> <li>• Reporting financial and operational performance measures including our performance commitments and other external regulatory measures</li> <li>• Ensuring data quality and integrity over information</li> <li>• Assessing changes in risk profiles and implementing mitigating actions</li> <li>• Integrating all compliance requirements into day-to-day operations and monitoring adherence</li> </ul>
<b>Second line</b> <b>Oversight functions</b>	<b>Risk and Compliance directorate</b>  <b>Audit and risk subject matter experts</b>	<ul style="list-style-type: none"> <li>• Liaising closely with the wider business to ensure activities are controlled and effectively operated</li> <li>• Setting policy and procedures</li> <li>• Ensuring the ongoing challenge, monitoring, assurance and governance of business operations</li> <li>• Reviewing regular and ad hoc performance reporting</li> <li>• Identifying risks and enabling risk management processes</li> <li>• Gathering industry intelligence and linking closely with regulators and stakeholders</li> <li>• Building compliance and resilience into our water and environmental processes</li> <li>• Standardising data governance and reporting</li> </ul>
<b>Third line</b> <b>Independent assurance</b>	<b>Independent assurance providers</b>  <b>Internal audit</b>	<ul style="list-style-type: none"> <li>• Completing reviews of processes, control monitoring, data quality and systems through ongoing testing and assurance of key processes using a risk-based approach</li> <li>• Completing third party risk-based assurance of financial and regulatory accounts and performance information</li> <li>• Linking closely with first and second lines of defence and activity on issues identified or reported</li> <li>• Providing independent reports to our Board Audit Committee</li> </ul>

The Audit Committee monitors the assurance over the integrity of our non-financial information reported by us in fulfilment of our regulatory, legal and environmental obligations. This includes information required by Ofwat, the DWI and the EA. The assurance plans are approved by the Audit Committee, which is responsible for overseeing and challenging the effectiveness of our approach.

Southern Water is committed to driving structural and cultural change to support the development of a modern, transparent and ethical compliance framework. In our Final Assurance Plan we highlighted the ongoing activity and improvements we have made in our performance reporting under our Modern Compliance Framework (see Figure 1). Over the past three years, we have significantly strengthened our performance monitoring capability which underpins the completeness and accuracy of our performance data and provides more confidence in the reporting we publish. This leads to improved assurance with fewer issues being identified and increased trust and confidence in our data.

In our Final Assurance Plan we also highlighted activity we have undertaken in 2019–20 to improve the quality of our regulatory reporting.

The completion of our year-end assurance processes have clearly demonstrated improvements in business processes, however, we continue to see some varied levels of maturity across the business as a whole. This ranges from processes with fully embedded controls that can be fully assured to processes that are still in development where the required controls are being improved and embedded to resolve assurance findings. This has been observed by our second line assurance teams and the PwC technical assurers and highlights the need to ensure we have an integrated approach to process improvement across teams for all our regulatory reporting. As part of the end-of-year assurance programme, a number of priority areas for further improvement have been identified.

At the beginning of the business plan period 2020–25, we have introduced a new suite of processes to support our Ofwat non-financial performance information, this is known as the Ofwat Compliance Framework (OCF). All processes that support the reporting of information relating to our performance commitments have been reviewed and updated to align to the Ofwat Final Determination.

Figure 1 – Performance Improvement under our Modern Compliance Framework



Since the delivery of our 2019 Data Assurance Summary we have looked to continuously improve our assurance approach and processes. In advance of the 2020 data assurance round our in-house 2nd line assurance team (Business Assurance) and our external technical assurer (PwC) worked together to deliver a number of improvements:

- Provide information and guidance to support identification of risks and definition of controls
- Improving the framework for reporting
- Revised approach to reporting process documents
- Revised approach to data sheets
- Improving engagement by setting expectations of process and promise owners
- Set expectations of promise owners
- Improve discipline around roles, process and timetable
- Improve the assurance approach and ensure the reporting timetable is delivered. Targeted interventions for problem areas identified in previous audits.

Business Assurance has also worked to integrate our approach to reporting process improvement and assurance. These included:

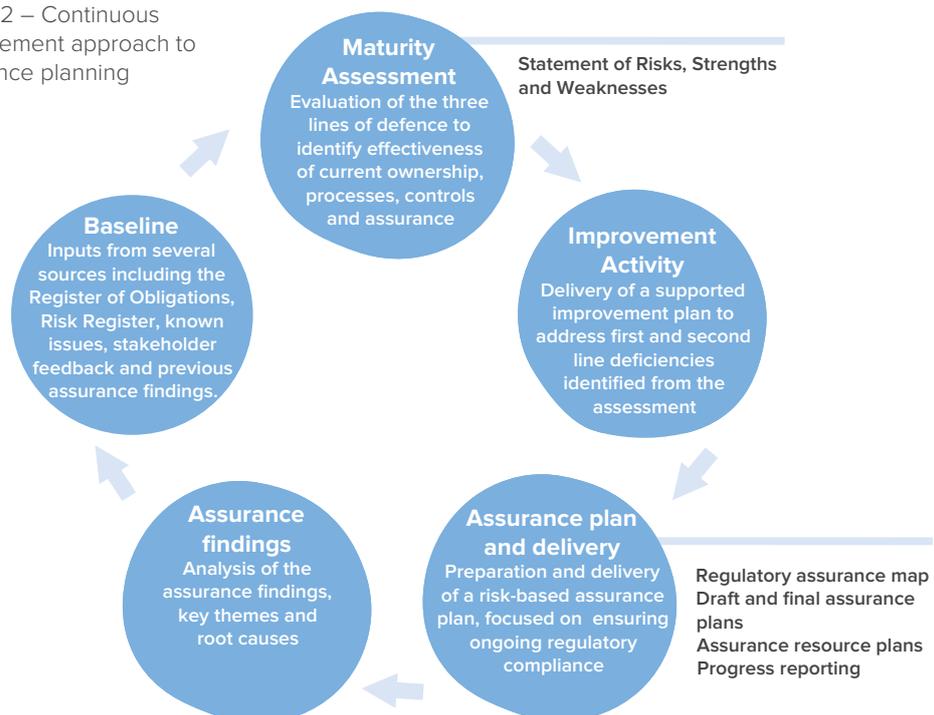
- A single approach to reporting process improvement and assurance across all of our regulators. We had different approaches for Ofwat, EA and DWI.
- Move to a proactive rather than reactive programme of regulatory assurance.

- Support the delivery of the new approach to process improvement and assurance by combining internal and external resource to support the risk-based programme of assurance including:
  - Internal teams focusing on process and control improvements across first and second line teams.
  - Internal teams leading end to end process improvement and controls in technical areas supported by external assurance providers where internal teams require additional support.
  - External assurance to carry out risk-based assurance of our end-of-year reporting to all regulators and provide us with an assurance opinion on the outputs.

This delivers a risk-based approach to assurance planning that delivers core assurance work required by our regulators and proactively targets assurance at areas of higher risk and emerging areas of risk. The approach includes continuous improvement taking inputs from a number of sources. It includes an assessment of the current level of maturity of our processes and controls and against our three lines of defence, assesses inherent risk and identifies required improvements. Each time some work is completed the assessment can be updated to understand future assurance requirements.

This moves us from delivering reactive assurance to following a prioritised, risk-focused regulatory assurance plan that will underpin our annual plan of assurance and improvement activity. An outline of this approach is shown in Figure 2.

Figure 2 – Continuous improvement approach to assurance planning



# Our 2019–20 assurance

## Assurance overview

In the publication of this document we seek to be transparent about our performance, and our processes, by publishing accurate, timely, stakeholder-friendly information. We agree that it is important that we continue to review what information our customers and other stakeholders want and need. We know we are accountable for the quality and transparency of the information we provide on our performance.

Ofwat require us to adopt a proportionate and transparent approach to the data assurance we carry out to give confidence to you, our customers and stakeholders in the information we publish.

Our objective is to provide credible assurance about our ability to deliver, monitor and report performance so that our stakeholders will have trust and confidence in us.

## Assurance of our 2019–20 annual reporting

Our annual reporting is the primary way that we publish our annual performance information and it is made available publicly to all stakeholders. It includes our:

- Statutory accounts – audited separately by Deloitte (Annual Report and Financial Statements)
- Annual performance and how this fares against our commitments (Annual Performance Report)

For 2019–20 Deloitte has audited sections 1 and 2 of the Annual Performance Report according to Ofwat's scope of work and audit requirements. Deloitte also reviewed the Long Term Viability Statement as part of its year-end statutory audit. It carried out its audit and reported its opinion and findings to the Audit Committee. It provided an unqualified audit opinion that can be found in our Annual Report. In addition, Deloitte is undertaking assurance over our Condition I statements in line with guidance provided by Ofwat that this is completed by our external auditor.

## Assurance of reporting to other regulators

### Drinking Water inspectorate (DWI) reporting

We continue to be under scrutiny from our water quality regulator, the DWI.

As in previous years we have carried out comprehensive assurance on the data quality and accuracy of the inputs to the water quality sampling programme and the key outputs for the annual return submitted to DWI. This data is a key component to the delivery of comprehensive water quality monitoring and includes internal assurance on the following inputs:

- Water supply zones
- Volumes into supply
- Asset list
- Process flags and source water
- Water network connectivity

The outputs of the sampling programme were then checked to ensure that:

- All assets (water supply works, water supply reservoirs and break pressure tanks) and water supply zones are included.
- And that the treated and raw tables (annual details, site supply, site details and raw water) that are sent to DWI reflect accurately the relevant inputs.

### Environment Agency (EA) reporting

We provide a significant amount of data to the Environment Agency and Ofwat 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. We are committed to transparent reporting of high-quality data that can be trusted by our customers, stakeholders and regulators.

During 2019–20 assurance has been undertaken across a number of processes in the following areas for the EA:

- Spills and flows
- Sampling
- Environmental Performance Assessment
- Annual return for abstraction licencing

In our 2016–17 and 2017–18 Annual Reports we indicated that our technical assurer, PwC was unable to obtain the necessary evidence to support the accuracy of three of our wastewater metrics. A focused set of improvements have been implemented to support these metrics and for the last two years we have been able to provide PwC with the relevant information. As a result PwC has been able to include these in their assurance opinion for both 2018–19 and 2019–20.

## External assurance of non-financial reporting

We engaged PwC to undertake testing of our non-financial reporting processes. Non-financial reporting was verified and checks were undertaken for completeness, accuracy and validity of the data and compared against internal source data.

We have highlighted the effort we have put into building an improved approach to data assurance. These improvements are on-going and continue to be an area of significant attention from the business. This year's work has identified a significant improvement in the outcomes of the audits of our non-financial performance data, in particular:

- a positive cultural shift in comparison to previous years in relation to awareness, ownership and accountability for regulatory reporting risks.
- a continued downward trend in the number of findings, demonstrating significant improvements in the accuracy and quality of regulatory reporting.
- improved audit planning and the timely provision of information, including the early provision of supporting data.
- technology and semi-automated data validation enhancements supporting some key measures are now well embedded and producing reliable data.

However, both PwC and our in-house Business Assurance teams have identified areas where there is scope for further improvement and we have identified some areas where we do not yet consider ourselves to have reached a point where we are wholly content with the quality of data we produce or the processes and controls that are operated to produce that data. Examples of where we know we have reporting enhancements to embed include:

- Guaranteed Standards Scheme (GSS)
- Asset Data (Water and Wastewater)

The issues identified during year-end assurance will be a key focus for follow-up and improvement in 2020–21. Whilst we have made progress in some areas, we need to work hard to embed changes throughout the organisation. Central to this is work to ensure that data quality is the responsibility of everyone in the organisation rather than specialist data and assurance teams. In addition we are making data assurance a continuous activity, rather than just an end-of-year process.

## Significant areas of assurance

### 1 - Performance commitments

<p><b>Why is it significant?</b></p>	<p>We believe customers and other stakeholders should be able to trust our reporting of our non-financial performance information and we have now completed the final year of delivery of our 2015–20 business plan. We committed to obtaining third-party assurance over our non-financial information in this business plan period on a risk assessed basis and this is provided by PwC as our technical assurer.</p> <p>For 2019–20 mid-year assurance was undertaken for key metrics as well as the full end-of-year audits.</p>
<p><b>Outline assurance process</b></p>	<p>The performance commitment data is initially provided alongside a process document that explains how the data is collated and the risks associated with the collection of the data and the controls that are operated to mitigate these risks.</p> <p>The level and extent of the assurance applied to each performance commitment is determined by a risk assessment that considers how prone the data may be to error, the impact associated with the data and the outcomes of previous assurance activity.</p> <p>All critical and high risk performance commitments are subject to an audit by our technical assurer PwC, some medium and lower risk areas are assured by our Business Assurance team. The focus of these reviews is to ensure that the data provided is accurate and aligned to regulatory requirements. As part of the audit process risks and controls have been identified and assessed for their effectiveness.</p>

#### Assurance results

##### Mid-year

The scope of PwC's mid-year review was to undertake a deep dive analysis of the control environment of nine high priority and/or high risk Performance Commitments (PCs), challenging the identified risks and key controls, with a particular focus over the reporting process. PwC also followed up on the findings raised in its 2018–19 Technical Audit to determine if agreed remedial actions had been taken.

The overall objective was to assess the maturity of Southern Water's control environment and provide recommendations to help improve this, along with the quality of data reported to Ofwat.

Based on PwC's collective results over each of the PCs in the scope of the review, it was considered that the overall risk and controls maturity demonstrated characteristics of an 'Informal' control environment, meaning that whilst the majority of key risks are addressed by some form of activity or control that appears to be operating, the current processes in place are not formalised, monitored or tested on a periodic basis. In addition, the approach adopted by different parts of the business is inconsistent.

Considering the ongoing level of regulatory scrutiny and our commitment to ensuring the integrity and high-quality data within our regulatory submissions, PwC recommended a 'Monitored' level of maturity, should be targeted.

This will provide those charged with governance, and Southern Water's regulators, with an enhanced degree of confidence that reporting and operational risks are mitigated to an acceptable level. In addition to this, it will facilitate the early identification of issues on an ongoing basis and out with the year-end assurance cycle, allowing for effective remedial activities to be actioned.

PwC provided a number of short and long-term recommendations which the business is working through.

##### Year-end

PwC has confirmed that it has issued an unqualified limited assurance ISAE 3000 opinion over our AMP6 Performance Commitments (PCs) in Section 3 of our Annual Performance Report. (See Appendix 1 for more detail). In addition PwC carried out Agreed upon Procedures across a range of our reporting.

##### Good practices:

In the Technical Audit report in June 2019, PwC reported improvements to processes and controls and at June 2020 it has reported that management has sustained their improvements and continued to deliver additional enhancements to process, controls and culture. In particular the level of engagement and accountability for reporting leading to better data quality and a streamlined audit process. In particular PwC noted improvements in the following areas:

- Awareness, Ownership and accountability for risk – a positive cultural shift was identified in these areas in relation to regulatory reporting, supported by positive and proactive engagement with the audit process.
- Improved first line activity for accuracy and quality of reporting data – the number of findings has been significantly reduced on previous years across all workstreams demonstrating the improvement in the accuracy and quality of our regulatory reporting. In particular PwC noted a 40% reduction in the number of findings that were data related.
- Improved audit planning and timely provision of information – sustained efforts by our Business Assurance team has ensured an effective briefing process is in place for data owners and providers and has ensured the timely provision of supporting data to facilitate a smooth audit process.
- Technology and semi-automated data validation enhancements – in a number of areas (including leakage and water balance), technology enhancements have led to the semi-automation of previously manually verified data.

## 1 – Performance Commitments (continued)

### Assurance Results

#### Themes for improvement:

PwC and our Business Assurance team have identified a number of areas where improvements could still be made, particularly over the following areas:

- Unresolved and/or recurring audit findings – a number of the audit findings that have been identified are similar of the same as those in previous years.
- Areas where improvements to ownership and processes are yet to be embedded – both PwC and Business Assurance found some pockets where engagement was not as would be desired and led to delays in the audit process. Root causes for these can be grouped as:
  - lack of engagement between process owners and data providers and subject matter experts
  - insufficient understanding of Ofwat requirements
  - delays in communicating with Regulators to clarify queries.
- Maturity of data sheet governance and sign-off controls – there was some evidence of promise owner sign-off of data sheets being informal or delayed, or post audit meetings taking place (potentially using the audit process as their review).

## 2 – Ofwat Section 19 undertakings assurance

<b>Why is it significant?</b>	In June 2019, Ofwat issued a notice to impose a penalty on Southern Water following their s203 investigation which highlighted significant failings relating to the management, operation and performance of Southern Water's wastewater treatments works (WwTW). As a result, Southern Water has committed to implement a range of financial and non-financial measures ('the undertakings') pursuant to Section 19(1)(b) of the Water Industry Act 1991, as well the implementation of a Wastewater Action Plan. Southern Water is required to report its progress against these undertakings and the Wastewater Action Plan to Ofwat on a half-yearly basis over the next five years.
<b>Outline assurance process</b>	Southern Water has engaged with its technical assurance partner to deliver assurance over Southern Water's half-yearly reporting to Ofwat over the progress made in its undertakings and the Wastewater Action Plan. The following undertakings are in the scope of the Section 19 notice and the associated assurance plan over the next five years: A. Customer redress measures; B. Technical review of wastewater treatment works; C. Organisational compliance process measures; D. Organisational cultural change measures; E. Ensuring transparency; F. Condition I certificate assurance undertaking; and G. Reporting on compliance with the undertakings.

### Assurance Results

#### Mid-year

PwC completed its first deep dive review in December 2019 focused on undertakings:

- B. Technical review of wastewater treatment works;
- G. Reporting on compliance with the undertakings.

PwC has also held discussions with management to understand progress in relation to Undertakings A, C, D, E and F.

PwC is currently completing its second deep dive review which will focus on Undertakings C, D and E and will also include a follow up of recommendations in relation to Undertaking B from the first deep dive. These results are expected to be available in July/August 2020.

PwC noted a range of Effective Practices and Areas for Improvement with associated recommendations which will be followed up at subsequent assurance visits. There is an internal governance process in place to monitor the effective delivery of the undertakings which is overseen at Board level.

The following are some of the key highlights from the assurance to date:

- The planned programme of works has been mapped to the requirements of the undertakings to ensure that each commitment will be met and is sufficiently covered.
- A significant amount of work has already been delivered, management have demonstrated a strong awareness of a range of risks and issues and have planned to remediate them through a number of mitigating activities.
- Strong engagement and ownership has been demonstrated through the assurance process from both the programme team and other individuals across the wider business, PwC commented on the full openness and transparency throughout their assurance process.
- Governance arrangements put in place over the programmes are sensible and well-structured which is supported by a workstream approach to ensure all requirements of the Undertakings are covered by business activities, each workstream has its own charter which includes both senior management and executive ownership, objectives, deliverables and due dates, pinch points and interdependencies.
- 898 of 1085 actions identified in relation to WwTW technical upgrades had been implemented at PwC's first assurance visit
- PwC identified a key person risk over a number of individuals in the programme
- In some instances sufficient evidence could not be obtained to confirm completion. These actions have been further reviewed to identify the appropriate evidence and a new action completion process has been adopted to ensure suitable evidence is available.

### 3 – Other assurance completed

Significant areas for assurance	Rationale	Assurance activity	Results
<b>IAP action plans assurance</b>	Within our 2020–25 business plan submissions we committed to a number of specific action plans and we have provided one-off or ongoing assurance over these actions plans.	Specific plans that have been subject to both internal and external technical assurance from PwC. The plans are: 1. Performance commitment monitoring 2. Incident monitoring 3. Resilience 4. Drainage and wastewater management (DWMP). Assurance has consisted of completing a maturity assessment of completion of the plan against specific criteria, and confirming the completion of the actions stated in the plans.	At the last assessment undertaken in June 2020, the incident monitoring plan was 96% complete and the performance commitment monitoring plan was 74% complete. The two remaining plans were less mature and actions had been completed, this was aligned to plan delivery expectations
<b>Regulatory reporting end-to-end process assurance</b>	We have identified a specific risk around our understanding of the end to end processes (including over complex data flows) which require mapping and in some places additional controls.	This internal assurance has been targeted on the most critical regulatory reporting to the EA and DWI to ensure we have confidence in the data submitted in the following areas: • Clean water sampling, programme set up. • Wastewater sampling, programme set up, and effluent and groundwater reporting • Storm and Emergency overflow discharges • Daily flows • Sludge quality and quantity • Abstractions • Security of supply. Where our assurance work identified any data issues, corrective actions were completed prior to submission.	This assurance work, coupled with the ongoing process mapping work, has highlighted a number of improvement opportunities that are being fed into our continuous improvement cycle.
<b>Freeze/thaw</b>	Ofwat required us to submit a report covering the events and proposed improvements in response to the 'Freeze/Thaw' event of March 2018. Our response to Ofwat's 'Out in the Cold' report dated June 2018 was submitted and published on 28 September 2018. We committed to ongoing assurance activity over the action plan that was put in place.	Internal quarterly assurance is ongoing by our in-house assurance team to focus on progress made on the action plan arising from the report.	Our in-house team is assuring when actions have been completed by seeking evidence to support managements assertions that actions have been completed. A quarterly programme of internal assurance has been completed and we are reporting findings back to our Executive Leadership Team and the Audit Committee. 106 of 111 actions have now been implemented and assured.
<b>Annual Report to Consumer Council for Water</b>	On a quarterly and annual basis we report operational performance data on a number of customer-related topics including value for money and customer satisfaction.	Each quarterly and year-end (Q4) submission is subject to first and second line internal assurance. Substantial components of the annual submission are additionally subject to third line assurance through the performance commitment reporting.	No issues were identified during these processes.
<b>Market information (bioresources and water resources)</b>	Ofwat requires that we publish details of our Water and bioresources operations on our website.	PwC reviewed the Bioresources Market Activity Information as part of the year-end technical assurance. Technical assurance was completed on the WRMP by Jacobs in November 2019 and recommendations were addressed ahead of publication. Addleshaw Goddard also completed a legal review of the WRMP.	Any issues identified from the year-end technical assurance will be reported within the PwC technical assurance report. The Water Resources Market information tables' assurance was delayed due to WRMP revisions. This was completed by PwC in the first quarter of 2020–21 when the WRMP was finalised.
<b>Water company charges</b>	Ofwat expects that all water companies are transparent about how they set charges and we are expected to comply with all statutory obligations.	External assurance was completed by Oxera in January 2020.	No significant issues raised. Recommendations will be addressed in the 2021 review.

# Appendix 1 – Independent Limited Assurance Report to the Directors of Southern Water Services Limited

## Disclaimer

- PwC's report was prepared with Southern Water Services Limited's ("Southern Water") interests in mind. It was not prepared with any other recipient's interests in mind or for its use. PwC's report is not a substitute for any enquiries that a recipient should make. PwC's report is based on historical information. Any projection of such information or PwC's opinion or views thereon to future periods is subject to the risk that changes may occur after the report is issued. For these reasons, such projection of information to future periods would be inappropriate;
- 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;
- No recipient will bring a claim against PwC which relates to the access to the report by a recipient;
- Neither PwC's report, nor information obtained from it, may be made available to anyone else without PwC's prior written consent, except where required by law or regulation;
- PwC will be entitled to the benefit of and to enforce these terms; and
- These terms and any dispute arising from them, whether contractual or non-contractual, are subject to English law and the exclusive jurisdiction of English courts.

## Our Conclusion

**Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 March 2020 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.

## Scope of our work

The scope of our work was limited to assurance over the following information in Southern Water's Annual Performance Report 2019-20 (the "Selected Information").

- 3A – Outcome performance table — wholesale water, wholesale wastewater and retail, excluding the following performance commitments (PCs):
  - W2: Water use restrictions
  - WW12: Avoiding blocked drains
  - R2: Dealing with customers' individual needs
  - R3: Awareness of water hardness measures
  - R4: Where your money goes
  - R5: Billing queries
  - R6: Take up of assistance schemes
  - R7: Value-for-money
  - RA6: Service Incentive Mechanism (SIM)
- 3B – Sub-measure performance table;
- 3C – AIM table;
- Greenhouse gas emissions – KgCO<sub>2e</sub>;
- KgCO<sub>2e</sub> per person supplied with treated water;
- KgCO<sub>2e</sub> per person supplied with wastewater services; and
- Odour Complaints (Total).

The Selected Information and the Reporting Criteria against which it was assessed are summarised in [southernwater.co.uk/our-performance/reports/annual-reporting](https://www.southernwater.co.uk/our-performance/reports/annual-reporting). Our assurance does not extend to information in respect of earlier periods or to any other information included in the Southern Water Annual Performance Report 2019-20.

## 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 or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

## Our Independence and Quality Control

We have complied with 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 also apply International Standard on Quality Control (UK) 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.

## Understanding reporting and measurement criteria

The Selected Information needs to be read and understood together with the 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 for the 2020 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:

- Re-performed the calculation of the performance level arising from Southern Water's PCs in the year against Southern Water's reporting criteria;
- Verified, through limited testing on a selective basis, the underlying data or supporting information used to calculate each PC in the 'selected information';
- Made enquiries of relevant company management, personnel and third parties; and
- Considered significant estimates and judgements made by management in the preparation of the selected information.

## Directors' 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 Southern Water Annual Performance Report 2019-20.

## 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.

While the Selected Information may be informed by the need to satisfy legal or regulatory requirements, our scope of work and our conclusions do not constitute assurance over your compliance with those laws and regulations.

### **Intended users and purpose**

This report, including our conclusions, has been prepared solely for the Board of Directors of Southern Water in accordance with the agreement between us dated 6 December 2019, to assist the Directors in reporting Southern Water's performance and activities. We permit this report to be disclosed in the Southern Water Annual Performance Report 2019-20 for the year ended 31 March 2020, to assist the Directors in responding to their regulatory 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 in writing.



**PricewaterhouseCoopers LLP**  
**Chartered Accountants**  
**Gatwick**  
**15 July 2020**

# Appendix 2 – Summary of our Statement of Risks, Strengths and Weaknesses

Our latest risks, strengths and weaknesses exercise was published in November 2019. It highlighted the areas of reporting that have the most significance or are of greatest risk to customers. For these areas, we will put in place independent external assurance as part of our assurance plans. We are currently in the fourth year of an arrangement with PwC to provide this

independent external assurance. In our statement we identified the significant improvements we have already made to the collection, reporting and presentation of our performance information. However, we are fully aware that we need to continue to improve and identified the following risks, strengths and weaknesses in our performance reporting.

Figure 3 – Southern Water 2019–20 risks, strengths and weaknesses

<p><b>Our risks</b></p>	<ul style="list-style-type: none"> <li>• Maintaining high-quality regulatory and statutory reporting in an accurate and timely manner.</li> <li>• Meeting the stringent assurance and reporting requirements for the next five-year business plan, including ensuring action plans that we have agreed with our regulators</li> <li>• Continuing to embed effective first and second line assurance across our processes that support regulatory reporting requirements</li> <li>• Ensuring we respond in an effective and timely manner to feedback from our regulators both on their concerns and new requirements.</li> <li>• Meeting the requirements of undertakings or other commitments that we have entered into with our regulators.</li> <li>• Ongoing transformation within the business and ensuring the continuity in our reporting arrangements.</li> <li>• Ensuring that the delivery model(s) that we adopt for the commitments we have made are robust.</li> </ul>
<p><b>Our strengths</b></p>	<ul style="list-style-type: none"> <li>• Board focus and oversight of risk and assurance activity via our Audit and Risk Committees</li> <li>• Our transformation agenda to ensure we are delivering a resilient water future</li> <li>• Our internal and external performance monitoring regimes to identify areas of focus and success.</li> <li>• Improved quality and transparency in respect of our reporting in our Annual Report and on our website.</li> <li>• Continuous engagement with our stakeholders and regulators.</li> <li>• The embedding of our Modern Compliance Framework.</li> <li>• We have a monthly Executive Leadership Team meeting focused on risk and compliance</li> <li>• Quarterly Executive Leadership Team risk session to challenge and update our corporate risks</li> <li>• Our assurance framework – we have revisited and improved our approach to assurance</li> <li>• Robust tracking of assurance and improvement actions.</li> <li>• A continuous improvement programme for annual assurance which includes data returns to Ofwat, the DWI, EA and CCWater.</li> </ul>
<p><b>Our weaknesses</b></p>	<ul style="list-style-type: none"> <li>• Guaranteed Service Standards – our assurance processes have identified the need to make improvements in our processes to ensure compliance with the GSS scheme.</li> <li>• Changes to our customer delivery model service area should lead to long-term improvements, but there is the challenge of maintaining high levels of performance and reporting whilst changes are embedded.</li> <li>• Fragility of our information management systems and the complexity of processes which underpin some of our difficulties in reporting our performance.</li> <li>• Detailed end to end process reviews have identified complex data flows which require simplification and additional controls, improvements to IT systems and data accuracy.</li> <li>• A previous lack of clarity of roles and responsibilities in our first and second lines of assurance.</li> <li>• A need to reinvigorate our overall framework for regulatory reporting including training supported by ethical business practices and culture change.</li> <li>• Our communication with customers during major incidents needs to further improve.</li> </ul>



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Water** 