



# Data Assurance Summary

Annual Performance Reporting  
2020–21

from  
**Southern  
Water** 

# Contents

<b>3</b>	<b>Introduction</b>
<b>4</b>	<b>Summary of opinion</b>
<b>5</b>	<b>Context</b>
5	Regulatory background
<b>6</b>	<b>Licence of Appointment Review, Condition P assurance and Board Assurance Statement</b>
6	Wastewater investigations
7	Environment Agency
8	Drinking Water Inspectorate
8	COVID-19 update
9	Engaging our customers and stakeholders
9	Our Statement of Risks, Strengths and Weaknesses
<b>10</b>	<b>Our approach to assurance</b>
11	Regulatory reporting embedment strategy and process maturity
<b>13</b>	<b>Our 2020–21 assurance</b>
13	Assurance overview
13	Assurance of our 2020–21 annual reporting
13	Assurance of reporting to other regulators
14	External assurance of non-financial reporting
15	Significant areas of assurance
<b>21</b>	<b>Appendix 1 – Summary of Statement of Risks, Strengths and Weaknesses</b>
<b>22</b>	<b>Appendix 2 – Three Lines of Defence Model</b>

# Introduction

**This document sets out the scope and results of our assurance activities for reporting our performance in 2020–21. It should be read in conjunction with our Annual Report and Financial Statements 2020–21 and our Annual Performance Report 2020–21, 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

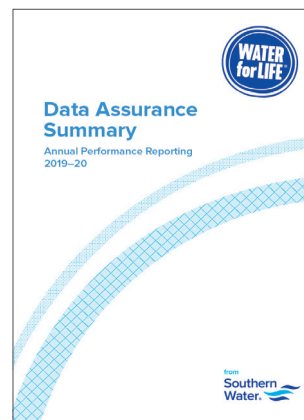
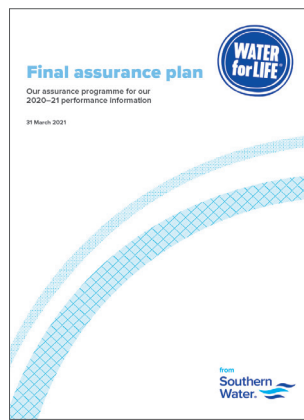
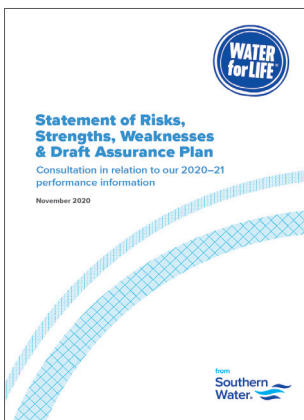
All three documents focus on the quality of our information reporting and governance. They can be found at [southernwater.co.uk/our-reports](https://southernwater.co.uk/our-reports).

We take full responsibility for the information we publish on our performance. Through the process we seek to provide confidence to customers and stakeholders through a transparent approach to data assurance. This assurance provides confidence in our reported performance and the delivery of promises made in our 2020–25 business plan.

Whilst assurance is rarely able to provide absolute certainty over the quality of reported information, 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.

The assurance activity we undertake around the information that we provide is one of the critical elements we have put in place to build and secure the trust and confidence of our regulators, stakeholders and customers.

In addition to our own internal assurance teams and processes, which we strive to continually improve, our highest risk performance data is assured by independent assurers. KPMG and Jacobs are now completing their first year in this role, taking over from PricewaterhouseCoopers (PwC) who were our external assurers for the period 2016–20.



# 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 2020–21. Both our financial auditor, Deloitte LLP (Deloitte) and our technical assurer, KPMG, have provided independent opinions which we have published. In line with the Final Assurance Plan, KPMG, as our independent non-financial assurer, completed the assurance of selected Performance Commitments (PCs), Outcome Delivery Incentives (ODIs) and selected Cost Assessment data. The independent opinion of our technical assurer can be found in Section 3 of the Annual Performance Report and in line with Ofwat’s RAG 3.12, the remaining regulatory tables from the Annual Performance Report are published at [southernwater.co.uk/our-reports](https://southernwater.co.uk/our-reports).

2020–21 is the first year working with KPMG as our technical assurance provider as well as the first year of AMP7 (the business plan period for 2020–25). The scope of assurance for the recent year FY21 has reflected changes to the new business plan period including some new performance commitments.

# Context

## Regulatory background

We have now completed the first year of the Water for Life 2020–25 five-year business plan. We continue to deliver on promises and performance commitments we made to our customers. In addition to ensuring our performance data is transparent and accurate, we also seek to ensure customers and stakeholders can access and understand relevant information.

Ofwat expects companies to continue to strive for best practice in their assurance arrangements. As part of their new strategy they are moving away from a prescriptive approach and instead companies are being asked for a Board Assurance Statement, stating that the data and information provided is accurate and complete and setting out any exceptions to this. Ofwat seeks to minimise the extra burden on companies of increased

reporting and allow companies the flexibility to adopt approaches which suit their own particular circumstances. Previously, under Ofwat's Company Monitoring Framework (CMF), all companies were asked to adopt as a minimum the standards shown in Table 1. Ofwat have indicated we may choose to continue with some of these mechanisms.

The expectation for a Data Assurance Summary to be published has been replaced by the new requirement for a Board Assurance Statement. This is a substantive change to the governance process but covers both financial and non-financial data. However, Ofwat have suggested that companies may still wish to publish a Data Assurance Summary if they consider that this helps provide transparency and assurance for their stakeholders. At present there are no plans for us to change our approach; we have added the new governance requirements as part of our existing approach.

**Table 1 – Our minimum assurance standards**

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 an 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 Action Group 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 this will be published and available on our website by 30 November 2021.
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 this will be published and available on our website by 30 November 2021.
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 will 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.	In line with previous years this will be published and 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 by 15 July 2021.

## Licence of Appointment Review, Condition P assurance and Board Assurance Statement

In March 2021 we completed an assessment of compliance with our company Licence of Appointment. The review provides a key-evidence base and additional assurance for our Board Assurance Statement, our Ring-Fenced Certificate (required under Condition P of our Licence of Appointment), and the assurance requirements of the undertakings agreed with Ofwat in 2019 in connection with historic misreporting of our wastewater performance (our Section 19 Ofwat undertakings (see below)).

Overall the assessment found that the business has in place processes and evidence to demonstrate compliance with the Licence. The review did highlight five licence areas where core documentation requires a review or refresh and alignment made between versions on the intranet and internet. In addition, a number of gaps in process or procedure were identified. A number of improvements have now been implemented to put in place the processes or to update documentation to address these shortcomings.

In order to meet the Licence Condition P Certificate requirements of the Ofwat Licence of Appointment and the Section 19 undertakings, the Southern Water Board needs to be able to clearly evidence the level of diligent enquiry that the board has undertaken, to ensure that it is able to demonstrate that the company will have sufficient:

- financial resources and facilities;
- management resources;
- systems of planning and internal control;

The Southern Water Board signs off Condition P assurance statements. These enable the Board to clearly demonstrate it has discharged its responsibilities and has made diligent enquiry into the principal risks facing both the wider business and the wastewater business (to support the Ofwat Section 19 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 P statement). The information notice reminds companies of their responsibilities and provides prescriptive guidance on the subject. There has been no formal guidance update from Ofwat since this time, and this was not specifically included in the Ofwat end of year reporting consultation.

The Condition P certification process was subject to external assurance. The assurance:

- considered the Board assurance statements;
- reviewed the evidence packs and diligent enquiry statements that support the Board assurance statements;
- reviewed Board papers and minutes around the Condition P certificates;
- involved questioning, including Board members, around the quality of the evidence supporting the board statements;
- judged the above against the overall requirements of the Certificates and the undertakings requirement; and
- provided a report and opinion to present its findings to Ofwat as part of the annual submission.

The external assurance to support the discharging of our Condition P obligations also acts as a key evidence for our Board Assurance Statement on the accuracy and completeness of data. Whilst not specifically assured by independent assurers, the Board Assurance Statement draws from evidence that has been provided by our external auditors and our technical assurers.

## Wastewater investigations

As reported previously in our Final Assurance Plan published in March 2021, Ofwat undertook an investigation into our wastewater reporting that resulted in enforcement action being taken 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 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 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.

We continue to make progress on all the undertakings. We have reduced our wastewater charges to existing customers from April 2020 and have made payments to eligible former customers as part of our customer redress measures in Undertaking A. These have been delivered and were subject to external assurance as part of our progress updates to Ofwat.

To ensure that there is a sustained change of culture of the business, we have introduced a number of organisational cultural change initiatives. These include a commitment to deliver a step change in mindset, skillsets, productivity, operational performance, ethical principles and practices, and employee engagement.

Work areas include:

- Values: refresh Southern Water vision, mission and purpose;
- Employee engagement;
- Management training;
- Ethical Business Practice;
- Speak Up; and
- Employee incentives.

Our Culture Collaboration Group meets monthly to provide programme oversight and to share ideas and best practice on positively influencing culture change. This includes reviewing outputs from our employee engagement survey to inform future delivery of culture change initiatives. The employee survey results from 2021 indicate a meaningful improvement in employee engagement, demonstrating increased understanding of the company values and improved confidence that colleagues and the company act in an ethical manner. We publish a quarterly Measures of Culture Dashboard and our Company Balanced Scorecard for all colleagues to be able to see and understand our progress and performance. Our culture change progress is reported regularly to the executive leadership team and our Board. The Board has appointed Kevin McCullough as an independent non-executive director with the remit of communicating the views of the company's workforce to the Board.

Compliance with the undertakings and progress of these actions was reported to Ofwat in our February 2021 Compliance Monitoring Report. Overall, we have made progress in fulfilling the actions required to ensure compliance with the undertakings; actions are progressing, or a progression plan is in place, against all elements of the undertakings. Our theme level assessment by the second line of progress and embedment of the undertakings is aligned to the areas identified as having some weaknesses by our third party assurer KPMG. For those undertakings out of scope for KPMG assurance, we have updated our internal assessment of compliance and confirm this

remains in line with the previous assessment made by PwC in a 'Deep Dive' in August 2020.

We have worked with Ofwat and KPMG to discuss the scope and focus of the next round of assurance which will take place in late June and July 2021, and will report to Ofwat by 8 August 2021.

Additional information on the investigation can be accessed in the Ofwat investigation report, which can be viewed at: [ofwat.gov.uk/wp-content/uploads/2019/06/Notice-of-Ofwats-proposal-to-impose-a-penalty-on-Southern-Water-Services-Limited-1.pdf](https://ofwat.gov.uk/wp-content/uploads/2019/06/Notice-of-Ofwats-proposal-to-impose-a-penalty-on-Southern-Water-Services-Limited-1.pdf).

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://southernwater.co.uk/our-performance/working-with-ofwat-to-make-amends-to-our-customers)

The transparency undertaking (Theme E) specifically considers the need to rebuild the trust and confidence of customers by requiring us to publish our environmental performance on our website including:

- pollution incidents;
- flow and spill reporting;
- wastewater treatment works final effluent compliance;
- regional bathing water compliance results;
- carbon emissions; and
- river levels.

This is now available at: [southernwater.co.uk/our-performance/environmental-performance](https://southernwater.co.uk/our-performance/environmental-performance)

We asked customers and stakeholders what information they wanted to see and built a reporting dashboard based on their feedback. It includes our latest performance updates alongside information about what we're doing to improve.

## Environment Agency

Like other wastewater operators, in the normal course of operations we occasionally face Environment Agency investigations. The company was subject to a detailed investigation regarding permit breaches at some of our wastewater treatment works in two locations during the period 2010–15. In February 2020 the Environment Agency presented 51 charges before the court and we entered guilty pleas to those charges. However, there is continuing disagreement over the nature and scale of the permit breaches and the case is now due to be heard in court in July 2021. We will be open and transparent and are committed to working with the Agency to ensure a swift conclusion to resolve the case.

We are also committed to assisting the Environment Agency with its separate investigation into sampling compliance and reporting issues between 2010 and 2017 (inclusive). As the investigation is ongoing, we are not able to say any more about it at this time.

The Environment Agency is due to release the Environmental Performance Assessment for 2020, in its annual report on the environmental performance of the nine English water and sewerage companies. The EA recognises that the company's culture has changed for the better and continues to seek performance improvement in key areas.

The Environment Agency has recognised that we continue to make good progress in the area of self-reporting of pollution incidents and we are now the leading company and exceeding EA expectations. This continued good performance is evidence of how embedded our pollution reporting improvements have become.

We have continued to see improvements in abstraction license compliance over the past year, despite the restrictions imposed by COVID-19 and those improvements have been recognised by the Environment Agency. We also have implemented a programme of improvements to strengthen the reporting of abstraction, and these are now being embedded into the way the company reports abstraction licence compliance.

### Drinking Water Inspectorate

During 2020–21, we completed the Section 18 Final Enforcement Order (FEO) regarding an asset improvement scheme at Shoreham water supply works in West Sussex, which was then formally revoked by the DWI. This concludes our work to close the four FEOs that were put in place from 2016 onwards.

We are implementing a broad programme of activity to improve our information management based on a risk review of critical monitoring and reporting systems. This package of work continues through to 2025 and includes a programme of asset and IT improvements designed in cooperation with the DWI. Element of this programme is formalised with the DWI in our Section 19 Information Management Undertaking ('IMU') Key deliverables include a new Geographical Information System (GIS) and Enterprise Asset Management (EAM) platform. These systems are critical to the operation and management of our water asset base. IMU programme governance consists of a cross-Directorate monthly working group with oversight by a Steering Group led by the Director of Risk & Compliance. Twice annual audits take place to ensure that the programme remains on track. Our progress is reported to the DWI annually at the end of each financial year.

### COVID-19 update

The COVID-19 pandemic has impacted the way we carry out our business and has presented significant challenges to our finances, our ability to provide our essential services to customers and to meet regulatory targets and expectations. Over the last 12 months the risk has reduced as we have adapted to the challenges faced. In addition, the risk has led to us transforming the way we do our business with increased remote working and additional processes to enable safe working for field teams. Throughout this period we have been able to maintain our essential services to our customers.

The COVID-19 event has put unprecedented pressure on the overall operation of the organisation. This has impacted all areas and continues to bring a great deal of uncertainty. However, Southern Water's role as a provider of vital water and wastewater services has not changed. What has become apparent is our need to be responsive and agile in our plans to protect public health as the pandemic continues to develop.

We moved quickly at the start of the pandemic to ensure we maintained service levels to our customers and are ensuring that our employees and contractors continue to be able to carry out their work safely. We have developed a COVID-19 business continuity plan, which is reviewed and adjusted as appropriate.

We have adapted our assurance approach and have managed to deliver all our planned assurance work to date and on time; this included carrying out our end-of-year reporting audits remotely. We have also had to limit some site-based assurance activity (most notably on our Section 19 undertakings assurance). Where this has happened, this has been mitigated with desk-based reviews of material, which have ensured we maintain the quality of the assurance produced.



## 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.

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 means having the customer at the heart of the organisation through engagement on all our key programmes, continuous dialogue and providing leadership through the support we provide. Following our last price review, we launched our participation strategy, focused on setting up continuous insight programmes to integrate alongside our decision making. In 2020–21 we focused on increasing the inclusivity and range of continuous programmes – launching Water Futures 2050 (our young person's group) and Water Futures 2030 (our household customer panel). As we move into the next year our focus will be to embed our Water Futures programmes within our teams, driving real action for our customers.

We will use our 'Water Futures 2030' primarily to start consultations with our customers on our business plan for the next five years (PR24), our Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP). Additionally, we have focused on reaching customers for whom affordability is a key concern, or who may have been particularly impacted by COVID-19 and have completed a deep dive exercise with these customers. This, and the development of new groups aimed at reaching customers from more diverse backgrounds is a key focus for our customer engagement strategy, and underpins our company's core values.

We also recognise the importance of our employees and are committed to effective two-way communication and consultation. As a result we have re-established an Employee Voice group during 2020–21 to facilitate meaningful consultation between company management and employees through elected employee representatives.

Following the appointment of Dr Toby Willison as our new Director of Environment and Public Affairs, we will be launching a new Customer, Climate and Environment Group – the next evolution of what was known as our Customer Challenge Group. This group, which will be chaired by an external individual (yet to be confirmed), will help develop multi-sector approaches to address future climate and environment challenges, looking ahead to 2050 and beyond. The group will also provide independent challenge and advice on the development of our future plans and delivery of the 2020–25 environmental commitments to customers. The group will provide strategic advice and challenge to the business on the development and delivery of our plans by:

- acting as a sounding board for existing and new ideas, priorities, options, analysis and emerging issues
- providing expertise, insight and challenge on the feasibility of delivery approaches
- helping to facilitate partnership working and multi-sector approaches

The group will play a vital role in bringing the stakeholder and customer voice to decision making within Southern Water.

## Our Statement of Risks, Strengths and Weaknesses

In November 2020 we published a written consultation on our Statement of Risks, Strengths and Weaknesses and a Draft Assurance Plan for 2021–22 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 2021 on our website: [southernwater.co.uk/our-reports](https://southernwater.co.uk/our-reports).

The Statement 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 1.

# Our approach to assurance

Following past failings in the quality of our reporting to our regulators, we continue to embed our programme of improvements to ensure our regulators and other stakeholders can trust the data that we report. These improvements have been led by our Risk and Compliance directorate which is ensuring compliance reporting to our regulators is subject to sustained internal review and assurance.

In our 2021–22 Final Assurance Plan published in March 2021, 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 have adopted the ‘three lines of defence’ framework for our reporting governance and assurance activity (Appendix 2). This helps to assure performance information by applying multiple levels of control.

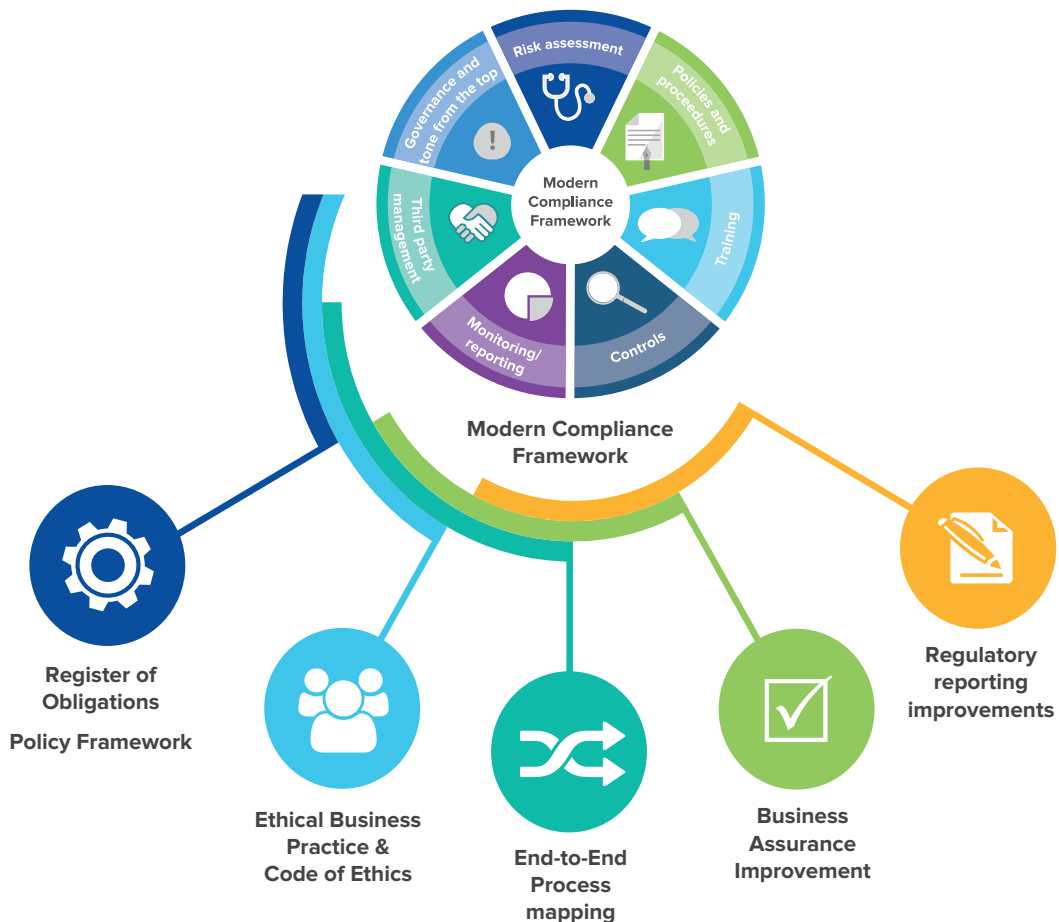
We apply internal controls and have improved processes in place to mitigate the risk of supplying incorrect or inaccurate information on all our non-financial regulatory reporting. Appendix 2 describes the activities that are being undertaken by each line of defence. Ultimately, all assurance activity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

Committee. 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 four years, we have continued to strengthen 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 2020–21 to improve the quality of our regulatory reporting.

Figure 1 – Performance Improvement under our Modern Compliance Framework



## Regulatory reporting embedment strategy and process maturity

We are committed to defining a consistent approach across all assurance activities focusing on maturing and improving our internal controls environment. A key area of this work is its application to regulatory reporting. By developing this we aim to establish a single methodology to drive continuous improvement in line with the company's values of Succeeding Together, Doing the Right Thing and Always Improving.

We strive to ensure the implementation and embedment of improved processes within teams operating across the company. This is supported by our commitment to the culture change and development of the Modern Compliance Framework (MCF) with our goal to create a work environment where following processes and associated controls becomes the norm and part of Business As Usual.

The last year is the completion of our first year-end assurance processes since the introduction of the new suite of processes to support our Ofwat non-financial performance information – Ofwat Compliance Framework (OCF). The outputs and recommendations from the KPMG technical assurance of this process have demonstrated continued 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, and 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 KPMG 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.

We carried out a mid-year assurance of our key reporting to Ofwat. This was shared with our November Audit Committee and set the scene for our preparations for end of year Ofwat reporting.

Our approach combines internal and external resource to support the risk-based programme of assurance. We have also worked to integrate our approach to reporting process improvement and assurance. These included:

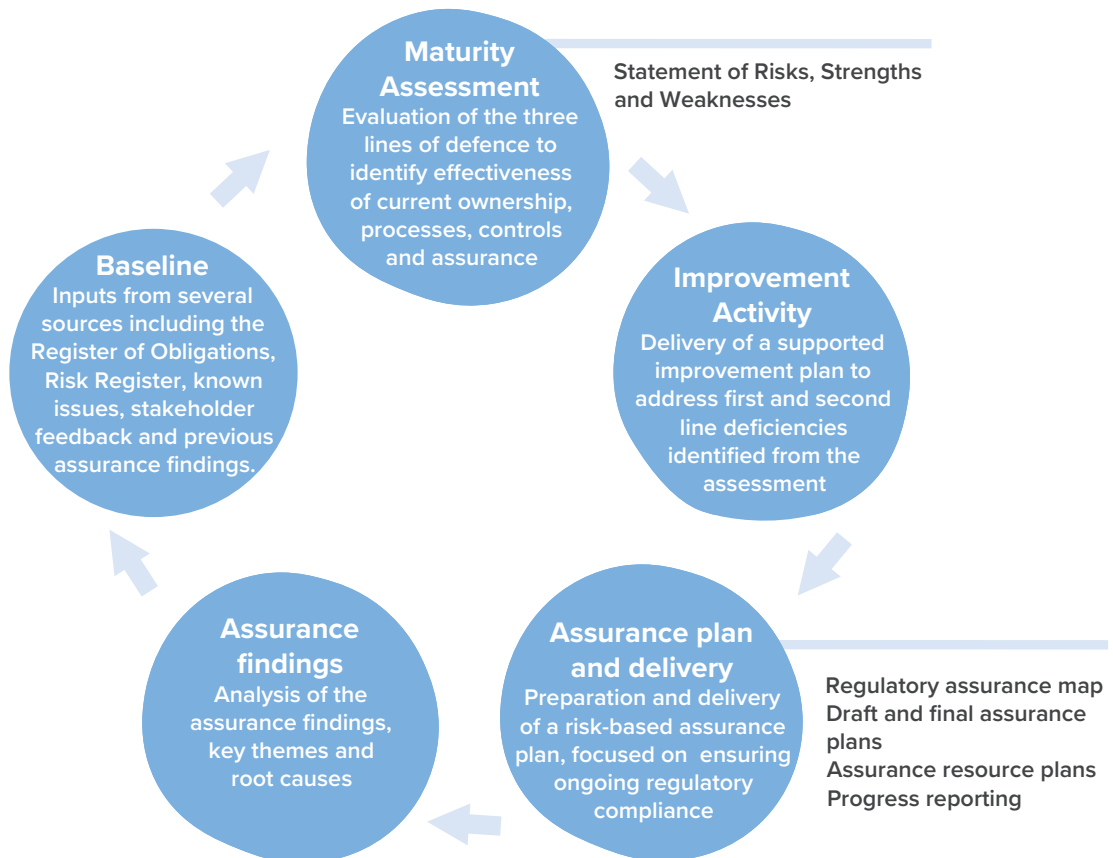
- a single approach to reporting process improvement and assurance across all of our regulators. We had different approaches for Ofwat, EA and DWI;
- move to a proactive programme of regulatory assurance; and
- support the delivery of the new approach to process improvement and assurance by combining 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; and
  - 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 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 2020–21 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 2020–21 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 2020–21 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 P 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

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 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

The outputs of the sampling programme were 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 accurately reflect the relevant inputs.

### Environment Agency (EA) reporting

We provide a significant amount of data to the Environment Agency about the performance of our assets, our abstraction and management of water and any wastewater or sewage discharges we make into 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 2020–21 assurance has been undertaken across a number of processes in the following areas for the EA:

- Storm and Emergency Overflow Spills
- Daily flows
- Programming of our final effluent sampling
- Environmental Performance Assessment
- Annual return for abstraction licencing
- Groundwater and Final Effluent monitoring
- Security of Supply Index

Last year we announced our Pollution Incident Reduction Plan (PIRP), working in partnership with the Environment Agency. As part of the plan we have analysed the challenge in detail and developed a detailed set of interventions to resolve our pollution performance issues. The plan sets out the aim to achieve a reduction in pollution incidents to 80 per year by 2025, and zero pollution incidents by 2040.

The detailed plan has been shared with Defra and the Environment Agency and is published on our website here: [southernwater.co.uk/our-performance/reports/pollution-reduction-programme](https://southernwater.co.uk/our-performance/reports/pollution-reduction-programme).

## External assurance of non-financial reporting

We have engaged KPMG to undertake assurance (under ISAE (UK) 3000) of our non-financial reporting processes for the duration of our five year business plan period 2020–25. For the 2020–21 reporting year, non-financial information was assured, focusing on checks undertaken for completeness, accuracy and validity of the data and compared to internal source data. Building on recent years, we continue to improve our approach to data assurance; improvements are ongoing and it is an area of significant attention from the business. This year's assurance work identified improvements in the non-financial performance data, in particular:

- a continuing positive cultural shift in relation to engagement, ownership and accountability for regulatory reporting risks
- the timely provision of information, including data sharing and effective escalation of queries and issues
- an increase in key metrics utilising technology and semi-automated data validation enhancements to produce reliable data.

However, both KPMG and our in-house second line assurance team identified areas both with scope for further improvement in the processes and controls operating. Examples of where we know we have reporting enhancements to embed include:

- Developer services – non financial information
- Leakage and the Water Balance
- Scheme delivery
- Wastewater network incidents

The issues identified during year-end assurance will be a key focus for follow-up and improvement in 2021–22. Whilst we have made progress in some areas, we need to work hard to embed changes throughout the organisation. 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 first year of delivery of our 2020-25 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 KPMG as our technical assurer.</p> <p>Reporting of our <b>Business Plan 2020–25</b> Performance Commitments (PCs) will be supported by the Ofwat Compliance Framework (OCF) which explains how the data reported to Ofwat in the Annual Performance Report (APR) are collated, the risks associated with the collection of the data and the controls that are operated to mitigate these risks.</p> <p>Our previous non-financial assurers (PwC) highlighted the continued improvements in our Ofwat reporting processes reported following their 2019/20 Technical Audits as well as areas where further improvements could be made. To support this continued improvement, mid-year assurance of our Ofwat regulatory reporting was included in our Final Assurance Plan and has been carried out by the Southern Water Risk and Assurance team.</p>
<p><b>Outline assurance process</b></p>	<p>The level and extent of the assurance applied to each PC is determined by a risk assessment that considers the likelihood of data error, the impact associated with the data and the outcomes of previous assurance activity.</p> <p>Although some processes have transferred from AMP6 with little change, we have several new PCs to consider. For 2020–21 we undertook an internal mid-year assurance review of 11 critical and high risk processes, also considering feedback from the 2019–20 mid-year and year-end reviews.</p> <p>At year-end all critical and high risk performance commitments are subject to an audit by our independent technical assurer KPMG with medium and lower risk areas assured internally by our Risk and 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 assurance process, risks and controls have been assessed for their effectiveness.</p>

#### Assurance results

##### Mid-year

The scope of our internal mid-year review was to ensure that the reporting of AMP7 performance is supported by processes and controls that enable the production of complete and accurate data. We therefore undertook a walkthrough of the 11 highest risk OCF processes to verify that the methodology, process, risks, controls and data requirements were defined and understood.

Where data was available to review, it was verified and outstanding findings from PwC's 2019–20 Technical Audits were also followed up to ensure closure.

A number of improvements were identified as continuing since PwC's 2019–20 Technical Audit, particularly in the areas of engagement, methodology and preparation. Further, good progress had been made against the year-end audit findings with the majority of actions completed by the time our reviews took place.

We also identified opportunities for learning and further improvements in the areas of ownership and accountability following the move to a new set of performance commitments for AMP7. Our recommendations mean that the business has since been focused on rectifying any discrepancies in good time for year-end reporting.

##### Year-end

KPMG has confirmed that it has issued an unqualified limited assurance ISAE (UK) 3000 opinion over our PCs in Section 3 of our Annual Performance Report. In addition KPMG carried out Agreed upon Procedures over Bioresources Market Information and a separate review of processes related to Developer Services.

##### Good practices:

KPMG noted that that management has continued to embed accountability and ownership of key processes surrounding the non-financial information within the APR. In particular, Promise and Process Owners were engaged with our assurance process. The Risk and Assurance team provided an effective facilitation role in our assurance process. Specifically:

- management had appropriate knowledge to enable us to perform effective walkthroughs of the underlying end to end processes and to answer our challenges/questions.
- processes for higher profile/risk performance commitments, in particular wastewater treatment works compliance, pollution incidents and leakage and water balance processes were of a good standard and we had no material (red) findings in these areas.
- co-ordination by the Risk and Assurance team of Webex meetings, data sharing and escalation of queries/issues has worked effectively. Detailed plans with agreed deadlines for OCF reports and priority metrics will again need to be in place in advance of our planning for the year 2 assurance cycle.
- proactive in their communication with Ofwat making timely enquiries over areas such as nil returns.

**As the company continues on its journey focused on the quality of its reporting, the approach to assurance will be able to focus and start relying more on the effective design and operation of the control environment (which will help to reduce the volume of substantive testing required).**

## 1 – Performance Commitments (continued)

### Assurance results

#### Themes for improvement

The common theme across all areas is the need to maintain engagement from the business. High quality process documentation, clear methodologies and an efficient/timely process around data production is key to continuing to deliver complete and accurate non-financial information.

#### Process documentation

To further improve the quality of the process documentation, more detail is required around key regulatory definitions and SWS's interpretation of these. Where the non-financial data was being reported for the first time, further development, documentation and implementation of processes to capture the data is still required.

#### Methodology

Some performance commitments which were not aligned to Ofwat's methodology and these are included as red or amber findings in the results. In particular, satisfactory bioresources recycling, which was flagged as a high priority (red) finding, was initially measured for the incorrect reporting period. This was recalculated and reported for the correct reporting period.

#### Process improvements

There were some delays in provision of data supporting a small number of areas which were new for management in AMP7 (e.g. Developer Services – non financial information). This creates a risk to the timetable in completing our assurance work. The root cause was due to the highly manual data extraction and collation process.

#### Other improvements

Other common findings and areas for improvement related to:

- The commentary provided not being fully aligned to Ofwat's requirements;
- Data version control – different versions of the same input data set being used across performance measures; and
- Assumptions used – not consistently documented.

## 2 – Ofwat Section 19 undertakings assurance

<p><b>Why is it significant?</b></p>	<p>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 period October 2019 to October 2024.</p>
<p><b>Outline assurance process</b></p>	<p>Southern Water has engaged with its technical assurance partners (PwC and KPMG) to deliver assurance over Southern Water's half-yearly reporting to Ofwat over the progress made in its undertakings and the Wastewater Action Plan.</p> <p>The following undertakings are in the scope of the Section 19 notice and the associated assurance plan over the next five years:</p> <ol style="list-style-type: none"> <li>Customer redress measures;</li> <li>Technical review of wastewater treatment works;</li> <li>Organisational compliance process measures;</li> <li>Organisational cultural change measures;</li> <li>Ensuring transparency;</li> <li>Condition P (previously Condition I) certificate assurance undertaking; and</li> <li>Reporting on compliance with the undertakings.</li> </ol>

### Assurance results

#### Deep dive two (June 2020)

PwC completed its second deep dive review in June 2020 in which it focused on undertakings:

- Organisational compliance process measures;
- Organisational cultural change measures;
- Ensuring transparency;
- Reporting on compliance with the undertakings.

PwC also held discussions with management to understand progress in relation to the recommendations identified during deep dive one in December 2019 for Undertaking B. PwC also carried out a review of the corporate incentive schemes at this deep dive.

PwC stated that they agreed with our assessments of compliance with the undertakings, and that we continued to make good progress against our plan and in the delivery of the undertakings. PwC also agreed that we had addressed the majority of their recommendations from deep dive one. The remaining open recommendations were related to further improvements in our controls and the ongoing embedment of processes into our business-as-usual procedures, rather than being stand-alone projects or workstreams. (Continues on next page.)



## 2 – Ofwat Section 19 undertakings assurance – continued

### Assurance Results

#### Deep dive two (June 2020) – continued

Key milestones include the launching of our rebate claims website for former customers, the publishing of environment data on our dedicated Environmental Performance website and establishing our Culture Change Group with representatives from across the business to integrate the diverse cultural change workstream and align initiatives.

Similarly to the previous round of assurance, a number of effective practices were highlighted as well as the identification of some areas for improvement. These actions became a key focus for the business and we agreed for our progress against these recommendations to be reviewed at deep dive three in December 2020.

#### Condition I (now Condition P) assurance (June 2020)

We engaged Deloitte to complete the first assurance of Undertaking F. Condition I certificate assurance in June 2020. Deloitte found that the Condition I statement was supported by evidence, with the interviewed Board members demonstrating diligent enquiry. During the assurance, Deloitte identified five recommendations which were all addressed prior to the finalisation of the Board statements in July 2020.

#### Deep dive three (December 2020)

We engaged KPMG to undertake the deep dive three assurance in December 2020, in which it focused on undertakings;

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

KPMG also held discussions with management to understand progress in relation to the recommendations identified during deep dive two in July 2020 and the open recommendations from deep dive one in December 2019.

Key milestones for our programme include the closure of our rebate claims website for former customers and administration of the rebate cheques, completion of the outstation and storm tank level monitor installations on wastewater sites and linking the new ASPIRE spill reporting system to our Beachbuoy application.

We are currently moving away from the “implementation phase” and beginning our “embedment phase”. This includes the monitoring of completed actions to ensure that these have been incorporated into our business-as-usual procedures, and assurance that the newly implemented or improved controls continue to be effectively operated.

The deep dive three assurance scope included an assessment of our progress with embedment for undertakings A, B and G using a defined and agreed approach.

We identified a risk to the delivery of one workstream and highlighted this to KPMG at the time of assurance. This risk was given the highest priority for mitigation, with senior management overview, in order to bring this workstream back into compliance with the undertakings.

We recognised that further improvements were required to the internal controls and governance for this workstream, and we were able to demonstrate to Ofwat in March 2021 that the workstream had successfully been brought back into compliance and was on track for delivery in accordance with the undertakings.

Similarly to the previous round of assurance, a number of effective practices were highlighted as well as the identification of some areas for improvement. These actions are a key focus for the business and we agreed for our progress against these recommendations to be reviewed at the next deep dive assurance in June 2021. We have worked with Ofwat and KPMG to discuss the scope and focus of the next round of assurance which will take place in June and July 2021, and will report to Ofwat in August 2021. The next round is expected to continue to review progress of outstanding actions, previous assurance recommendations, and will carry out a further technical review of wastewater treatment works.

### 3 – Other assurance completed

Significant areas for assurance	Rationale	Assurance activity	Results
<b>IAP action plans and Transformation Action Plans</b>	<p>The business has agreed to a range of plans that are reported to Ofwat as a requirement of our AMP7 business plan process:</p> <ul style="list-style-type: none"> <li>• Performance Commitment Monitoring</li> <li>• Incident Monitoring</li> <li>• Resilience</li> <li>• Drainage and Wastewater Management.</li> </ul>	<p>Second line assurance is undertaken to provide a maturity assessment over the implementation of the agreed actions, in the Plans.</p> <p>Third line assurance is then undertaken to verify the outcome of the second line assurance and report to Ofwat, our Board and Customers.</p> <p>PwC verified our internal findings in Q1 and Q2. This work was taken over by Jacobs in Q3 and Q4. Our commitment to Ofwat to provide regular updates until the end of 2020–21 has been met, but we have chosen to continue with quarterly maturity assessments for the remaining plans, undertaken internally by our Risk and Assurance team.</p>	<p>Both auditors agreed that our internal approach was well established and agreed with our findings.</p> <p>Maturity increased over the period and reporting was delivered to the Audit Committee and Ofwat on time (by the end of each quarter). The Incident Monitoring Plan has been delivered in full. The Performance Commitment Monitoring Plan is 92% complete and the remaining two plans are progressing as expected.</p>
<b>Preparation of AMP 7 Reporting</b>	<p>Reporting of our AMP7 Performance Commitments (PCs) is supported by the Ofwat Compliance Framework (OCF) documents describing the process, risks and controls in place to ensure the completeness and accuracy of the information that is provided both monthly to the business and annually to Ofwat in the Annual Performance Report (APR).</p>	<p>Internal assurance included a review of OCF documented process risk and control design, and operational controls. We carried out a risk assessment of the new reporting and in high risk areas undertook end to end process assurance over the risks and controls associated with the production of these new measures.</p>	<p>Mid-year assurance was completed on all OCF processes. The risk assessment was also updated in preparation for year-end assurance.</p>
<b>Annual Report to CCWater</b>	<p>CCWater is the statutory customer representative body for the water industry. We want to ensure that the information provided to them on a quarterly and annual basis is accurate.</p>	<p>Much of the information provided in the returns comes from our Ofwat Performance Commitments – this data is assured under our annual APR assurance processes.</p> <p>Where the information fell outside of this we undertook second line assurance.</p>	<p>This work was completed on time by 30 June 2020.</p>
<b>Water Company Charges</b>	<p>Ofwat expects that all water companies are transparent about how they set charges and we are expected to comply with all statutory obligations.</p> <p>Ofwat issued an Information Notice in this area in October 2019.</p>	<p>Independent external assurance over water company charges was provided by KPMG in two phases – September 2020 and January 2021.</p>	<p>KPMG's review confirmed they did not identify any outstanding issues which materially affected the calculation or accuracy of the charging data.</p>
<b>DWI Regulatory enforcement</b>	<p>Southern Water has been subject to a number of enforcement actions with the DWI. This has resulted in a range of actions needing to be completed and evidenced to the DWI.</p>	<p>Second line assurance is undertaken to confirm and track the implementation of the agreed actions, and to ensure progress is aligned to the requirements of the DWI and supported by appropriate evidence.</p>	<p>Internal assurance completed twice yearly for the Information Management Undertaking (IMU). Systems upgrades are on track for delivery. Enabling technologies including email and network access improvements were completed and tested live due to COVID-19 restrictions.</p>

Continued on next page

### 3 – Other assurance completed – continued

Significant areas for assurance	Rationale	Assurance activity	Results
<b>Western Area Strategic Solution</b>	We have committed to working with other water companies to address our water resource issues and have six proposed solutions in scope for development. The work is being overseen by RAPID (Regulators' Alliance for Progressing Infrastructure Development) comprising representatives from Ofwat, EA and DWI. The AMP7 Final Determination states we are required to obtain 'external assurance of data and approaches supported by Board statement'.	The first round of assurance was completed on time in Summer 2020, supporting the accelerated gate 1 submission to RAPID. Technical assurance was provided by Jacobs. Strategic assurance was provided by PwC. Feedback from assurers and regulators will allow us to develop a robust assurance framework for subsequent submissions.	Both assurers reported that overall they considered the information, assumptions and approaches used by Southern Water to develop the submission to be appropriate and in line with Ofwat and RAPID guidance.
<b>Themed Review – WWT Compliance, Pollution Spills and Flows</b>	Our year-end assurance activity focuses on the final reported number we report internally and to Regulators. We have identified that some data areas need to have assurance undertaken over the controls (first line) that are in place higher up the data flow process, including where we are dependent on our field staff for initial event recording, or automated event recording. This work will be a key input into end to end process work as part of the S19 undertaking with Ofwat.	We completed a second line deep-dive review of the process documentation for risks and their mitigating controls to ensure their operation can be evidenced.	We are continually improving the controls for ensuring accurate and robust spill reporting. The annual Storm and Emergency Overflow and Bathing Water reports for 2020 were based on the Event Duration Monitor (EDM) data received through the new ASPIRE system. We are progressing with the enhancement of ASPIRE site profiles to enable even more accuracy in reporting. We found that currently the ASPIRE system stands alone within the business; we have recommended that it is incorporated within the overarching Operational Asset Management framework.
<b>Themed Review – Outage, leakage and supply demand balance</b>	Our regulators have expressed concern over our treatment works outage performance, underperformance against our five year leakage target and potential supply-demand imbalance. We also reported in 2018/19 a reduction in our security of supply index from 100 to 98. They have set expectations that they expect us to meet following the Southern Water WRMP14 2019 annual review.	We undertook a second line detailed end to end process assurance over the risks and controls associated with the production of our outage, leakage and security of supply information, building on work that has previously been undertaken. In addition we paid particular attention to ensuring compliance with our regulators' action requirements identified in the Southern Water WRMP14 2019 annual review letter.	The themed review of outage, leakage, and supply-demand balance has been assessed as having an overall assurance opinion of AMBER. In particular in the areas of Outage and Supply-Demand. Recommendations were made including: seek feedback from the EA re. outage reporting; improve documentation of evidence for outage reporting; increase links between the Outage Recovery Plan, drought dashboard and monthly outage tracking. Unfortunately water efficiency community engagement initiatives were impacted by COVID-19 restrictions.

Continued on next page

### 3 – Other assurance completed – continued

Significant areas for assurance	Rationale	Assurance activity	Results
<b>Theme Review – Water Quality</b>	We have completed a large amount of work to ensure that our processes risks and controls have been documented in this area and that there is now an effective regime of controls monitoring. This has been reported in detail to the DWI.	We undertook second line assurance to ensure that the controls that are now being operated can be evidenced.	The themed review of water quality has been assessed as having an overall assurance opinion of GREEN.
<b>Themed Review – Abstraction</b>	We have identified there is scope to improve our data and compliance with the agreed standards of abstraction measurement, monitoring and reporting to ensure compliance with our abstraction licences and reporting requirements. Our year-end assurance activity focuses on the final reported number we report internally and to Regulators. We will make further improvements to controls for more frequent monitoring and reporting.	We completed a second line deep-dive review of the process documentation of risks and mitigating controls to ensure their operation can be evidenced.	We are currently in the process of automating some of the data checking controls to ensure any potential exceptions are immediately identified and notified to the responsible teams for investigation. Whilst the current manual data checks continue, these have been enhanced until the new automated controls have been tested and are in operation. We will be reporting daily abstraction volumes to our local Environment Agency officers from May 2021 (April's data) on a monthly basis. The annual return shall remain to be the formal regulatory report.
<b>Themed Review – GSS</b>	Our assurance over the 2018–19 data identified that there was scope to improve our data and compliance with the agreed standards in this area.	We undertook second/third line assurance over the outcomes of the improvement project, reported findings to the Audit Committee and ensured that we can demonstrate ongoing compliance.	Following detailed review of the historic shortfalls in payments for missed appointments a number of recommendations were made to ensure the process is robust and that the strengthening of processes endure, for example to more closely align the wording of the Customer Charter with appointment definition policy, to provide a clear and defined second-line assurance process supporting changes to policy and process, and to ensure that key findings, process updates and training of teams are rolled out across the whole business.

# Appendix 1 – Summary of our Statement of Risks, Strengths and Weaknesses

Our latest risks, strengths and weaknesses exercise was published in November 2020. 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. 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 2020–21 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 current five-year business plan, including action plans that we have agreed with our regulators around our business plan.</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>• Robust board level governance on our company culture change programme; monitored via our Culture Dashboard.</li> <li>• Industry-leading position on self-reporting pollution incidents following improvements to our spills reporting.</li> <li>• Board focus and oversight of risk and assurance activity via our Audit and Risk Committees.</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 and more collaborative relationships.</li> <li>• The embedding of our Modern Compliance Framework, that brings together: our Register of Obligations and policy framework; our values, our Ethical Business Practices and our Code of Ethics: end-to-end process reviews in particular around our regulatory reporting processes and our regulatory assurance and improvement activity.</li> <li>• Condition P assurance – Southern Water Board signs off Condition P assurance statements as part of BAU process. This process is also subject to external assurance and is supported by our Licence of Appointment review.</li> <li>• We are implementing a Resilience Action Plan which is improving our risk and resilience management.</li> <li>• Quarterly Executive Risk Committee overseeing current, emerging and future corporate risks.</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>• The business is dealing with a wide range of operational pressures, managing core activities whilst at the same time trying to deliver business transformation.</li> <li>• While our process improvements and assurance has helped to strengthen our maturity this continues to need improvement as we started from a low base.</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 need to reinvigorate our overall framework for regulatory reporting including training supported by ethical business practices and culture change. This is to ensure our framework is refreshed as we move through AMP7.</li> <li>• Our communication with customers during major incidents needs to further improve and is undergoing improvement.</li> </ul>

## Appendix 2 – Three Lines of Defence Model

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

Lines of defence	Rationale	Assurance activity
<b>First line</b> <b>Business operations</b>	Business management processes and controls Operational and financial monitoring and measures	<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>	Risk and Compliance directorate Audit and risk subject matter experts	<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>	Independent assurance providers Internal audit	<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>



5555\_06.21

[southernwater.co.uk](http://southernwater.co.uk)

from  
**Southern  
Water** 