

Final assurance plan

Our assurance programme for our
2020–21 performance information

31 March 2021



from
**Southern
Water** 

The Southern Water logo graphic consists of three stylized, wavy lines in shades of blue, representing water waves, positioned to the right of the text 'Southern Water'.

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1. Introduction

The purpose of this publication is to set out our assurance plan for our performance reporting in 2020–21. Customers and other stakeholders expect that the information we present to them about our performance is accurate, accessible and fully assured.

This document sets out the specific assurance activities being undertaken, both internal and external, relating to our performance reporting as well as other information we have provided to our regulators and stakeholders for the year 2020–21.

In completing our assurance plan we have engaged with our stakeholders and will continue to do so to give confidence in the information we publish and make long-lasting improvements to the way we do things.

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

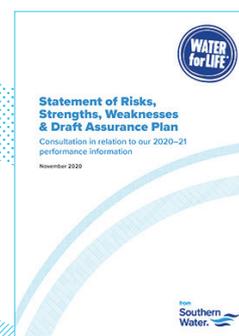
- **Final Assurance Plan** (this document) which takes on board comments from the Ofwat consultation and our consultation on the Statement of Risks, Strengths and Weaknesses and Draft Assurance Plan
- **Data Assurance Summary** (in July with our Annual Performance Report)
- **Statement of Risks, Strengths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

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

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. This assurance provides confidence in our reported performance and the delivery of promises made in our 2020–25 business plan.

We continue to deliver a greater level of trust and confidence in our reporting than has been achieved in the past. The assurance activity we undertake around the information that we provide to customers and stakeholders is one of the critical elements we have put in place to secure that trust. In addition to our own internal assurance teams and processes which we strive to continually improve, our highest risk performance data is assured by an independent assurer.

Our new technical assurance framework agreement in place for our new five-year Business Plan period (AMP7), allows us to appoint the most suitable assurance partners to different technical assurance projects. KPMG and Jacobs are now completing their first year in this role, taking over from PricewaterhouseCoopers (PwC) who were our external assurers in the previous AMP.



2. Context

2.1 Regulatory background

We have now completed the first year of a new five-year business plan period which will take us from April 2020 to the end of March 2025. 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.

In November 2020, Ofwat published new guidance in their response to the consultation on regulatory reporting requirements for the 2020-21 reporting year. The new reporting template for the Annual Performance Report (APR) this year is approximately 20% larger than in previous

years, and there are additional requirements for reporting of bioresources information, narratives to describe our methodology, updates to the format of the reporting template and several definition changes. These changes have been taken into account when planning our year-end APR assurance detailed in Table 4.

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

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 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"> transparency on the audit procedures they have put in place in relation to data assurance; and a summary of the outcome of the data assurance that has been carried out. 	We publish our Data Assurance Summary on our website each year. This will be published alongside our Annual Performance report by 15 July 2021.

The latest versions of all the reports referred to above can be found on the Southern Water website.

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 at Table 1. Ofwat have indicated we may choose to continue with some of these mechanisms however, there is no expectation for us to do so.

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 will add the new governance requirements as part of our existing approach.

2.2 Wastewater investigations

As reported previously in our Statement of Risks, Strengths, Weakness and Draft Assurance Plan published in November 2020, 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
- 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
- employee incentives.

We also established a Culture Collaboration Group that meets monthly to provide programme oversight and to share ideas and best practice on positively influencing culture change. This includes reviewing outputs from our annual employee engagement survey to inform future delivery of culture change initiatives. The survey results from 2021 indicate a meaningful improvement in employee engagement, key values and ethics measures which evidences the positive progress made on culture change in the year. We publish a quarterly Measures of Culture Dashboard on our intranet and which has oversight from our Board. The indicators, relating to people measures and ethical business practice, imply our core values are being acted upon, and set the long-term context on which we will strengthen the culture of the business.

Compliance with the Section 19 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 of progress and embedment of the undertakings is aligned to the views of our third party assurer KPMG. For those undertakings of our 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 the Deep Dive in August 2020.

Additional information on the investigation can be accessed in the Ofwat investigation report, which can be viewed at the following link: 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.

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
- river levels.

This is now available on our website at 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.

2.3 Condition I Assurance

In order to meet the Licence Condition I Certificate requirements of the Ofwat Licence of Appointment and the Section 19 Undertakings the Southern Water Board need 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, for at least the next 12 months, sufficient:

- financial resources and facilities
- management resources
- methods of planning and control.

The Southern Water Board signs off the Condition I assurance statements. These 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. 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 I certification process is 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
- involve questioning, including Board members, around the quality of the evidence supporting the board statements
- judge the above against the overall requirements of the Certificates and the undertakings requirement
- provide a report and opinion and present its findings to Ofwat.

2.4 COVID-19 update

The COVID-19 pandemic has brought a great amount of uncertainty. However, our 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 fully recognise the implications, both operationally and financially, to our business are real, severe and lasting. In response, we have developed a COVID-19 continuity plan, which is reviewed and adjusted as appropriate. Following the agreement from Ofwat to a level of funding for the five year period, we used our business plan that we had submitted to Ofwat for the period to 2025 as the baseline to create our Execution Plan for the same period. From this Execution Plan, all decisions and changes implemented as a result of COVID-19, are managed through existing governance processes.

In terms of our domestic customers, many are facing uncertain futures and are struggling to pay their water bills. This means we need support them in the short term, offering payment breaks and increased access to our support tariffs while making sure that we monitor and prepare for the potential of increasing bad debt in the long term. To keep customers informed, we created a dedicated COVID-19 area on our website, which included a letter from our CEO, Ian McAulay, and answers to common questions about the impact of pandemic on our services, changes to our ways of working, and the support available to them. Our frontline employees were identified by the Government as key workers, so we also published details of essential work that would carry on during the lockdown.

At the start of the pandemic, we moved in just one week from business as usual to a well-rehearsed Business Continuity Plan running against four simple priorities which have informed our COVID-19 response:

- maintaining provision of essential services at all times
- protecting the health, safety and wellbeing of our employees, including our supply chain, and our customers
- providing the maximum practicable level of assistance to our vulnerable customers
- protecting the financial stability of our business.

We have adapted our assurance approach and are pleased that we 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. This meant all our teams and assurance partners had to utilise remote-working technology to allow all our audits to take place in a timely and focused manner.

3. Continuous customer and stakeholder engagement

3.1 Customer engagement

We are engaging with our customers through our existing Customer Action Group and our Strategic Environment Panel. We have been working closely with them both on how we will deliver the requirements of our Ofwat Undertakings with a real focus on the need to rebuild the trust and confidence of customers by requiring us to make publicly available on a website our environmental performance. This was the result of direct feedback received through Ofwat's consultation during their wastewater investigation.

Our Customer Action Groups are longitudinal panels of customers consisting of panel members (typically c35 at any one time) and a committee (c6-8 consumers) that through continuous and two-way dialogue help provide a closer level of assurance on the outputs. Through this process the Customer Action Groups become much closer to our plans and are able to provide the insight we need to drive continuous improvement.

In December 2019 we commissioned a series of workshops, through our research partner Accent, to gain insight into how best to engage with our customers on our environmental performance data. The results showed that many of our customers were not interested in reviewing our performance data, indicating that this data is more pertinent to interested parties such as environmental interest groups and stakeholders. Some customers were curious about things that personally affected them and their households; they were looking for simplicity in the information presented, and were interested in ways we could show them to save money and water. A key insight from this work was that the website needed to be interactive, with the ability to tailor information as close as possible to personal, household, local level, to increase engagement.

In the last year we have expanded the Customer Action Groups to ensure a much greater inclusion of customer voices. In September 2020 we launched 'Water Futures 2050' which is our young person's group. Our next group due to launch in 2021 will be our 'Water Futures 2030' which we will use 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. This year we have also launched an Employee Panel to ensure that the views of our own employees are also being taken into account.

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 governance, 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
- forming part of the governance framework for key strategic programmes and planning activities.

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

3.2 Stakeholder and regulator engagement

The role of our regulators including Ofwat, the Drinking Water Inspectorate (DWI), the Environment Agency (EA), and CCW are of paramount importance to the effective operation of the water industry. It is critical that conversations on performance between water companies and our customers and other stakeholders are underpinned by accurate information. It is therefore key for us to understand regulators' 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 meet our regulators' requirements, so we are pleased that we are building on our many positive consultations and exchanges with them.

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. Four years on, we have now successfully closed all of these orders, with the most recent – a final asset improvement scheme at Shoreham water supply works in West Sussex – being revoked on 5 March 2021.

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 commenced in 2018; 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. Key deliverables include a new GIS (Geographic Information System Mapping) and Operational Asset Management system that will allow us to better understand the location and configuration of our infrastructure assets. Risk reviews were completed and governance of programme delivery is underway consisting of monthly working group meetings, biannual steering group, and biannual internal assurance reporting.

An assurance and governance process was developed and submitted to the DWI. The assurance looks at compliance with the IMU commitments and statutory requirements; this commenced in July 2020 and was completed internally by the separate (second line) Risk and Assurance team. This will be repeated at six monthly intervals in January and July each year, and we will submit annual progress reports to the DWI by 31 March each year until 2025. Milestone reports have been submitted to the DWI and the Undertaking is now at the project delivery and monitoring stage.

Environment Agency

Like other wastewater operators, in the normal course of operations we occasionally face Environment Agency (EA) 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.

On 2 October 2020 the Environment Agency released the Environmental Performance Assessment (EPA) for 2019, its annual report on the environmental performance of the nine English water and sewerage companies. Our performance for 2019 has been rated at one star, down from two stars in 2018. As a company committed to protecting the environment and serving its customers, we are disappointed by the assessment but are keen to look forward. We are focused on being transparent about our environmental performance and this is reflected by the publication of our environmental performance data on our website. In addition, we provide detailed and full disclosure of where problems arise. We have improved our reporting process and our self-reporting of pollution key metric in the EPA was one of the best in the sector.

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.

3.3 Final assurance plan development

We understand the information we share needs to be accessible to all stakeholders and delivered in a clear manner which is relevant and useful. As part of our annual assurance cycle we developed our Statement of Risks Strengths Weaknesses and Draft Assurance Plan.

3.4 Summary 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, the company will put in place independent external assurance as part of its 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 remain committed to continually improving and Figure 1 illustrates the risks, strengths and weaknesses we have identified in our performance reporting.

We have highlighted that maintaining high quality regulatory and statutory reporting in an accurate and timely manner is a key risk for our business. Our assurance plan reflects this and is aligned to our principal risk of maintaining compliance. Our regulatory reporting is subject to risk-based assurance, with the highest risk data subject to independent external assurance.

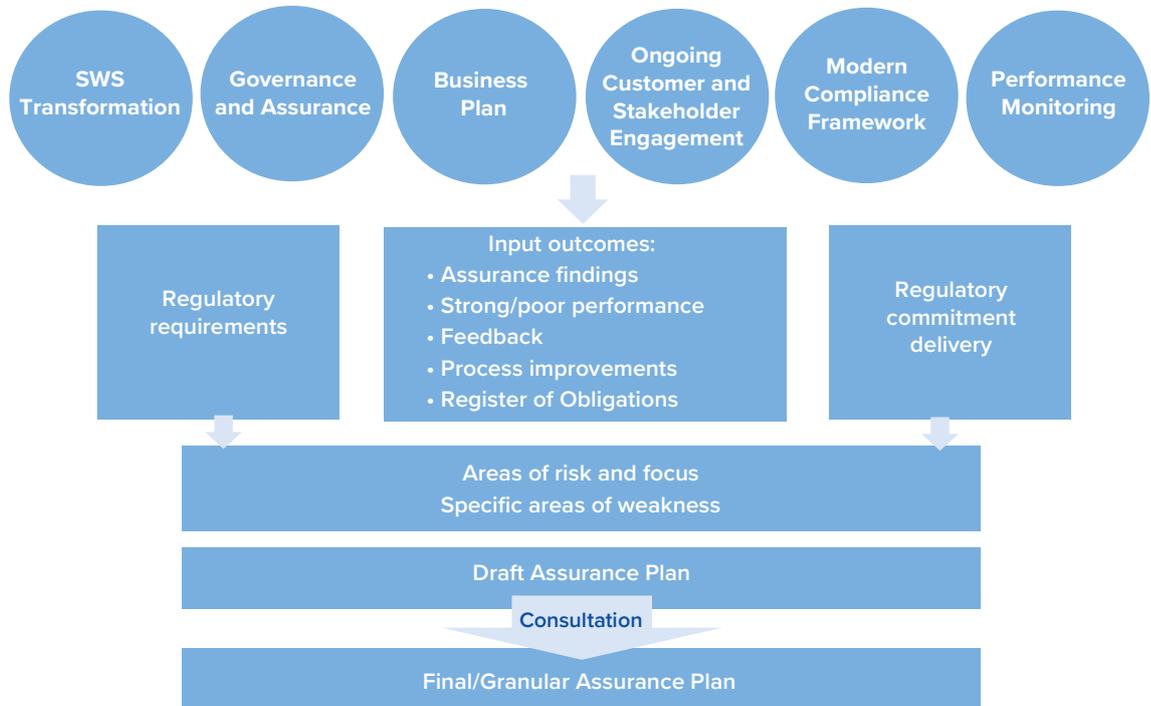
In order to continue to build confidence that we can deliver on the commitments we have made to our regulators and customers, we have now built a 'Regulatory Commitment Delivery' aspect into our assurance planning to ensure that our critical regulatory commitments are at the core of our assurance approach.

Examples of the commitments that we are including for our thematic assurance under our 'Regulatory Commitment Delivery' are assurance over our undertakings with Ofwat and the DWI, our new PIRP and the delivery of our Ofwat Initial Assessment of Plans (IAP) action plans. This assurance activity broadens the scope of our assurance away from the risk of misreporting to wider programme delivery across all aspects of the business, including IT, operational improvements and capital delivery. Figure 2 summarises our assessment of risks, strengths and weaknesses associated with providing quality information and delivering our regulatory obligations and performance commitments we have made to our customers and stakeholders as part of our Business Plan 2020–25.

Figure 1: Southern Water 2020–21 risks, strengths and weaknesses

Our risks	<ul style="list-style-type: none"> • Maintaining high-quality regulatory and statutory reporting in an accurate and timely manner. • 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. • Continuing to embed effective first and second line assurance across our processes that support regulatory reporting requirements. • Ensuring we respond in an effective and timely manner to feedback from our regulators both on their concerns and new requirements. • Meeting the requirements of undertakings or other commitments that we have entered into with our regulators. • Ongoing transformation within the business and ensuring the continuity in our reporting arrangements. • Ensuring that the delivery model(s) that we adopt for the commitments we have made are robust.
Our strengths	<ul style="list-style-type: none"> • Robust board level governance on our company culture change programme; monitored via our Culture Dashboard. • Industry-leading position on self-reporting pollution incidents following improvements to our spills reporting. • Board focus and oversight of risk and assurance activity via our Audit and Risk Committees. • Our internal and external performance monitoring regimes to identify areas of focus and success. • Improved quality and transparency in respect of our reporting in our Annual Report and on our website. • Continuous engagement with our stakeholders and regulators and more collaborative relationships. • 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. • Condition I assurance – Southern Water Board signs off Condition I assurance statements as part of BAU process. This process is also subject to external assurance and is supported by our Licence of Appointment review. • We are implementing a Resilience Action Plan which is improving our risk and resilience management • Quarterly Executive Risk Committee overseeing current, emerging and future corporate risks • Robust tracking of assurance and improvement actions. • A continuous improvement programme for annual assurance which includes data returns to Ofwat, the DWI, EA and CCWater.
Our weaknesses	<ul style="list-style-type: none"> • The business is dealing with a wide range of operational pressures, managing core activities whilst at the same time trying to deliver business transformation. • While our process improvements and assurance has helped to strengthen our maturity this continues to need improvement as we started from a low base. • Fragility of our information management systems and the complexity of processes which underpin some of our difficulties in reporting our performance. • Detailed end-to-end process reviews have identified complex data flows which require simplification and additional controls, improvements to IT systems and data accuracy. • 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. • Our communication with customers during major incidents needs to further improve and is undergoing improvement.

Figure 2: How we develop our Draft and Final Assurance Plan



3.5 Our approach to assurance

In our 2020 Statement of Risks, Strengths and Weaknesses and Draft Assurance Plan 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 use the ‘three lines of defence’ framework for our reporting

governance and assurance activity as shown in Figure 3. This helps to assure performance information by applying multiple levels of control.

We apply internal controls and have 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.

Figure 3: The three lines of defence

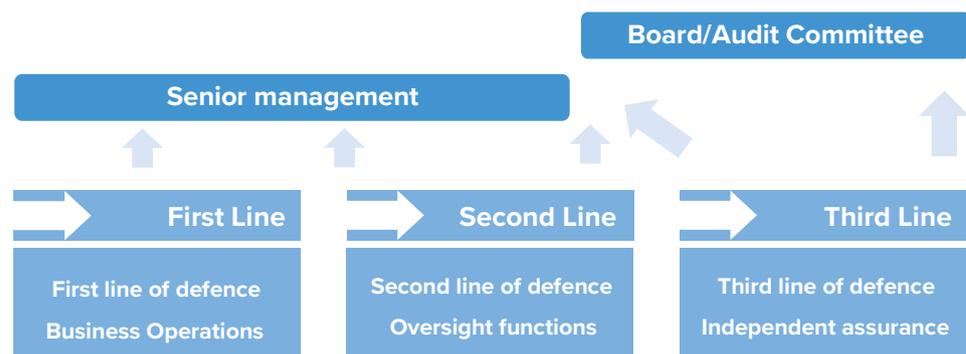


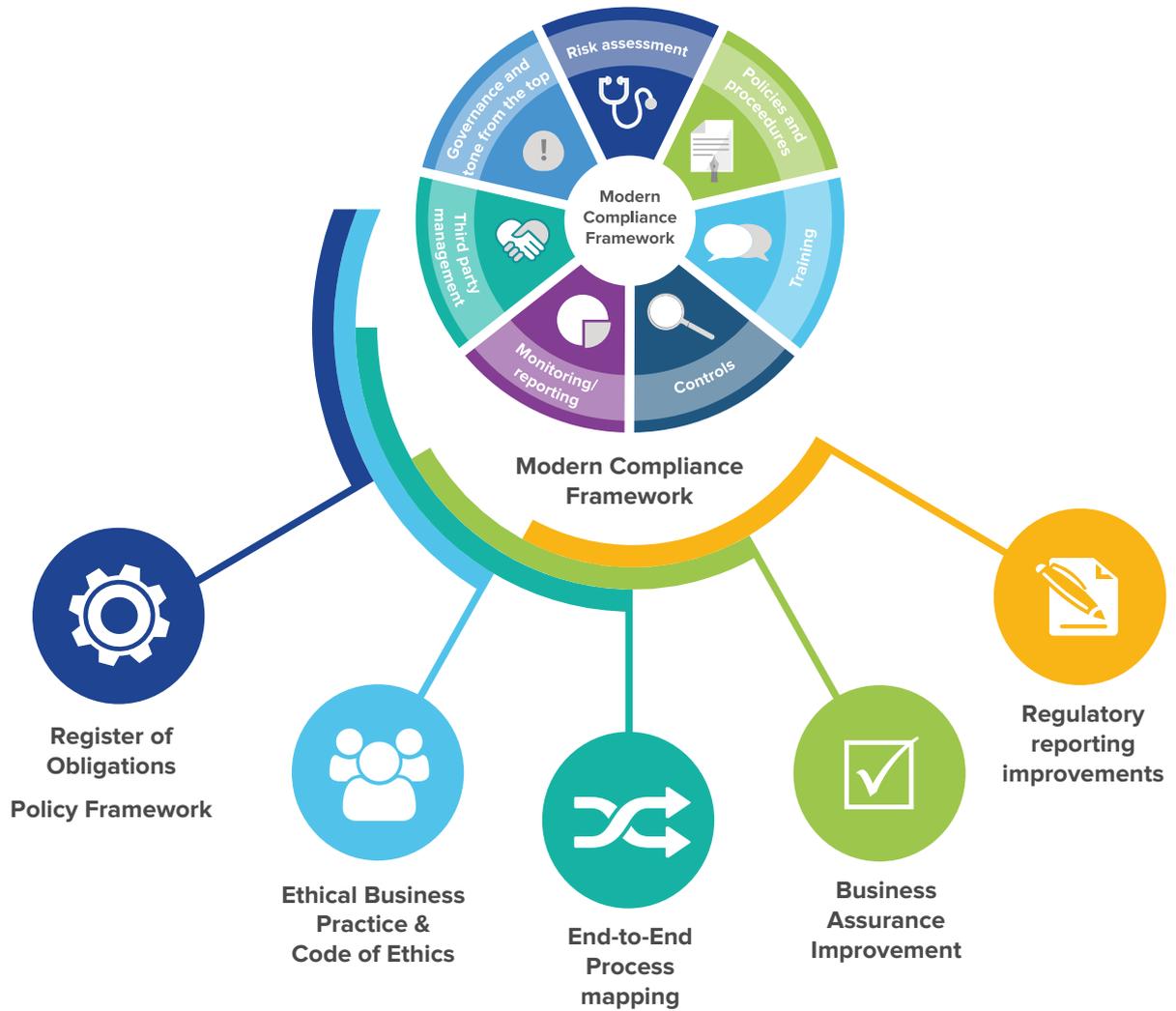
Table 2: Our application of the 'three lines of defence' assurance model

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

Southern Water's assurance plans are developed from stakeholder feedback and from our own risk assessments. The Audit Committee monitors the integrity of our non-financial information reported by the company in fulfilment of its regulatory, legal and environmental obligations. This includes information required by Ofwat, the DWI, the EA and CC Water as well as non-financial information to be included in the company's financial statements. 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 Figure 4 we highlight the activity that has been ongoing and that is driving the improvements we are making in our performance reporting under our Modern Compliance Framework. 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.

Figure 4: Performance improvement under our Modern Compliance Framework



Following the completion of our last year-end assurance processes we continued to see varied levels of maturity of business processes.

We recognise the need for continued improvement and within our published Data Assurance Summary (July 2020) we identified that we can make further improvements to ensure that findings are not repeated in future audits; that data quality and our controls environment continue to improve.

We have refreshed our internal process framework for reporting of our performance commitments in our new (AMP7) business plan period. This describes the processes and controls in place to ensure the completeness and accuracy of our data reported monthly to the business and annually to Ofwat in the

Annual Performance Report (APR). The new framework builds on improvements already made to our assurance processes ensuring:

- our reporting processes are updated in line with new requirements, and monthly reporting provides management oversight;
- data sheets are updated with new requirements and are further enhanced by simplifying and streamlining data lines;
- engagement of process and promise owners is maintained and expectations set around discipline of roles, process and timetable; and
- the assurance approach is continuously monitored and the reporting timetable is delivered.

We have also completed internal assurance of all process documentation relating to reporting of our AMP7 performance commitments. This provided targeted interventions for problem areas identified in previous audits, and delivered an updated risk assessment for our assurance programme, supporting our established approach to process improvement and assurance. We also 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 5

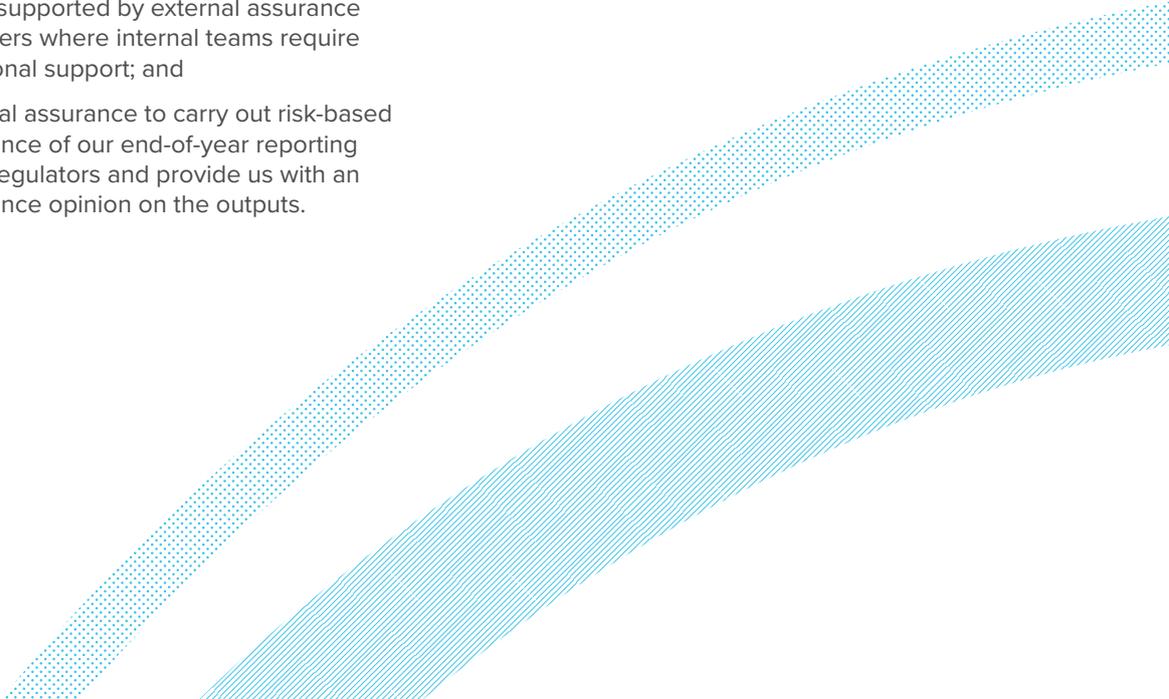
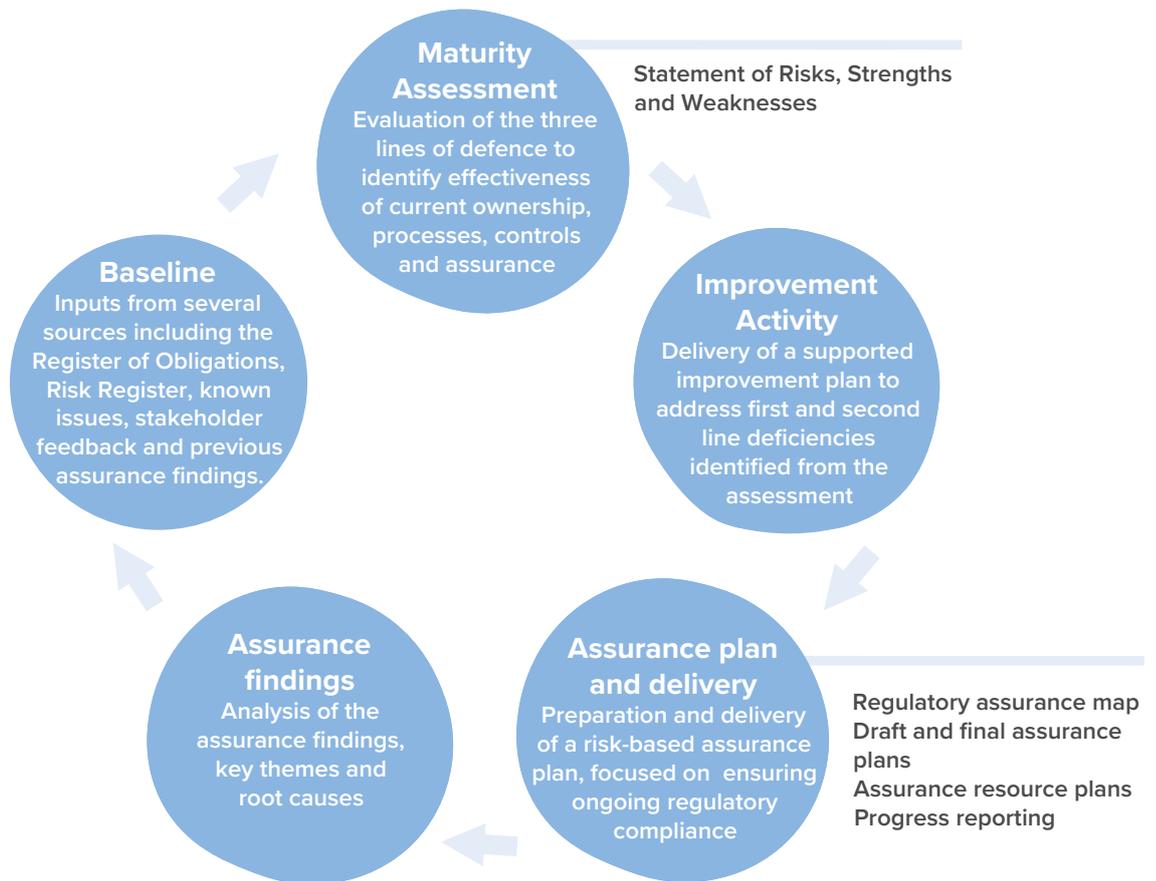


Figure 5: Continuous improvement approach to assurance planning



4. Final assurance plan

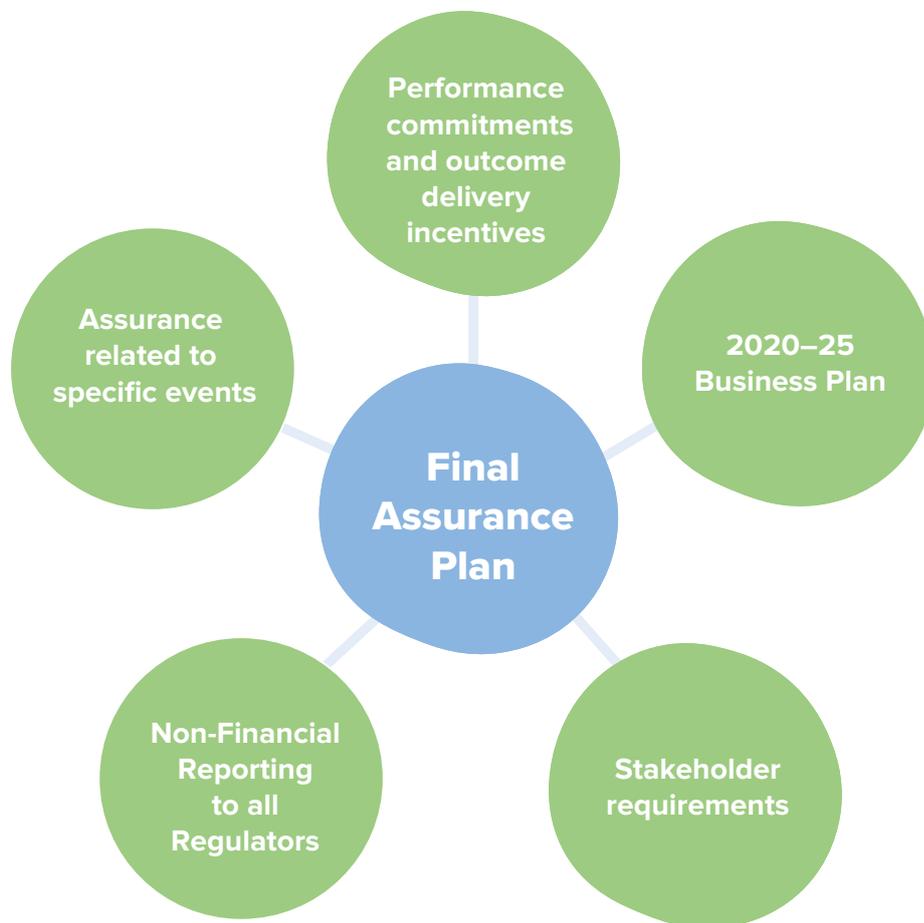
4.1 Assurance plan objective

This part of the document sets out how we have arrived at the assurance work we are planning over our regulatory reporting. We have enhanced our in-house assurance capability during 2020 and we are working with our technical assurance partners to identify and deliver specific improvements to our assurance approach.

At present, our assurance plan reflects that we are reacting well to the requirements of our regulators and proactively considering areas of highest risk and specific, targeted areas and provides ongoing assurance throughout the year.

Figure 6 shows the current key areas of focus for our assurance plan:

Figure 6: Assurance focus 2021–22



4.2 Assurance plan

As outlined in our draft assurance plan, our assurance plans are informed by the findings of our risks, strengths and weaknesses assessment and our stakeholder engagement. In addition, emerging areas of high risk or on-going issues are reflected in our plan. During the year our regulators may require us to respond to queries and reports. We will consider during the year whether there is a need for any specific assurance that is required in response to actions and reports from our regulators.

In our Draft Assurance Plan published in November 2020, we outlined the different types of regulatory compliance assurance. While the assurance requirements for our different regulators vary, we are standardising our approach to the way we prioritise and plan assurance across all our non-financial regulatory reporting across our main regulators:

- Ofwat
- the Environment Agency (EA)
- the Drinking Water Inspectorate (DWI)
- the Consumer Council for Water (CCW)

The focus of our work is on the provision of risk-based second and third line assurance over information that is provided to our regulators and the end-to-end processes that support the collection and analysis of that information. The range of different activity that could be undertaken means that each potential area of work will be risk assessed to ensure that work is focused on areas of highest risk. Table 3 highlights the different types of assurance that we undertake. Table 4 details our assurance plan. We asked for feedback from our key stakeholders on our Draft Assurance Plan by January 2021. As we did not receive any responses to the consultation, our changes were minimal; these are listed in Appendix 1 together with our rationale.

Table 3: The different types of regulatory compliance assurance

Controls monitoring and assurance	Assurance over data reported to regulators	Assurance over Regulatory Action Plans	Deep Dive – risk and control maturity	Themed review
<ul style="list-style-type: none"> • Assurance over the operation of specific controls that have been identified within Risk and Control Matrices and Ofwat Regulatory Compliance Framework documentation. • Activity can range from control monitoring (the first line is operating its controls), through to evidence-based reviews of the effectiveness of control operation. • Evidence reviews to ensure effective control can be demonstrated. 	<ul style="list-style-type: none"> • Assurance over annual information provided to regulators. • Mandatory requirement at year-end (Ofwat). • Best practice and risk-based approach for assurance over reporting to other regulators. • Risk-based approach to whether assurance provision is internal or external unless otherwise prescribed. 	<ul style="list-style-type: none"> • Specific assurance activity (internal and external) over action plans that have been agreed with regulators. • Activity can be driven from business plans and regulatory enforcement undertakings. 	<ul style="list-style-type: none"> • Consideration of risk and control maturity around our reporting to regulators. • Consideration of the identification of end-to-end risks and controls. • Aim to improve maturity of risk and control identification and evidence. • Can be applied wider than just regulatory reporting and areas for review will be linked to the Register of Obligations and our Corporate Risk Register. 	<ul style="list-style-type: none"> • Audits of specific areas of high risk and non-financial regulatory issues. • Derived from analysis of areas of risk and weakness and our ongoing stakeholder engagement.

Table 4: Final assurance plan 2021–22

Alignment to Principal Risks	Risk area	Why?	The assurance we will be doing	Established/new
Compliance and Corporate Affairs	Ofwat Annual Performance Report (APR), including Performance Commitments and Outcome Delivery Incentives (ODIs); Cost Assessment Tables	<p>We believe customers should be able to trust our reporting of all our non-financial performance information.</p> <p>Independent external technical assurance providers complete reviews of our regulatory compliance reporting processes and associated data, as well as reporting to our Board, Executive Leadership Team (ELT) and the Audit Committee. This information is published in our Annual Performance report and is detailed in our Data Assurance Summary.</p>	<p>Year-end assurance – external assurance and internal assurance.</p> <p>A risk assessment has been completed of all the data that is reported to determine whether assurance will be internally or externally provided.</p> <p>An independent assurance provider will identify its own approach to conducting audits including its own risk assessment and testing methodologies to deliver its conclusions.</p> <p>Testing of the high and critical risk data lines for performance commitments and the cost assessment tables will be performed by an independent assurance provider. Low risk testing will be undertaken in-house.</p>	<p>Established process for assuring end of year APR information provided.</p> <p>This will continue for the remainder of the current business plan period.</p>
	Annual Report and Accounts, including financial APR data	<p>We have a statutory obligation to ensure that our financial accounts are robust, accurate and complete.</p> <p>Our Annual Report is the primary way we publish our annual performance information and it is made publicly available to all stakeholders. The annual report includes our statutory accounts and our performance over the year and how this compares against our performance commitments as well as broader information on our commitments and responsibilities to stakeholders and customers.</p>	<p>Methodology and data are subject to three lines of assurance with our financial auditor, Deloitte LLP, performing third line assurance in accordance with the appropriate accounting standards.</p> <p>Our financial auditors will carry out assurance of reported performance data and presentation of information and risks.</p>	<p>Established process which will continue taking account of any evolving regulatory requirements.</p>

Table 4: Final assurance plan 2021–22 continued

Alignment to Principal Risks	Risk area	Why?	The assurance we will be doing	Established/new
Compliance	Ofwat Undertakings	In June 2019, Ofwat issued a notice to impose a penalty on Southern Water following their investigation which highlighted significant failings relating to the management, operation and performance of our wastewater treatment works. As a result, Southern Water has committed to implement a range of financial and non-financial measures ('Undertakings').	Southern Water is required to report progress against Undertakings on a half-yearly basis over the next five years. As referenced earlier, we have designed a detailed assurance plan in response to these Undertakings which are listed on our website. Ongoing assurance will be completed and progress reported to the Board and Ofwat. We will also be carrying out external assurance of our Condition I licence obligations to satisfy the Undertakings.	Established approach and will continue until February 2025.
	Reporting to the DWI and DWI Information Management Undertaking	Southern Water is subject to a S19 Information Management Undertaking (IMU).	All annual data returns provided to the DWI will be subject to first line control and will also be the subject of second line assurance. Second line assurance is undertaken biannually to confirm and track the implementation of the agreed actions included in the IMU. This is also reflected in the IMU Audit strategy that has been submitted to DWI.	Established approach in place for our S19 Information Management Undertaking with the DWI.
	Annual Report to CCWater	CCW 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.	Much of the information provided in the returns comes from our Ofwat Performance Commitments – this data is assured under our annual APR assurance processes (see above). Where the information falls outside of this, we will undertake second line assurance.	Established approach.
	Ofwat Operating Licence	We have a wide range of obligations to meet as part of our Ofwat licence to operate. We want to ensure that we can demonstrate that our activities as a business align to these requirements.	Second line assurance will be undertaken as part of an annual review of our Ofwat Operating Licence. The review will also support our Condition I annual assurance (as part of the Ofwat Undertakings).	Commenced in the 2020–21 reporting year and will continue annually.
	Improvement Plans and Transformation Action Plans	<ul style="list-style-type: none"> Our commitment to Ofwat to provide quarterly maturity assessments over the four below-listed action plans was fulfilled in March 2021 and an internal assurance approach will be followed with effect from April 2021 covering: Performance Commitment Monitoring Incident Monitoring Resilience Drainage and Wastewater Management. 	Incident Monitoring – Action Plan completed. We plan a themed review of Incident Management operations to support further improvements. Performance Commitment Monitoring – monitoring of plan progress and closure evidence. Resilience Action Plan (RAP): <ul style="list-style-type: none"> Regular internal maturity assessments plus monitoring of plan progress and closure evidence. Themed review to ensure that the Plan has been fully integrated with the Enterprise Risk Management & Resilience framework. Drainage and Wastewater Management (DWMP) – regular internal maturity assessments plus, monitoring of plan progress and closure evidence.	Established approach.

Table 4: Final assurance plan 2021–22 continued

Alignment to Principal Risks	Risk area	Why?	The assurance we will be doing	Established/new
Wastewater compliance	Reporting to the EA	Historic and ongoing investigations into our reporting to the EA means that we are under significant scrutiny over the information we provide. A programme of information management improvements is being delivered as part of our 'Environment+' programme.	All regulatory reports provided to the EA will be subject to first line controls. Areas of reporting that have been analysed as higher risk will be subject to second line assurance. Improvements to our spill reporting to the EA will be subject to external assurance as part of our Ofwat Undertaking.	Established approach.
	Themed review – Pollution Incident Reduction Plan	Our Pollution Incident Reduction Plan was published in 2020 setting out how we will achieve a reduction to 80 pollution incidents per year by 2025, and zero pollution incidents by 2040. This is also crucial to our work to improve our recent one star rating in the 2019 Environmental Performance Assessment.	We will undertake second line assurance over our Pollution Incident Reduction Plan to assess effectiveness of the current plan against meeting our targets. This will be completed on an annual basis.	New.
	Drainage and Wastewater Management Plan	We are producing our first DWMP following the approach developed by Water UK, which will establish our long-term approach to improving and maintaining a robust and resilient drainage and wastewater system over the next 25 years and more.	We plan to follow a similar approach as we take to the production of our Water Resources Management Plan (WRMP). Although Water UK have not yet confirmed their assurance requirements or timelines, we will engage legal and technical assurers during 2021 to support our development of the DWMPs.	New.
IT	Themed Review – Networks & Information Systems (NIS) Directive	The NIS plan is a delivery commitment to DWI.	We will complete second line assurance over the key deliverables of this plan. Elements of this plan overlap with the DWI IMU which is also subject to second line assurance.	New.

Table 4: Final assurance plan 2021–22 continued

Alignment to Principal Risks	Risk area	Why?	The assurance we will be doing	Established/new
Water	Western Area Strategic Solution (Water for Life – Hampshire)	We've 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 funding agreement with Ofwat for 2020–25 states we are required to obtain "external assurance of data and approaches supported by Board statement".	The first round of assurance was completed in the summer of 2020 in support of our first submission (accelerated gate 1) to RAPID in September 2020. The remaining five submissions for Gates 1 to 5 will be externally assured ahead of programme completion in autumn 2024.	Established approach expected to continue into 2022 in line with RAPID milestones.
	Drought Plan	We're required to update our Drought Plan every five years as per the Water Industry Act. Technical assurance over our 2022 Drought Plan.	This process will require an assurance of the final plan and the Statement of Response as well as of the revised draft plan if one is produced. The timing of all of these is dependent on the timetable confirmed by Defra and is expected to take place between June and December 2021 with the final plan produced by the end of March 2022.	New.
	WRSE (Water Resource South East) Regional Plan	Assurance statements are required, using templates provided by WRSE.	These are not board statements but confirmation of the assurance processes in place over the data provided for regional modelling being undertaken to develop the regional plan.	New.
Customer	Water Company Charges	Ofwat expects that all water companies are transparent about how they set charges and we are expected to comply with all statutory obligations.	Assurance over water company charges is provided by an external assurer.	Established approach.
	Developer Services Charges	These are the charges we make to our developers. This can include charges for connecting to our networks or laying new pipes on development sites. Charges need to be published by the end of January and require sign off by our Board.	Assurance over our developer charges is provided by an external assurer.	Established approach.
Climate Change	Carbon Accounting Workbook	This detailed tool calculates our greenhouse gas emissions and other green data. Data has been assured externally on an annual basis ahead of publication in our Annual Report but we feel a more detailed, technical review is required following updates to the workbook.	The reporting processes and calculations are being updated and therefore we will engage an external assurer to ensure our source updated data, methodology and outputs remain accurate.	New.

Appendix 1

Changes from the Draft Assurance Plan

Changes from the Draft Assurance Plan				
Alignment to Principal Risks	Risk area	Why?	The assurance we will be doing	Established/new
Water	Regulatory Reporting	NA	WRSE assurance statements added.	Identified after Draft Assurance Plan was published.
		NA	Drought Plan.	Identified after Draft Assurance Plan was published.
Compliance	Improvement Plans and Transformation Action Plans	Internal second line assurance is undertaken to provide implementation of the agreed actions, and to provide the Audit Committee with assurance over the delivery of these plans.	New assurance approach defined for each plan in 2021–22.	Our commitment to Ofwat to provide external assurance is fulfilled but ongoing internal assurance and monitoring will continue where further work continues.



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You should send any comments to:
regassurance@southernwater.co.uk