

2019

Summary Assurance Report



Bournemouth
Water



South West
Water

Introduction

This is South West Water's second annual Summary Assurance Report, which complements our other annual reporting, including the assurance sections within our Annual Report and Annual Performance Report (both available at www.southwestwater.co.uk/report2019 and www.bournemouthwater.co.uk/report2019).

It provides an update on the assurance we have performed and commissioned during 2018/19 as well as the results of that assurance, focusing on the 'Significant Areas for Assurance' identified in our Assurance Plan.



RISKS, STRENGTHS AND WEAKNESSES STATEMENT

This statement sets out our risks, strengths and weaknesses to the information that we publish following consultation with customers and other stakeholders.



DRAFT ASSURANCE PLAN

The draft assurance plan lays out areas we have identified as key areas for assurance (including as a result of the risks, strengths and weaknesses consultation).



FINAL ASSURANCE PLAN

Following consultation with customers, employees and other stakeholders the final assurance plan updates the draft assurance plan to address feedback received.



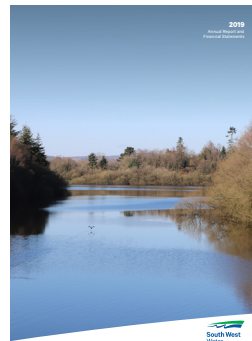
ANNUAL PERFORMANCE REPORT AND REGULATORY REPORTING

The annual performance report lays out our performance against the regulatory targets we have committed to achieve. Our regulatory reporting lays out key financial and non financial performance for the year.



SUMMARY PERFORMANCE REPORTS

We publish summary performance reports for each of the South West Water and Bournemouth Water operational areas; these provide a shorter summary of performance against each of our regulatory targets.



ANNUAL REPORT AND FINANCIAL STATEMENTS

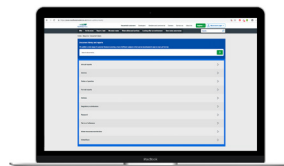
Our annual report and financial statements are published in line with Companies Act requirements and as well as reporting on overall performance, provide a more detailed review of our financial performance during the year.





SUMMARY ASSURANCE REPORT

Our summary assurance report (incorporating our 'Data Assurance Summary') provides an update on the assurance which we have performed in line with this plan.



OUR WEBSITES

The documents listed here are published on our websites (southwestwater.co.uk and bournemouthwater.co.uk) alongside other useful documents – such as our charges to customers for the year.



BUSINESS PLAN 2020-25

In September 2018 we published our business plan for 2020-25 'The New Deal', which was given fast-track status by Ofwat. For further information on South West Water's New Deal visit southwestwater.co.uk/newdeal.



RISK AND COMPLIANCE STATEMENT

This report sets out how we have complied with the relevant statutory, legal and regulatory obligations.

Assurance

The assurance we perform and commission is designed to provide comfort to the users of the information which we provide internally and externally.

It goes beyond providing comfort that South West Water is compliant with obligations, for example commenting on whether information is fair, balanced and understandable.

Assurance can be provided at different levels dependent on the complexity of what is being assured and the level of reliance which users of the information place upon it.

Assurance is rarely able to provide absolute certainty over reported information, however we aim that the assurance we perform and commission provides sufficient comfort over reported information in line with expectations of the users of the information.

What is the summary assurance report?

This is a summary of the results of assurance performed in respect of annual reporting and updates on the Company's Assurance Plan which was published following a consultation in March 2019.

South West Water's Assurance Plan is available at southwestwater.co.uk and bournemouthwater.co.uk and includes further detail on assurance we perform and commission. All planned assurance processes which were contained within the plan to date have occurred as stated, with some limited changes which are discussed in the significant assurance areas contained in this report.

We have implemented certain additional processes where we have identified additional areas for assurance. Again these have been discussed within this report.

The report incorporates our 'Data Assurance Summary' which we are required to publish under the water industry regulator, Ofwat's Company Monitoring Framework (see page 5). It goes further than the Data Assurance Summary by providing an update on other significant areas which we have identified as requiring assurance. It also provides an overview of the Governance and Assurance framework which we apply at South West Water.

South West Water and Bournemouth Water

South West Water provides water and wastewater services in Devon and Cornwall as well as small parts of Somerset and Dorset.

Since 2016 it has also been providing water services within the Bournemouth Water area.

This report covers both areas and all references to South West Water reflect the merged Company covering both areas unless explicitly stated otherwise.

Usability of the document*

We have made this report as user-friendly as possible, whilst ensuring that the document is relevant to customers and other stakeholders who read the report and provides a meaningful summary. By the nature of assurance, some sections of this report are technical in nature. We appreciate that further explanation could be required by some readers of the document and we are happy to provide explanation of concepts if required (email: riskandcompliance@southwestwater.co.uk).

The ongoing assurance process

This report summarises significant areas of assurance, in addition to significant assurance processes which carry on throughout the year. As a summary, this report does not cover all areas which we assure (internally or externally). We are happy to summarise further specific details of assurance if required.

* This document is available in other formats on request.

Executive summary

This document is published alongside the Company's suite of statutory and regulatory annual reporting. We are pleased to present this summary of the assurance performed in our significant areas for assurance (including in respect of annual reporting).

This report incorporates key areas where improvements have been made as well as setting out the governance and assurance frameworks underpinning the assurance performed.

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 or Annual Performance Reporting and Regulatory Reporting. Both our financial auditor, Ernst & Young (EY) and our technical auditor, Jacobs has provided independent opinions and summaries, which we have published.

We have strengthened and formalised certain administrative procedures within the Company for Annual Reporting and other data submissions in respect of version control and consistency verification to ensure that stakeholders are provided with finalised fully assured data at all times.

Beyond our annual reporting assurance processes, a wide range of assurance activity has been performed throughout 2018/19. This has included an extensive internal and external assurance programme covering the work we undertook to prepare our business plan submission covering the 2020-25 period (as part of Ofwat's PR19 process). The business plan entitled 'New Deal' received fast-track status from Ofwat - South West Water was the only Company to receive this status for the second successive time.

In addition, we perform a wide range of assurance on a day-to-day basis, including on other specific projects which have not been identified as significant areas for assurance.

South West Water is proud to maintain our range of certifications and accreditations against recognised other international standards and we are committed to the approach of continual improvement which underpins both these international standards and our future plans for 2020-25.

For the first time this year, we have published our risk and compliance statement as a standalone document, with additional context and a specific assurance report provided by Jacobs.

Assurance plan

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ONLINE

southwestwater.co.uk
bournemouthwater.co.uk

The Company monitoring framework



What is the Company monitoring framework?

The water industry regulator, Ofwat, introduced a ‘company monitoring framework’ as a tool to oversee that customers and other stakeholders can have confidence in the information that water companies report.

The framework covers both data assurance activities and wider assurance that companies perform to demonstrate they are listening to customers and other stakeholders and delivering services customers want and can afford.

Companies are assessed in one of three categories, ‘self assurance’, ‘targeted assurance’ or ‘prescribed assurance’, which determine additional requirements that are required by companies to ensure trust and confidence is maintained for customers and other stakeholders.

The January 2019 assessment

In January 2019, following Ofwat’s assessment of the 2017/18 reporting cycle, South West Water was classified within the ‘targeted assurance’ as it had been at the November 2017 assessment.

We were disappointed with this classification and aim to be classified within the ‘self assurance’ category, with discretion to deliver self assurance in relation to any additional assurance arrangements beyond base requirements.

Ofwat however within the assessment stated it did not agree with the treatment excluding certain supply interruptions during the freeze-thaw incident, which had been noted in the technical auditor’s report. As a result this has now been restated within our historical ODI reporting.

There is no similar exclusion made in 2018/19 and we continue to view it important to provide comprehensive summaries of external assurance performed by both financial and technical auditors (see pages 120 to 126 of our Annual Performance Report and Regulatory Reporting).

In all other categories of assessment, South West Water met expectations. South West Water will work to identify possible improvements in all categories.

Risks, strengths and weaknesses and assurance plan

As a targeted assurance company, South West Water was again required to perform a ‘Risks, Strengths and Weaknesses’ consultation as well as publish an Assurance Plan. The final documents can be found on the South West Water website: southwestwater.co.uk.

Once again, we fully engaged in this process and sought to use the consultation as fully as possible to improve assurance processes as well as taking the opportunity to review the nature and format of our reporting.

Risks, Strengths and Weaknesses commitments

The Risks, Strengths and Weaknesses Statement identified a number of actions we have committed to in respect of the data we publish. These were in the following areas:

- Reporting of ODI performance to customers
- Reporting of the WaterShare performance scorecard
- Improving customer understanding of performance reported against consistency measure methodologies
- Improving customer understanding of information provided
- Improving our websites
- Greater communication with customers during extreme events
- Action on climate change response.

Some of these actions have resulted in improvements to the Annual Performance Report and Regulatory Reporting. An update will be provided within the next Risks, Strengths and Weaknesses exercise in Autumn 2019. Where relevant improvements are also noted within commentary in this document concerning significant areas for assurance.

We will perform a further consultation in order to update our assessment of risks, strengths and weaknesses as well as our assurance plan for 2019/20.

Governance at South West Water

Introduction

South West Water remains committed to operating its business adhering to the highest standards of corporate governance. We see strong governance as central to the successful management of any company and the framework for the effective delivery of our own strategy and sustainability objectives.

South West Water is wholly owned by a single company, Pennon Group plc and the Chairman of South West Water (Sir John Parker) is also the Chairman of Pennon Group.

South West Water's Senior Independent Director (Lord Taylor of Goss Moor) is available to stakeholders to address any specific concerns they may have relating to South West Water. He is not a Director of Pennon Group plc.

In addition to the role of Senior Independent Director, South West Water has two further Non-Executive Directors, Martin Hagen and Jon Butterworth, who are not Directors of Pennon Group. These Directors provide a strong independent voice on the Board and they are available to address South West Water's customer and other stakeholders' concerns if required.

Pennon Group plc has a Senior Independent Director (Gill Rider) available to shareholders and other stakeholders, and Non-Executive Director Neil Cooper, who are also Non-Executive Directors of South West Water.

Our governance structure helps ensure we operate effectively and cohesively across the Group with efficient and transparent decision making while preserving the degree of regulatory independence that Ofwat requires for the ringfenced business of South West Water.

Further information on the approach to Group and South West Water governance is included in pages 31 to 89 of South West Water's Annual Report and Financial Statements.

We describe the governance structures and the respective roles of the Board, its Committees and Executive Management on pages 57 and 67.

Our Board structure is designed to ensure both independence and efficiency of decision making.

Board independence

Notwithstanding Sir John's chairmanship of Pennon, the South West Water Board believes that he continues to demonstrate independence of character and judgement (of Pennon and its investors, and of management) when leading the Board in debate on South West Water matters.

Sir John Parker was considered to be independent at the time of his appointment, in accordance with Provision A.3.1 of the UK Corporate Governance Code ('the Code'). At that time, the Board concluded that none of the criteria set out in Provision B.1.1 of the Code applied to Sir John; although he was appointed to the position of Chairman of Pennon Group plc on the same date. He was not placed on the South West Water Board by Pennon in order to represent Pennon's interests but rather to help the flow of information and foster an understanding of the issues facing South West Water at the Pennon board level. The South West Water Board believes that this model worked to South West Water's benefit in the past.

Lord Matthew Taylor, Martin Hagen, and Jon Butterworth are South West Water Non-Executive Directors. These Directors provide an independent voice and channel for concerns of customers and other stakeholders to be raised if required.

Neil Cooper and Gill Rider are considered to be independent in character and judgement. They were also appointed to the South West Water Board in order to facilitate the Pennon Group's revised governance framework, rather than to represent the interests of the shareholder.

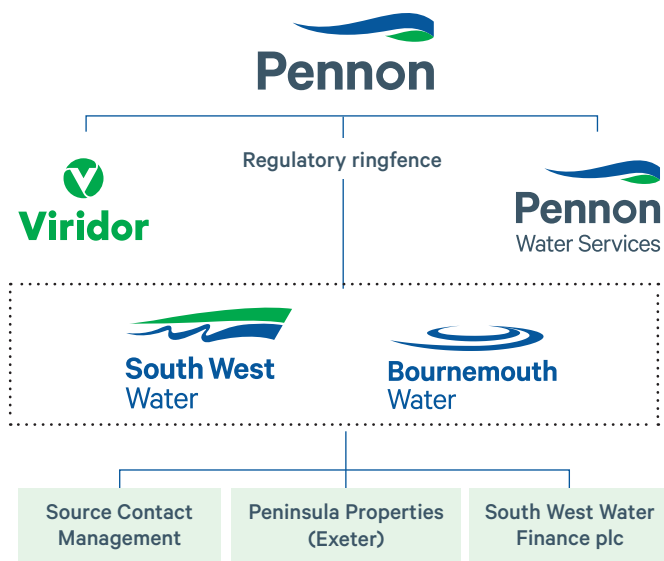
Matthew Taylor is also considered to be independent in character and judgement, however with Matthew having served 9 years as a Non-Executive Director the Board has considered the factors as described in the UK Corporate Governance Code when deciding whether Matthew can still be credibly considered independent, because of the length of his tenure. The Board considers he is for the following reasons; however his tenure will only be extended until the AGM in July 2020.

Matthew is independent of executive management and he is free of any business or other relationships which could materially interfere with the exercise of independent judgment. He has no history of straying into "executive direction" and the experience of the Board is that he has at all times continued to provide an independent view of the Company that is removed from its day-to-day running and completely independent from Pennon. He has remained impartial and has no close connection with any member of the executive management of the Company.

There is no reason for the Board to believe that he will continue to be anything other than independent for any further period of service and as a member of the House of Lords, and an ex-MP he has the character not to be influenced unduly by external or personal pressures. He continues to bring wide experience and specialist knowledge given his position in Westminster and ties with the South West.

South West Water's Group context

South West Water Limited is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company, whose principal significant trading subsidiaries are shown below:



Note: this is a summary structure and includes only South West Water's trading subsidiaries. South West Water's subsidiaries are listed in full in South West Water's Annual Report and Financial Statements (note 17, page 140).

Company and Group compliance with the highest standards of Board leadership and governance

South West Water Limited is a wholly-owned subsidiary of Pennon Group plc, a FTSE 250 company with a premium listing on the Official List, trading on the main market for listed securities of the London Stock Exchange.

South West Water and its parent company Pennon Group plc, remain committed to operating to the highest standards of board leadership and governance including transparency of reporting to investors, customers, regulators and other stakeholders. The full range of South West Water's corporate issues including strategy, performance, delivery, compliance and governance are covered within the governance structure.

In response to, and in accordance with Ofwat's 'Board leadership, transparency and governance – principles' (January 2014) and the timetable for meeting those principles, South West Water adopted its own Board leadership, transparency and governance Code (31 March 2014) which sets out how South West Water complies with the Ofwat principles.

The South West Water Code states that the Company will comply with the UK Corporate Governance Code to the extent that it can be applied to South West Water within the context of the Pennon Group structure. The Company will continue to regularly review its governance structures, ensuring it continues to carry out its business in a transparent way, designed to secure the Company's long-term success and profitability.

The Board, Committees, Executive and sub-groups

South West Water has a governance framework and structure comprising the Board, Committees of the Board, Executive Management and Subcommittees/ Steering Groups reporting to the Executive. This structure is laid out in detail in the Annual Performance Report (pages 56 to 77).

South West Water's integrated assurance framework

South West Water's integrated assurance framework

South West Water's risk and assurance processes are embedded into the management of the Company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation is in place to suit the risk appetite. The methodology for identification and mitigation of risk is similar at individual business unit and corporate levels.

South West Water's integrated assurance plan ensures, utilising a risk based approach, that an appropriate balance of varied providers of assurance are deployed dependent on the assessed risk and complexity of assurance requirements. The integrated assurance approach includes:

1ST LINE OF DEFENCE Management	<ul style="list-style-type: none"> • performance reviews • local quality control • 'sense checking' • annual certification and 'sign off' of submitted data.
2ND LINE OF DEFENCE Policy setting and compliance checking	<ul style="list-style-type: none"> • business management systems internal audits • policies and culture (e.g. whistle blowing) • QA and ISO internal reviews • risk & compliance internal reviews.
3RD LINE OF DEFENCE External scrutiny	<ul style="list-style-type: none"> • group independent internal audit • financial audit • technical audit • quality regulators (including ISO external reviews) • business management systems external audits • other external assurance providers.

This risk-based integrated assurance framework is applied to all areas of the business, including all key projects as they arise. The mix of assurance methods used is reviewed by the South West Water Audit Committee, which is responsible for ensuring robust and comprehensive assurance frameworks are in place to support Board assurance and compliance requirements.

In any significant area or projects where assurance is required over submitted data or information, certificates will be prepared by those responsible to confirm that the submission is robust and all material issues have been addressed.

Independent internal review is used to ensure that processes are robust and adhered to.

External review and audit processes are utilised whenever significant data is provided by South West Water externally (such as the PR19 business plan, tariffs/charges submissions and Annual Performance Report and Regulatory Reporting). The allocation of assurance work between external providers (including financial and technical auditors) is based upon the content of the data submission and multiple providers of external assurance are frequently engaged on the same project. The professional credentials of the third party assurance providers are considered in detail to ensure they have the relevant knowledge and experience.

Robust feedback processes are established to ensure that issues or queries raised during internal and external assurance processes are followed up to ensure that any changes required or follow up work is completed as appropriate.

In addition to strategic leadership provided by the Board, for significant projects a Steering Group is formed to give direction, monitor project delivery and issue regular updates to the Board. The Board and Audit Committee review and challenge assurance applied in each case under this framework.

For all key projects and data submissions the Board confirm in their opinion that assurance provision, governance and internal systems of control have been sufficient.

Performance commitments

SIGNIFICANT ASSURANCE AREA 1: PERFORMANCE COMMITMENTS

Why is it significant?

South West Water's and Bournemouth Water's 2015-20 business plans targeted a number of 'performance commitments' to deliver customer and other stakeholder priorities. The commitments were developed following extensive consultation and an assessment of the value customers place on the improvements which influence the amount the Company is allowed to charge customers. Outperformance of some of the commitments results in financial rewards, with penalties for underperformance, through our Outcome Delivery Incentives ('ODIs').

As the commitments reflect areas where South West Water is targeting improvements to address customer and other stakeholder priorities, performance in respect of the commitments is key for customers and other stakeholders in forming their view on how the Company is performing as a whole.

Customers and other stakeholders would therefore expect the reported performance against these commitments to be robust and have been subject to an appropriate level of assurance, including external third party assurance.

INTEGRATED ASSURANCE FRAMEWORK ELEMENTS UTILISED

1st line

- Ongoing performance reviews and monthly reporting within teams and senior management, including formal Executive ODI Group
- Departmental certification and 'sign off' of submitted data
- Process and culture formed on quality

2nd line

- Risk and Compliance internal audits

3rd line

- Pennon Group Independent Internal Audits
- Jacobs technical auditors (and EY for financial data performance commitments)
- SGS ISO auditors, including ISO9001:2015 (Quality), ISO14001:2015 (Environmental) and ISO50001:2011 (Energy) certifications.

Performance commitments continued

ASSURANCE PERFORMED

The performance commitment data is initially provided alongside a methodology explaining how the data is collated and a narrative commentary written by the relevant departments within South West Water. This follows departmental reviews and sense checks and explicit management sign off of the data. As noted by Jacobs in its assurance memo relating to South West Water's risk and compliance statement, an additional layer of review of data governance and production has been introduced during the year as well as additional regulatory reviews of data produced by other directorates within the business.

All of the performance commitment data is subject to a mixture of assurance provided by a combination of the internal Risk and Compliance team, Pennon Group Internal Audit and the external technical auditor, Jacobs. The level and extent of assurance applied to each performance commitment is determined by a risk assessment of how prone each reported commitment may be to error, and any other assurance performed upon the data.

All performance commitments were subject to an audit by our external technical assurance partner Jacobs, or EY, our external financial assurance partner in the case of financial performance commitments.

Examples of internal assurance performed during the year include:

- audits performed by the Risk and Compliance team at wastewater sites considering risks to compliance with permits and mitigations in place
- the Pennon Group Internal Audit team audited the Company's network services alliance, including KPIs in place within the alliance which help ensure South West Water achieves performance commitments in place.

South West Water's data owners (including all ODI data owners), senior managers responsible for data and the Company's Directors attended a launch event for the external technical non-financial data audits relating to annual reporting and the business planning process. Those responsible for the data alongside Jacobs (the independent technical auditor) performed a risk assessment of each set of data to determine the level of external audit work required. This was against a set of objective criteria (such as whether there are other external verifications in place) as well as agreed subjective criteria (such as complexity of the data).

The results of these assessments influenced the level of audit required, however at a minimum all ODI data was subject to a thorough independent external audit for each of:

- the methodology used to obtain and compile the data from source;
- the ODI data reported for 2018/19 and compliance with the methodology to obtain and compile the data; and
- the commentary explaining the performance for the year (including that included in the Annual Performance Report and Summary Performance Report).

Following the audit and follow up actions, management, including directors signed off the final position and commentary. The technical auditor also confirmed to the Board that audit actions have been resolved prior to the Board 'sign off' of the Annual Performance Report and the Summary Performance Report.

Audits of the non-financial data were completed in advance of publication of any of South West Water's annual reporting and in advance of the publication of Pennon Group plc's Annual Report to ensure that any data published in each of these reports was in line with audited data.

The risk assessments performed and results of Jacobs's and EY's external audits are being considered by South West Water and will further influence both the internal and external audit programme during 2018/19.

RESULTS OF ASSURANCE PERFORMED

All internal departmental and central verification was completed and signed off by those responsible for the data. Jacobs and EY have not identified any material issues with the ODI reporting methodologies or the resultant ODI data published in the Annual Performance Report and in the Summary Performance Reports.

Between the two auditors, they completed audits of all ODI data as well as other financial and non-financial data reported in South West Water's annual reporting. Jacobs' and EY's audit reports are published on pages 120 to 127 of the Annual Performance Report and Jacobs have provided further commentary on South West Water's performance on pages 11 to 12 in their memo published alongside our Risk and Compliance Statement publication.

Annual regulatory reporting

SIGNIFICANT ASSURANCE AREA 2: ANNUAL REGULATORY REPORTING (OTHER THAN PERFORMANCE COMMITMENTS)

Why is it significant?

Regulatory Reporting (including price control, additional segmental reporting and other regulatory information such as assessment tables) which is published alongside the Annual Performance Report is an annual requirement of our regulator, Ofwat. It is included within South West Water's Annual Performance Report and Regulatory Reporting document.

This reporting is prepared in accordance with Ofwat's Regulatory Accounting Guidelines ('RAGs'), which ensures the Regulatory Reporting is prepared in a consistent manner across all water companies.

The reporting allows customers and other stakeholders to see how South West Water has performed financially as well as how and in which areas of the business it spends customers' money, its funding and many other financial and non-financial metrics.

INTEGRATED ASSURANCE FRAMEWORK ELEMENTS UTILISED

1st line

- Delegated Manager Review of submitted data
- Published Board sign-off of Regulatory Reporting

2nd line

- Risk and Compliance verification of data included within the Regulatory Reporting

3rd line

- EY audit of sections 1 and 2
- EY and Jacobs assurance procedures on sections 3 and 4.
- Technical auditor assurance on information submitted to discoverwater.co.uk
- SGS ISO auditors, including ISO9001 (Quality) and ISO14001 (Environmental) certifications.

ASSURANCE PERFORMED

All tables within the Regulatory Reporting section were subject to audit procedures or other assurance procedures performed by South West Water's statutory financial auditor EY, or the Company's technical auditor, Jacobs.

EY performed an audit on sections 1 and 2 of the Regulatory Reporting which includes baseline level of historical cost financial information aligned to price controls and further disaggregation of revenue and costs which allow stakeholders to review Company performance against the final determination.

Section 3 of the Regulatory Reporting, which covers performance commitments is discussed on pages 9 to 10.

Section 4 of the Regulatory Reporting contains additional financial and non-financial information, including 'cost assessment' tables. There is no specific requirement that this information is externally assured, however this section of the report contains a significant amount of financial and non-financial information and metrics which we feel is likely to be of interest and used by various stakeholders of South West Water. We have therefore agreed a set of assurance procedures with the statutory auditor EY and the technical auditor Jacobs to ensure that the information is assured to a similar level as our performance commitments and can be relied upon by stakeholders.

Responsibilities for completing tables within the Annual Regulatory Report and associated commentaries to be shown alongside the tables are delegated to the relevant management within South West Water. A thorough internal verification of the information reported is performed within the relevant teams. The completed tables and associated commentary information is provided to the auditors and all of the relevant management are made available to the auditors. The internal processes were further strengthened as noted by Jacobs within the assurance memo published alongside the Risk and Compliance Statement.

In line with statutory requirements, the Board also provides a published statement, formally signing off the Regulatory Reporting.

Jacobs provided additional specific assurance reviews of data included in our submission to discoverwater.co.uk and in respect of disclosures made in the Risk and Compliance section of the Annual Performance Report.

RESULTS OF ASSURANCE PERFORMED

We have included reports and summaries of external assurance work completed within the Annual Performance Report and Regulatory Reporting (pages 78 to 85).

EY presented their audit opinion on the fair presentation of sections 1 and 2 of the Regulatory Reporting and that they have been properly prepared (see page 78 to 81).

A summary has been provided on pages 82 to 84 of the results of Jacobs' assurance procedures and EY's agreed-upon-procedures work. Neither EY, nor Jacobs identified any material issues with the South West Water's Annual Performance Report and Regulatory Reporting and Jacobs noted the improvements made in internal processes during the year.

Internal verifications and sign-offs were appropriately completed with no issues arising.

Further, Jacobs have provided two memorandums summarising their additional work in respect of the Risk and Compliance Statement as well as the data submitted for discoverwater.co.uk. These memorandums have been published on the South West Water website and do not identify any material issues.

Annual report and financial statements

SIGNIFICANT ASSURANCE AREA 3: ANNUAL REPORT AND FINANCIAL STATEMENTS

Why is it significant?

The Annual Report and Financial Statements provide financial and other information about the Company's activities during the year in accordance with International Financial Reporting Standards and the Companies Act 2006. This makes the format and basis of preparation of the information consistent with annual reporting of all other large UK companies. The annual report is freely available alongside other UK company accounts at Companies House.

The information contained within this report is important to our shareholder (Pennon Group Plc), its investors and other stakeholders.

INTEGRATED ASSURANCE FRAMEWORK ELEMENTS UTILISED

1st line

- Extensive management oversight

2nd line

- Verification programme led by the Risk and Compliance team
- Monthly review of financial performance and position by the Board

3rd line

- Pennon Group Internal Audit - programme includes regular audits of financial systems, processes and internal controls
- Statutory External Audit - performed by EY and overseen by the Audit Committee.

ASSURANCE PERFORMED

The Annual Report and Financial Statements are subject to an extensive programme of internal and external assurance.

South West Water's financial processes and procedures are rigorous, robust and subject to extensive management oversight and internal review as well as being an integral component of the independent Group Internal Audit cyclical plan. As part of this cycle, during 2018-19, internal audits were performed over the Company's revenue and billing and an annual review of credit management processes.

South West Water's Executive Management review the Company's financial position and performance on a monthly basis, and the Board review this position and performance at each Board meeting. There is a thorough process of validation to ensure that annual and monthly financial reporting is in line with the underlying financial systems and transactions.

Our external auditor, EY, audits the Annual Report and Financial Statements. Their audit plan is reviewed annually by the Audit Committee, who are actively engaged with the external auditor. The Audit Committee has policies in place to ensure that the external auditor acts independently and effectively – for example the external auditor is not used for non-audit services, except where they are not material and the external auditor is best placed to provide those services (such as Regulatory Reporting).

Although South West Water is not a listed company itself, the Company has decided to comply with the principles of the UK Corporate Governance Code so far as it is possible in the context of being a subsidiary of a listed company (Pennon Group plc). These principles set out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. They also cover governance in respect of the Audit Committee and audit services.

The Board also makes a statement to confirm it considers the document 'Fair, balanced and understandable.' This statement is made following an extensive verification process undertaken in conjunction with the preparation of the document in addition to a review undertaken by the statutory external auditor, EY.

RESULTS OF ASSURANCE PERFORMED

EY provided an unmodified, unqualified opinion on South West Water's Annual Report and Financial Statements.

All internal verifications and sign-offs have been completed and internal audit outcomes did not identify any material control weaknesses. The Board has signed off the Annual Report and Financial Statements and are satisfied that the report is 'Fair, balanced and understandable.'

The summary performance reports and summary assurance report

SIGNIFICANT ASSURANCE AREA 4: THE SUMMARY PERFORMANCE REPORTS AND SUMMARY ASSURANCE REPORT

Why is it significant?

We are publishing our third set of Summary Assurance Report and Summary Performance Reports. This followed engagement with customers and other stakeholders, which identified them as important complementary documents to the more comprehensive Annual Performance Report and Regulatory Reporting.

The Summary Performance Reports (one for each of the original South West Water and Bournemouth Water areas) are short summaries of our performance which are designed to be user friendly and engaging, focusing on key headlines and performance.

We want the Summary Performance Reports to be useful to customers and increase our already strong levels of customer engagement and as such believe it is vital the document is as rigorously assured as the comprehensive Annual Performance Report and Regulatory Reporting (noting that the documents should be an unbiased summary of data which has been assured for inclusion in the more comprehensive report).

The Summary Assurance Report aims to ensure that stakeholders can gain an understanding of the assurance which has been performed upon the annual reporting as well as on other data and information published by South West Water. This Summary Assurance Report is an important follow up to the Assurance Plan and it is important that it is a fair, unbiased and accurate summary of assurance performed.

INTEGRATED ASSURANCE FRAMEWORK ELEMENTS UTILISED

1st line

- Compilation of Summary Performance Report using only assured data from the full Annual Performance Report and Regulatory Reporting

2nd line

- Verification led by the Risk and Compliance team of data and information within the report to the comprehensive report

3rd line

- Technical auditor review of document for unbiased nature of compilation from full reporting
- EY review of accuracy and summary of their assurance work
- Dialogue between EY and Jacobs to confirm respective audit scope and audited data.

The summary performance reports and summary assurance report continued

ASSURANCE PERFORMED

Summary Performance Reports

We acknowledge that as these shorter documents are published outside of a statutory requirement, with no formal assurance requirements, there is a risk that the document could be produced in a biased manner. If it were produced in this way the value to stakeholders would be greatly diminished. To ensure this is not the case the document:

- includes a page showing the performance for the year against all of South West Water's performance commitments
- only include data and information shown in the Company's Annual Performance Report and Regulatory Reporting which has been subject to the rigorous assurance described on pages 9 and 10
- include balanced commentaries against both areas in which we have done well and those where we have performed less well and/or missed annual targets
- all Company data within the reports has been fully verified by the Company's technical auditor.

Summary Assurance Report

Our technical auditors has read and reviewed this report to ensure that their work has not been misrepresented. Jacobs' report includes consideration of any bias included within the report.

Following publication of these reports, we will again seek feedback from customers including the WaterShare Panel and Customer View Group to ensure the documents are as 'user friendly' as possible.

RESULTS OF ASSURANCE PERFORMED

Internal verification has confirmed that all data included within the Summary Performance Report is included within the Annual Performance Report and Regulatory Reporting which has been subject to the rigorous assurance procedures described in this report.

Jacobs has also not reported any issues in this regard in its Assurance Report.

EY and Jacobs have read and reviewed both reports. No issues were identified regarding bias within the Summary Performance Reports nor with the Summary Assurance Report.

Periodic review 2019 (PR19)

SIGNIFICANT ASSURANCE AREA 5: PERIODIC REVIEW 2019 (PR19)

Why is it significant?

PR19 will set the framework for the services South West Water delivers and the prices it is able to charge during the 2020-25 period. South West Water submitted its business plan to Ofwat on 3 September 2018, which Ofwat assessed, tested and challenged.

Ofwat will have issued its draft determination upon the business plan, and later in the year will issue the final determination which will finalise the expectations upon South West Water for service delivery and pricing framework.

The business plan aims to deliver improving services, which are resilient for the longer term and are affordable for customers. It includes innovations which may provide new ways of delivering services more effectively and efficiently.

It is important for our customers, other stakeholders (including regulators and shareholders) to trust that our business plan submission is of high quality and that it is based on assured data and that assumptions, judgements and choices made are reasonable and reflect the best available knowledge and information. Following submission of the plan, and receipt of the draft determination South West Water has and continues to engage fully in the ongoing business plan process (including in responding to queries and in preparing for delivery of the plan).

INTEGRATED ASSURANCE FRAMEWORK ELEMENTS UTILISED

1st line

- Rigorous project management approach
- Monthly reporting to Board level project steering group
- Certification by business units and Board of all submissions

2nd line

- Extensive Board scrutiny
- Internal assurance (directorate and Risk and Compliance)

3rd line

- Assurance and challenge (risk based level of detail) upon financial data by financial assurance specialists
- Jacobs audit and challenge of technical data and KPMG financial assurance of all final business plan financial data tables
- Other specific external assurance commissioned as deemed appropriate
- External Customer Panel oversight.

ASSURANCE PERFORMED

South West Water's Board oversaw a comprehensive programme of assurance, which alongside a strong governance process was a key aspect in the development of its Business Plan for 2020-25 and ensuring the plan is of a high quality.

The submission of the business plan was supported by an extensive set of required data tables. Each of these was subject to rigorous internal and external assurance. Relevant management within the Company were delegated tables and associated commentaries and thorough internal verification procedures have been implemented.

For each data table, at a minimum external agreed-upon-procedures assurance were performed which considered:

- Compliance with the Company's internal sign-off and verification procedures
- The appropriate sourcing and use of previously assured historic data
- Assurance of historic data which has not previously been assured
- Agreement of forecast data to assured models or assurance of individual forecast methodology
- Compliance with the relevant guidance
- The quality of methodologies and commentaries to be published.

Extensive assurance was performed on all material aspects of the plan and planning process and this was summarised in the 'Securing trust, confidence and assurance' document published at <https://www.southwestwater.co.uk/waterfuture/business-plan-2020-2025/>.

RESULTS OF ASSURANCE PERFORMED

Following the reports of assurance undertaken, South West Water's Board provided both a Statement of Assurance and a detailed supporting summary of assurance within the 'Securing trust, confidence and assurance' document.

The WaterFuture Customer Panel (South West Water) and Customer View Group (Bournemouth Water) also monitored progress in respect of PR19 and have appointed Deloitte as their independent report writer to assist them in producing their report to Ofwat alongside the Company's submission of its Business Plan for 2020-25.

The plan was fast-tracked by Ofwat, providing early planning certainty for the company and its customers. South West Water is the only water company to have achieved this status for two consecutive price reviews.

Health, safety and wellbeing

SIGNIFICANT ASSURANCE AREA 6: HEALTH, SAFETY AND WELLBEING

Why is it significant?

Within South West Water, we are committed to providing a place of work free from harm, by preventing injury and ill health, where everyone goes home safe every day. The health and safety of our employees and all company stakeholders comes first. We aim to do everything safely and responsibly, or not at all – regardless of what the task is or who has asked us to do it.

In 2017, Pennon Group appointed a new Director of Health, Safety, Security and Assurance ('HSSA'), which heralded the launch of a new Group-wide vision and strategy for health and safety, called 'HomeSafe'. HomeSafe is designed to: standardise our approach to health and safety across the Pennon Group, so we only have one way of doing things; establish clear and simple processes, procedures and rules that govern how we should all act and work in order to get home safe; and, most importantly, reinforce our existing positive attitude and behaviours to health and safety.

In recognising its importance, health, safety and wellbeing has been added to South West Water's Assurance Plan as a 'significant area for assurance'. With the implementation of the Group's HomeSafe programme the Company has committed to reducing its Lost Time Injury Frequency Rate (LTIFR) to 0.50 by 2025 as well as reducing the number of RIDDOR incidents.

INTEGRATED ASSURANCE FRAMEWORK ELEMENTS UTILISED

1st line: Ongoing performance reviews and monthly reporting within teams and senior management

- Departmental certification and 'sign off' of submitted data
- Monthly reporting to Board level
- Certification by business units and Board of all submissions

2nd line: Internal assurance

- HSSA team
- Director and Senior Management site safety visits

3rd line: Regulatory inspection

- Pennon Group Internal Audit oversight
- Pennon Serious Incident Review Panel
- Technical audit of annual performance.

ASSURANCE PERFORMED

South West Water has an established programme of health and safety Director and Senior Management visits across its operational sites, which are supplemented by a Group-wide Health, Safety, and Security Assurance (HSSA) Plan performed by the HSSA Team. This Plan is aligned with the requirements of the ISO 45001:2018 Occupational Health and Safety standard. The Plan is risk and theme based with targeted assurance of both legal and systems compliance, and with strong linkage to the HomeSafe delivery programme.

In 2018/19 we continued with the roll-out and development of the Pennon Group-wide "HomeSafe" programme, designed to ensure consistent health and safety practices and a safe culture of work.

Health and safety performance including RIDDOR and LTIFR data is included in a specific audit undertaken by the Company's technical auditor, Jacobs, ahead of its publication within annual reporting.

RESULTS OF ASSURANCE PERFORMED

Results of internal health and safety audits have been reported to the Executive and the Audit Committee and improvements have been implemented where opportunities for them have been identified. No issues were raised impacting the quality of data reported in respect of health and safety.

The LTIFR across the Company has reduced to 1.50 in 2018/19 and we are therefore on track to reduce this to 0.50 by 2025 as well as reducing the number of RIDDOR incidents.

Tariffs and charges

SIGNIFICANT ASSURANCE AREA 7: TARIFFS AND CHARGES

Background

The bills paid by our domestic customers and the wholesale charges paid by non-household customers in our areas are determined by the tariffs and charges published in January and February each year.

These tariffs and charges are set in line with the 2015-20 business plan and a number of other constraints, not least our Price Promise made to customers in the original South West Water area that the household bills will, on average, rise by less than the Retail Prices Index ('RPI') during each year of the period. For customers in the Bournemouth Water area, the price differential following the merger will be maintained. The tariffs are also designed to be cost reflective of the differing wholesale and retail services provided.

It is important that the customers can have confidence that the bills which they receive reflect the published charges schemes and that those charges schemes have been through a sufficiently rigorous assurance process to ensure the constraints have been met.

ASSURANCE PERFORMED

The Company meets with representative customer groups throughout the year to ensure that the structure of South West Water's charges remains the most appropriate for customers in our areas. The calculation of the tariffs and charges within this structure, which comply with the constraints in place, is led by the Company's Regulatory Directorate utilising a model developed by an external specialist.

Internally there is a process of sign off for all variable inputs into the model and for forecasts and expert judgements used.

KPMG performed a set of procedures mutually agreed between South West Water and KPMG, reflective of risks which may result in tariffs and charges not meeting the constraints discussed above.

KPMG focused on:

- identifying whether inputs to South West Water's model agree to underlying sources
- replicating key calculations to ensure the model is operating correctly
- checking that the tariffs and charges comply with key constraints and guidelines
- checking that the revenues and margins from the model outputs are in line with the approved business plan.

External assurance is supplemented by internal procedures led by the Company's Risk and Compliance team, which include the validation that charges input into the Company's billing systems are in line with those published, which are in turn in line with the assured outputs of the model.

The Board signs an explicit Statement of Assurance alongside publication of the charges schemes in January and February each year confirming, amongst other things, that in the Board's opinion the Company's processes and internal systems of control ensure that the data and information contained in the Charges Schemes meet the Company's obligations.

RESULTS OF ASSURANCE PERFORMED

KPMG performed the agreed-upon-procedures and reported to the South West Water Board. KPMG confirmed that there were 'no issues identified that would present concerns that would represent material risk of the tariffs being non-compliant'.

KPMG did however note recommendations where some refinement of calculations was possible and improvements to process. None of the recommendations identified by KPMG were deemed to be a potential or likely 'compliance problem.' All of these recommendations are being considered and will be addressed prior to the 2020/21 tariff setting process. We are also reviewing the approach and modelling for 2020/21 tariffs given the increase in number of price controls for the 2020-25 regulatory period.

The Board signed the Statement of Assurance, which has been published on the South West Water and Bournemouth Water websites.

The government £50 contribution

SIGNIFICANT ASSURANCE AREA 8: THE GOVERNMENT £50 CONTRIBUTION

Why is it significant?

South West Water domestic customers in the original South West Water area have been receiving an annual £50 contribution towards their bill from central UK Government since April 2013. South West Water receives the contribution from the Government and the contribution is directly passed onto customers by South West Water in the form of a £50 discount on customers bills (pro-rated for bills relating to periods of less than a year).

The Government has committed to the scheme until at least 2020. South West Water receives no financial benefit from the payment and it is important that customers and Government can have confidence that the whole reduction reaches customers and that the contribution is claimed only for eligible customers.

ASSURANCE PERFORMED

The £50 contribution is automatically applied to all domestic customer bills within our billing system (this is pro-rated, where bills reflect a period of less than a year).

At the commencement of the £50 contribution scheme, South West Water performed a review of all customers' account classifications (as domestic or business) to ensure that everyone entitled to receive the contribution did so and equally that the Government Contribution is only received by those customers the Government has defined as eligible.

South West Water's domestic retail function has a specific compliance team overseeing the billing system and matters relating to Customer Service. The Pennon Group Internal Audit also perform a cyclical annual audit of our billing systems.

South West Water and the Department for Environment, Food and Rural Affairs (DEFRA) have engaged PwC to perform a quarterly audit of the scheme. This audit includes PwC reviewing a sample of payments made to ensure that they have been correctly applied and that the classification of accounts within South West Water's systems remains appropriate.

RESULTS OF ASSURANCE PERFORMED

Results of internal and external assurance have not identified any material concerns surrounding the £50 contribution scheme and PwC has completed its quarterly audits on schedule throughout the year.

PwC's quarterly audits occasionally identify a very small number of properties which are incorrectly classified as eligible or ineligible. This can occur for example where the usage of a property has changed. This can be complex in certain circumstances, for example where there is mixed use of a property, potentially changing during the year such as a seasonal Bed and Breakfast property.

Actions we committed to following the Risks, Strengths and Weaknesses engagement

SIGNIFICANT ASSURANCE AREA 9: RISKS, STRENGTHS AND WEAKNESSES

Why is it significant?

As described on page 2, we published our statement of 'Risks, Strengths and Weaknesses' in November. We committed to seven clear actions to address risks and weaknesses in our data and information provision as identified by our customers and other stakeholders. As these commitments have been identified to address priority areas identified by customers and other stakeholders, we have again determined it important to include these actions as a significant assurance area.

REPORTING OF OUTCOME DELIVERY INCENTIVES (ODIS) PERFORMANCE TO CUSTOMERS – JULY 2019

Action: Following feedback from customers, continue to ensure that reporting of ODI performance is as understandable as possible in our annual reporting.

Update: Our 2018/19 annual reporting has again included Summary Assurance and Performance reports and we have incorporate feedback received from customers in recent focus groups. Jacobs have reviewed all data published within the Summary Performance Reports.

REPORTING OF THE WATERSHARE PERFORMANCE SCORECARD – SEPTEMBER 2019

Action: Further develop communications with customers to ensure clarity on the benefits of the WaterShare mechanism.

Update: As with previous WaterShare communications, we continue to test these with a group of customers prior to issuing the communications to our customers. We actively seek and implement feedback obtained.

CUSTOMER UNDERSTANDING OF PERFORMANCE REPORTED AGAINST CONSISTENCY MEASURE METHODOLOGIES – 2019/20

Action: Ensure communication around performance reported against the new consistency measures is clear in terms of no change to service.

Update: Although this action relates to 2019/20, for the consistency measures reported within shadow reporting table 3S of the Annual Performance Report and Regulatory Reporting, we have also provided a more detailed section within the Annual Performance Report showing how we are currently performing and how these correlate to any existing performance commitments. We will seek feedback from customers on this presentation prior to 2019/20 annual reporting.

CUSTOMER UNDERSTANDING OF PERFORMANCE OF INFORMATION PROVIDED – JULY 2019

Action: Continue to engage with customers to ensure that the information we provide to them is understandable as possible.

Update: South West Water has again worked to ensure that information provided is as clear and understandable as possible. In particular, we continue to publish our customer focused Summary Performance Reports. These have further reflected focus group feedback.

We will further test our reporting with customers to obtain feedback on the revised reporting and make amendments where required.

OUR WEBSITES – SEPTEMBER 2019

Action: Continue to update South West Water and Bournemouth Water websites following feedback from customers on how they can improve.

Update: Feedback from customers is regularly sought over the accessibility and content of our websites. Improvements made are tested with customers and refined.

COMMUNICATION WITH CUSTOMERS DURING EXTREME EVENTS – SEPTEMBER 2019

Action: Improve communications with customers during extreme events and update them on lessons we have learned from previous events.

Update: We have obtained feedback from customers as to the communications issued during the extreme cold weather experienced during early 2018. This will inform communications to be made in future extreme weather events. Communications will be subject to continued customer review. Throughout Summer 2019 to date, we have provided frequent press releases and social media updates to support water efficiency and reduced consumption.

CLIMATE CHANGE – SEPTEMBER 2019

Action: Following the dry summer, we will be monitoring the water resource position closely over the autumn and winter, ensuring we put in appropriate measures to ensure our supplies remain resilient and engaging with customers on how they can be more water efficient during dry periods.

Update: Fortnightly management updates are provided on the Water Resources position. This has also been complemented by periodic updates to the Environment Agency on our Summer 2019 risk position.

Ongoing ISO assurance – continual improvement

South West Water seeks to continually improve in all areas of its operations. All of the performance commitments within the 2015-20 business plan are aimed at improving performance across the period or for continued excellent performance where high levels are already achieved. These performance commitments are all in customer priority areas.

Wherever possible South West Water uses the results of assurance work performed to drive continual improvement and actively seeks the opinions of internal and external assurance providers concerning improvements that can be made.

South West Water operates an Integrated Management System. Individual accreditations and certifications are therefore not managed in isolation, rather South West Water's systems comprise sets of policies and procedures to ensure that South West Water meets customer and stakeholder requirements such as the identified performance commitments which are customer priorities including priorities in respect of quality, energy, environment (including flow monitoring requirements), information security and sampling.

These systems are at the heart of what we do to ensure we are providing a continually improving quality service.

The below summarises the standards we are currently certified and accredited against and the assurance work performed during the year. Each refers to all areas of our business, including both the South West of England and the Bournemouth area unless otherwise stated.

ISO 9001 – QUALITY MANAGEMENT SYSTEMS

We have proudly been certified in line with ISO 9001 since 2003.

SGS performed continued external audits in respect of ISO 9001:2015 following our upgrade to the 2015 update to ISO 9001 in July 2017, well ahead of the requirement to transition to this standard. No major issues or minor issues were noted.

A number of areas for potential improvement in line with examples of best practice (either within the Company or elsewhere) were identified including improvements to sharing of ISO 9001 (and ISO 14001) internal audit findings throughout the Company, review of some system documentation and formalisation of certain risk procedures. Each potential improvement has either been or is being implemented.

Internally an extensive programme of internal audits led by the Company's Risk and Compliance team is performed, with all larger operational sites and head office functions audited on a cyclical basis as well as a sample of smaller operational sites.

ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEMS (AND THE ENVIRONMENTAL PERMITTING REGULATIONS)

SGS performed an external audit in respect of ISO 14001:2015 following our upgrade to the 2015 update to ISO 9001 in July 2017, again well ahead of the requirement to transition to this standard. No major issues were noted, however some minor matters were reported to South West Water, which have subsequently been addressed. The Risk and Compliance team perform an extensive programme of internal audits.



ISO 50001 – ENERGY MANAGEMENT SYSTEMS

In November 2015 we became certified against ISO 50001:2011.

The certification is in line with our attempts to deliver best practices in our management of energy. Energy is integral within our business plan and there are energy related performance commitments in place for each of the original South West Water and Bournemouth Water areas.

Training has been delivered in the year to members of the energy team and those independent of the energy team including the Risk and Compliance Team to ensure that energy audits are performed in line with the standard and energy considerations are integrated into ISO 9001/ISO 14001 audit programme.

An external ISO surveillance audit was performed during the year by SGS, with no significant issues noted.



ISO 27001 – INFORMATION SECURITY MANAGEMENT

South West Water's corporate network at head office sites has been certified in accordance with ISO27001 since 2009 and is currently certified against the 2013 version of the standard.

The scope covers the secure management of customer and company information and the physical and logical security of corporate IT infrastructure and application services.

South West Water have a dedicated Information Security team and there is an internal audit programme in place performed by specialists from within the Information Security team, which is supplemented by assurance commissioned from external sources, in particular covering higher risk areas.

Formal external audit is performed by SGS, and an external ISO surveillance audit was performed during the year by SGS, with no significant issues noted.



ISO 17025 – SAMPLING

South West Water's laboratories perform sampling, including for:

- South West Water's drinking water supply and treated waste water
- on a commercial basis to third parties.

The scope of South West Water's certification includes both procedures within our laboratories and on site sampling. A programme of internal and external audits (by UKAS) is performed and no significant issues have been identified during the year.

MCERTS SELF-MONITORING OF FLOW

South West Water has more than 200 wastewater sites which have a flow monitoring requirement in their permit, which requires the sites to comply with the MCERTS scheme in order to fulfil environmental responsibilities.

An annual external audit is performed by Sira (the MCERTS certification body) and there is a programme of internal audit. No significant issues have been identified, however the programme of internal audit has been strengthened during the year.

South West Water Limited

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