



2017/18

**South West Water**  
Assurance Plan

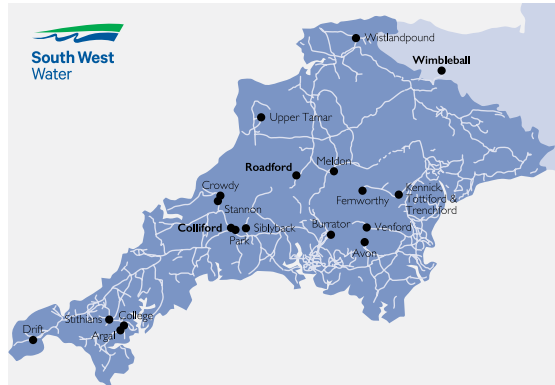
WELCOME

# Welcome to South West Water

## We are South West Water

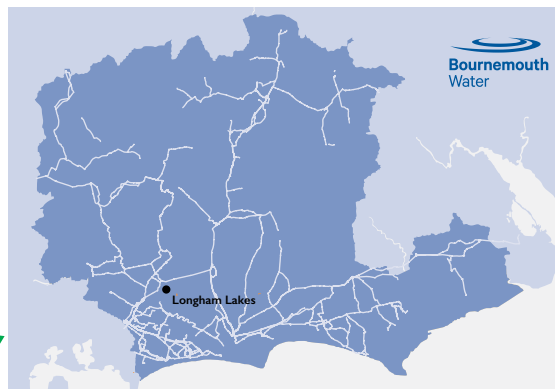
South West Water is the combined entity covering the original South West Water and Bournemouth Water areas, following the merger of the two companies in 2016. Both identities have been retained by the Company in their original operating areas and there are separate customer and stakeholder commitments for 2015-20 in each area.

We recognise the importance of customers and other stakeholders understanding what they can expect from us and being able to place trust and confidence in the data, information and publications we provide.



## South West Water

We provide water and wastewater services to a population of c. 1.7 million in Cornwall, Devon and parts of Dorset and Somerset.



## Bournemouth Water

We provide water services to a population of c. 0.5 million in areas of Dorset, Hampshire and Wiltshire. Bournemouth Water was acquired by Pennon Group Plc in April 2015 and from 1 April 2016 has been integrated with South West Water.

**c. 2.2m**

total population served

**18,176km**

of drinking water mains network

**c. 1.0m**

customers

**16,034km**

wastewater mains network\*

**23**

raw water reservoirs

**900**

wastewater pumping stations\*

**653**

wastewater treatment works\*

**144**

bathing waters and 24 shellfish waters\*

\* South West Water region only

## Executive summary

South West Water remains not only keen to ensure that the information it provides to customers and other stakeholders is reliable but also that the information it provides is that which customers and other stakeholders find useful and is in a format and style which is understandable and user-friendly.

The assurance plan utilises South West Water's long established Integrated Assurance Framework, which incorporates a robust 'three lines of defence model.' This framework is applied flexibly to areas where assurance is required, considering both the risk that the information/data may be incorrectly reported and the appropriate options for assurance.

This plan covers assurance over South West Water's and Bournemouth Water's delivery against our five year plans for the 2015-20 period. South West Water's five year business plan received 'enhanced' status from Ofwat (the Water Industry Economic Regulator). The business plans set out 'performance commitments' against customer priorities and set the framework for setting tariffs and charges to ensure the plans are funded. Assurance for the 2015-20 business plans are described in the documents available at [www.waterfuture.southwestwater.co.uk](http://www.waterfuture.southwestwater.co.uk) and [www.bournemouthwater.co.uk](http://www.bournemouthwater.co.uk).

This plan for 2017/18 builds upon the 2016/17 assurance plan. We have reassessed which areas remain significant in 2017/18 utilising research and engagement with customers.

During 2017/18 significant work is being undertaken by South West Water as part of Ofwat's business planning process 'PR19', which will set wholesale and household retail price controls for 2020-25, determining how much we will invest and how much we will charge customers during that period.

We will submit a business plan to Ofwat in September 2018, but given the level of activity being undertaken in 2017/18, we have included this work as a significant assurance area for 2017/18.

In July 2017, for the first time we published two summary reports which were identified in last year's consultation as being useful for our stakeholders:

**Summary Performance Report** – responding to customer feedback which gave a short customer-friendly summary of the Company's performance for the year.

**Summary Assurance Report** – summarising the results of assurance performed in respect of annual reporting and updating on the Company's assurance plan as a whole.

We will publish these documents again in July 2018 summarising performance and assurance in 2017/18 and this assurance plan incorporates work on both of these documents. In particular, the summary assurance report is complementary and inherently linked to this plan, providing an update on assurance actually provided and summarising assurance results.

South West Water is again pro-actively seeking comment on this plan and has established a consultation process designed to obtain further input from customers and other stakeholders. We welcome direct feedback to [riskandcompliance@southwestwater.co.uk](mailto:riskandcompliance@southwestwater.co.uk).

Following this consultation the assurance plan will be finalised and published at [www.southwestwater.co.uk](http://www.southwestwater.co.uk) and [www.bournemouthwater.co.uk](http://www.bournemouthwater.co.uk) in October.

### ASSURANCE PLAN

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## Background



As a regulated water company, South West Water makes available to its customers and other stakeholders a wide range of information. This information includes, but is not limited to, annual reporting of South West Water's performance in respect of the performance commitments made to our customers and our financial performance.

### Assurance

The assurance we perform and commission gives comfort to the users of the information which we provide internally and externally and forms part of South West Water's corporate governance.

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.

South West Water is currently classified within Ofwat's Company Monitoring Framework as a 'Targeted Assurance' company, which means we need to work with our customers and other stakeholders to target issues and consult on our plans to ensure they are sufficient.

Building on our 2016/17 plan, this document aims to set out the methods of assurance South West Water uses with respect to all significant areas.

### Risks, Strengths and Weaknesses

In early October, South West Water will publish its updated statement of 'Risks, Strengths and Weaknesses' following an internal review and an external consultation with customers and other Stakeholders to identify risks, strengths and weaknesses arising in the provision of Information that stakeholders want and can trust.

In respect of the risks and weaknesses identified we have committed to a series of actions to ensure improvements are made to address any weaknesses and that risks were mitigated. We will report on progress against these actions in the Summary Assurance Report in July 2018.

We continue to deem it important to include all of the actions we have committed to, which resulted from customer and other stakeholder feedback, as a significant area for us to assure. We have therefore included all the actions of the exercise within this Assurance Plan (see page 13).

### Format of this plan

This plan summarises South West Water's Integrated Assurance Framework (see page 03) and the governance structure at South West Water which underpins it (see page 04). We use this to consider and select the appropriate balance of assurance for all significant areas requiring assurance across the business.

In this plan we:

- identify the most significant areas of our business upon which we are required to assure
- explain how we assure these areas
- identify the elements of the Integrated Assurance Framework we plan to use.

Inherently some of these areas are ongoing and as such assurance is already underway.

### The consultation on our plan

Page 16 lays out the next steps following publication of this Draft Assurance Plan for consultation, how we are consulting and how we plan to use the results of this consultation to further develop and finalise our Assurance Plan. The Final Assurance Plan will be published in October.

# South West Water’s Integrated Assurance Framework

## South West Water’s Integrated Assurance Framework

South West Water continues to employ an effective and rigorous risk management and assurance process.

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, reviewed and updated on a regular basis and appropriate mitigation is in place to meet the risk appetite. The methodology for identification and mitigation of risk is in place throughout the organisation.

Using a risk based approach South West Water’s integrated framework ensures an appropriate balance of varied providers of assurance dependent on the assessed risk and complexity of assurance requirements. This integrated approach includes:

<p><b>1st line of defence</b> Management</p>	<ul style="list-style-type: none"> <li>• performance, legislative and regulatory obligations and control reviews</li> <li>• local quality control</li> <li>• ‘sense checking’</li> <li>• annual certification and ‘sign off’ of submitted data.</li> </ul>
<p><b>2nd line of defence</b> Policy setting and compliance checking</p>	<ul style="list-style-type: none"> <li>• business management systems internal audits</li> <li>• policies and culture (e.g. whistle blowing)</li> <li>• QA and ISO internal reviews</li> <li>• risk &amp; compliance internal reviews.</li> </ul>
<p><b>3rd line of defence</b> External scrutiny</p>	<ul style="list-style-type: none"> <li>• group internal audit</li> <li>• financial audit</li> <li>• technical audit</li> <li>• quality regulators (including ISO external reviews)</li> <li>• business management systems external audits</li> <li>• other external assurance providers.</li> </ul>

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

In any significant area or project where assurance is required for information, certificates over submitted data 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 submission of a business plan for a five year period, tariffs/charges submissions and Annual Performance 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.

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

In addition to the 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.

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.

## Governance and oversight

### Board Transparency And Governance

South West Water is dedicated to ensuring strong governance structures and activities in accordance with best practice and aligned with Ofwat's Board Transparency and Governance requirements.

### Bournemouth Water

The operations and licence of Bournemouth Water Limited were merged into South West Water in 2016. South West Water is therefore now responsible for delivering our business plans in both the original South West Water area of operation and the Bournemouth Water area of operation. In the Bournemouth Water area of operation, the Bournemouth Water brand has been maintained.

### The role of the Board, Audit Committee and Executive Management in assurance

South West Water's governance structure is designed to be efficient and effective, whilst also ensuring that as a regulated company it also operates independently.

The ultimate responsibility for decision making rests with South West Water's Board.

The responsibility for providing effective scrutiny and governance over the Company's reporting and the performance of assurance rests with the South West Water Audit Committee (in the first instance), which is held alongside the Pennon Group Plc's Audit Committee.

The Audit Committee is comprised of six members (each of whom is a Non-executive Director of South West Water and three of whom are also Non-executive Directors of Pennon Group Plc). Each of the members attend Committee meetings and fully contribute to Committee discussions.

Management of the Company's day to day activities is undertaken by South West Water's Executive Management, which comprises our Statutory Executive Directors and other Executive Management who are responsible for specific key areas of the business. The Executive Management includes members from both the Executive Management of the original South West Water area of operation and the Bournemouth Water area of operation.

### Approval of the Assurance Plan

Following the consultation, the Audit Committee and South West Water Board will approve this Assurance Plan.



# Performance commitments

## Significant Assurance Area 1: Performance Commitments

### Why is it significant?

Following two years' of consultation, 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.

### Specific Assurance Plan

All performance commitments are reported within the Annual Performance Report which is published annually in July. The performance commitment data is initially provided alongside a methodology explaining how the data is collated and a narrative commentary by the relevant departments within South West Water. This follows departmental reviews, sense checks and explicit management sign off of the data by departmental management.

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, CH2M (and where performance commitments relate to financial data, the financial auditor, EY). 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, the level of customer and regulatory interest and the associated financial or reputational impact as well as any other assurance performed upon the data.

Examples of internal assurance performed during the year include:

- an audit performed by the Risk and Compliance team reviewing a sample of customer correspondence to ensure that the correspondence had been correctly classified for the purposes of SIM (Service Incentive Mechanism) e.g. complaint
- the Pennon Group Internal Audit team audited the Company's strategy for reducing pollution incidents. The scope included the internal and external reporting of the performance commitments relating to pollution incidents.

As a minimum for each commitment the external technical auditor CH2M, having access to all relevant management, methodologies, data and processes will vigorously challenge the performance, related information and commentary for the year. Deep dives will be performed in areas of heightened risk. Following the audit and follow up actions, management, (including directors) will sign off the final position and commentary. The technical auditor will also confirm to the Board that audit actions have been resolved or an appropriate action plan is in place prior to the Board 'sign off' of the Annual Performance Report.

CH2M publish a summary of the assurance they perform upon performance commitments within the Annual Performance Report as a whole as well as a summary of the results of that assurance.

## Integrated Assurance Framework Elements Utilised

### 1st line

- Ongoing performance reviews and monthly reporting within teams and senior management, including formal ODI Board
- 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 Internal Audits
- CH2M technical auditors
- SGS ISO auditors, including ISO9001:2015 (Quality), ISO14001:2015 (Environmental) and ISO50001: 2011 (Energy) certifications

# 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.

### Specific Assurance Plan

All tables within the Regulatory Reporting section are subject to audit procedures or other assurance procedures performed by South West Water's statutory financial auditor EY, or the Company's technical auditor, CH2M.

EY perform an audit on sections 1 and 2 of the Regulatory Reporting. These sections include 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. EY present an audit opinion on the fair presentation of these sections of the Regulatory Reporting and that they have been properly prepared.

Section 3 of the Regulatory Reporting, which covers performance commitments is discussed on page 05.

Section 4 of the Regulatory Reporting contains additional financial and non-financial information. 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 CH2M to ensure that the information is assured to a similar level as our performance commitments and can be relied upon by stakeholders.

Other regulatory information included in the regulatory reporting (including cost assessment tables) is subject to the same level of assessment as section 4. This external assessment is performed by CH2M, EY or PwC depending on the nature of the data.

Responsibilities for completing tables 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 overseen by the Risk and Compliance team. The completed tables and associated commentary is provided to the auditors and all of the relevant management are made available to the auditors.

In line with statutory requirements, the Board also provides a published sign-off of the Regulatory Reporting.

## 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 technical auditor assurance procedures on section 4
- SGS ISO auditors, including ISO9001:2015 (Quality), ISO14001:2015 (Environmental) and ISO50001:2015 (Energy) certifications



# 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.

### Specific Assurance Plan

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 scrutiny and internal review as well as being an integral component of the independent Group Internal Audit cyclical plan.

South West Water's Executive Management and Statutory Boards review the Company's financial position and performance on a monthly basis, and 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.

## 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 risk based audits of financial systems, processes and internal controls
- Statutory External Audit - performed by EY and overseen by the Audit Committee

# The summary performance report and summary assurance report

## Significant Assurance Area 4: The Summary Performance Report and Summary Assurance Report

### Why is it significant?

In July 2017 we published our first 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.

### Specific Assurance Plan – Summary Performance Report

We acknowledge that as a shorter document 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 will:

- include 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 05-06
- include balanced commentaries against outcomes in the original South West Water area and in the Bournemouth Water area
- fully verified by the Company's technical auditor, whose scope will explicitly include a review for bias within the document.

We will consult with customers in both areas to seek any improvements for the 2017-18 report (with reference to the 2016-17 published reports.)

### Specific Assurance Plan – Summary Assurance Report

The Summary Assurance Report is designed to be an understandable and unbiased summary of the assurance which has been performed on the annual and other reporting, any significant findings of the assurance and how the Company is addressing them.

Given the importance that we do not misrepresent the assurance which has been performed by our external providers of assurance, EY will review the report to ensure that their audit and other procedures have been accurately reported. The Company's technical auditor will similarly review the report to ensure their work has been accurately reported.

We will seek feedback from customers including the WaterShare Panel and the Customer View Group to ensure that the documents are as 'user friendly' as possible.

## 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 CH2M to confirm respective audit scope and audited data.

## Periodic review 2019 (PR19)

### Significant Assurance Area 5: Non-household market opening

#### 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 will submit its business plan to Ofwat on 3 September 2018, which Ofwat will then assess, test and challenge.

During 2019 Ofwat will issue its determination upon the business plan, which will finalise the expectations upon South West Water for service delivery and pricing framework.

Although the business plan will be submitted on 3 September 2018, South West Water will perform significant amounts of work preparing this plan during 2017/18, including undertaking research to establish customers' priorities and establishing the 'willingness to pay' for these priorities. We are also required to submit to Ofwat a number of submissions linked to modelling for the 2020-25 period.

We will aim for the business plan to deliver improving services, which are resilient for the longer term and are affordable for customers. We will also consider 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.

#### Specific Assurance Plan

The PR19 business planning process is an extensive programme, which uses many levels of our Integrated Assurance Framework.

A PR19 Steering Group has been established, which includes all members of South West Water's Executive Management and meets on a monthly basis, receiving status reports from those managing and delivering the PR19 project.

Following tender exercises, South West Water have appointed two separate core external assurance partners to provide levels of external assurance upon key aspects of our PR19 project. PwC were appointed to provide assurance in respect of financial areas of the plan and CH2M were appointed to provide assurance in respect of technical areas of the plan.

In line with our approach to other reporting such as annual reporting, responsibilities for completing tables and associated commentaries will be delegated to relevant management within the company and thorough internal verification procedures will be performed overseen by the Risk and Compliance team all of which will be available to external assurance providers.

External assurance delivered will be selected on a risk based approach and will vary from deep dives and procedures in accordance with ISAE3000 in areas of heightened risk to agreed-upon-procedures work in areas where risk is lower or there is a clear set of isolated procedures which would provide assurance in respect of the risks in place. South West Water will include in its business plan submission a summary of the selection and rationale for the selection of levels of assurance used across the business plan process. External assurance will not be limited to data verification exercises but will consider the overall rationale for decisions made in the plan and reasonableness and consistency of the plan as a whole.

Independent Group Internal Audit will monitor assurance performed in respect of PR19 and further assurance in respect of specific areas may be commissioned from any internal or external source (not limited to South West Water's core external providers), where specialist assurance may be required.

Extensive and timely Board and Audit Committee engagement has been scheduled, in particular to allow for rigorous challenge of the plan and its assumptions as well as oversight of the programme. Prior to submission of the business plan, the Board will sign a statement of assurance in particular detailing its approach to:

- governance and strategic leadership
- ensuring compliance with relevant obligations
- the framework and approach to assurance.

## Periodic review 2019 (PR19) continued

### 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

- PwC assurance and challenge (risk based level of detail) upon financial data
- CH2M audit and challenge of technical data
- Other specific external assurance commissioned as deemed appropriate
- Pennon Group Internal Audit oversight

# Tariffs and charges

## Significant Assurance Area 6: Tariffs and Charges

### Why is it significant?

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.

### Specific Assurance Plan

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

KPMG focus 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 sign 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.

## Integrated Assurance Framework Elements Utilised

### 1st line

- Sign-off of submitted inputs to the tariffs and charges model
- Utilisation of a model developed by an external specialist

### 2nd line

- Risk and Compliance led internal validation and assurance

### 3rd line

- Assurance work performed by KPMG upon a set of procedures mutually agreed to be reflective of risks present

## The Government £50 contribution

### Significant Assurance Area 7: 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.

#### Specific Assurance Plan

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 also 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 systems remains appropriate.

Following the opening of the non-household retail market the assurance requirements, and process has been agreed with PwC and DEFRA.

### Integrated Assurance Framework Elements Utilised

#### 1st line

- Management review and oversight of process

#### 2nd line

- Domestic retail Compliance team review

#### 3rd line

- Pennon Group Internal Audit of South West Water's billing systems
- Quarterly audit performed by PwC of the Government £50 Contribution process

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

### Significant Assurance Area 8: Risks, Strengths and Weaknesses

As described on page 02, we published our statement of 'Risks, Strengths and Weaknesses' in September. We committed to six 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. (Note: one action relates to reporting in 2019/20 and therefore is not considered in this 2017/18 assurance plan).

#### Specific Assurance Plan - Provision of Price Review Information to Customers

To ensure that the information and engagement with customers regarding the price review is understandable in terms of language and level of detail, we will ensure that our technical auditors perform an audit of customer communications as well as an audit of the final information prior to publication. These audits will explicitly, in their scope, cover communications. We will be proactive in addressing any concerns prior to publication.

#### Specific Assurance Plan - Reporting of Outcome Delivery Incentives (ODIs) performance

For 2016/17 annual reporting, we refreshed the reporting of our ODI performance both in the main 'Annual Performance Report,' as well as by introducing a customer focused 'Summary Performance Report.' This refreshed reporting was in line with customer and other stakeholder feedback.

Our 2017/18 annual reporting will again include Summary Assurance and Performance reports and we will incorporate feedback received from customers in recent focus groups in respect of 2016/17 reporting. CH2M will review the reporting prior to publication and this audit will include in its scope a review of our response to customer feedback.

#### Specific Assurance Plan - Reporting of the WaterShare scorecard

We will test the revised communications with a group of customers prior to issuing them to customers. We will also obtain a review of the reporting by CH2M to consider whether it represents best practice.

#### Specific Assurance Plan - Customer understanding of information provided

South West Water, utilising customer and auditor feedback, worked to ensure that 2016/17 annual reporting and other information provided was as understandable and suitable for all relevant users as possible. We introduced new customer focused Summary Performance and Summary Assurance reports, which we will again publish in 2017/18.

We will further test our reporting with customers to obtain feedback on the revised 2016/17 reporting and make amendments where required for 2017/18. We will also include in the technical auditors scope a review for understandability of our reporting.

#### Specific Assurance Plan - Our websites

We will relaunch the Bournemouth website and make further amendments to the South West Water website (which was relaunched in July 2017) following a customer survey and an internal review. We will again seek feedback from customers following the relaunch/update.

### Integrated Assurance Framework Elements Utilised

#### 1st line

- Management and Board review

#### 2nd line

- WaterShare panel feedback and testing (where appropriate)
- Customer testing and feedback

#### 3rd line

- External technical auditor review

## 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.

Continual improvement is also a core concept of the ISO accreditations and certifications which South West Water has chosen to become accredited and certified against. South West Water is currently accredited or certified against:

- ISO 9001:2015 – Quality Management Systems
- ISO 14001:2015 – Environmental Management Systems
- ISO 27001:2013 – Information Security Management
- ISO 50001:2011 – Energy Management Systems.

These 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 (ISO 9001:2015)
- effectively handles environmental issues mitigating the Company's impact on the environment (ISO 14001:2015)
- systematically manages its sensitive data, ensures business continuity and reduces the likelihood and impact of a security breach (ISO 27001:2013)
- delivers best practices in its management of energy (ISO 50001:2011).

The ISO standards are audited under a comprehensive programme of internal audit, led by the Company's Risk and Compliance team and a regular external audit provided by SGS, an accredited ISO certifying company.

In Summer 2017 following external audit South West Water were upgraded to the latest versions of the quality and environmental standards, well in advance of the requirement to do so.

As part of the process for upgrading, the Company has enhanced its internal compliance reporting procedures to ensure any non-conformities are appropriately rectified, and most importantly lessons learned are applied across the business.

South West Water's operations are also subject to a cyclical risk based internal audits performed by the independent Pennon Group Internal Audit function and reporting to the Audit Committee.





## Ongoing assurance

This plan focuses on assurance activities in significant assurance areas. However, there is an underlying programme of assurance which is ongoing throughout the year and based upon South West Water’s Integrated Framework.

This programme is flexible and adapts to meet any new requirements or areas of focus identified and is overseen by the Audit Committee.

The consultation is now underway and we welcome your feedback on this document. In particular we would welcome views on whether the plan sufficiently addresses the actions we have committed to following the Risks, Strengths and Weaknesses engagement.

The consultation will close on Wednesday 25 October and any feedback received within this time frame will be collated and considered in finalising the Assurance plan which we will publish in October. You can send any comments to [riskandcompliance@southwestwater.co.uk](mailto:riskandcompliance@southwestwater.co.uk).

Any comments received after this date will be collated and used to inform our assurance plan next year.

April '17	South West Water Risk and Compliance Team Audits	Pennon Group Internal Audit	Government £50 contribution	External financial and technical audits of Annual Reporting	
May					
June			External ISO audits (surveillance/re-certifications)	Regulatory reporting & summary reporting external assurance	
July			Government £50 contribution	Non household (NOSL) compliance external audits	
August					PR19 assurance
September			External indicative tariffs & charges assurance		
October			Government £50 contribution	External Financial Half Year Review	
November			Publication of Assurance Plan	Non household (MOSL) compliance external audits	
December			External ISO audits (surveillance/re-certifications)	External Tariffs and Charges assurance	
January '18			Government £50 contribution		
February			External ISO audits (surveillance/re-certifications)	External Financial and Technical controls and calendar year audits	
March					

## Next steps and feedback

This document forms part of South West Water's wider, ongoing engagement and assurance activities with customers, other stakeholders and regulators. South West Water's next key planned activities are shown in the calendar on page 15.

The calendar below shows the timeline for consultations relating to this document and the related 'Risks, Strengths and Weaknesses' publication.

Based on feedback from our stakeholders on our Draft Assurance Plan we will then publish the finalised Assurance Plan by the end of October 2017.

The Assurance Plan covers ongoing activities throughout the year, however we will also provide an update on our assurance processes in our Annual Performance Report and Regulatory Reporting as well as within our Summary Assurance Report published in July each year.

The consultation is now underway and we welcome your feedback on this document. In particular we would welcome views on whether the plan sufficiently addresses the actions we have committed to following the Risks, Strengths and Weaknesses engagement, which are detailed in Specific Assurance Areas 4, 5 and 8. The consultation will close on Friday 13 October and any feedback received within this time frame will be collated and considered in finalising the Assurance plan which we will publish by the end of October 2017. You can send any comments to [riskandcompliance@southwestwater.co.uk](mailto:riskandcompliance@southwestwater.co.uk).

Any comments received after this date will be collated and used to inform our assurance plan next year.

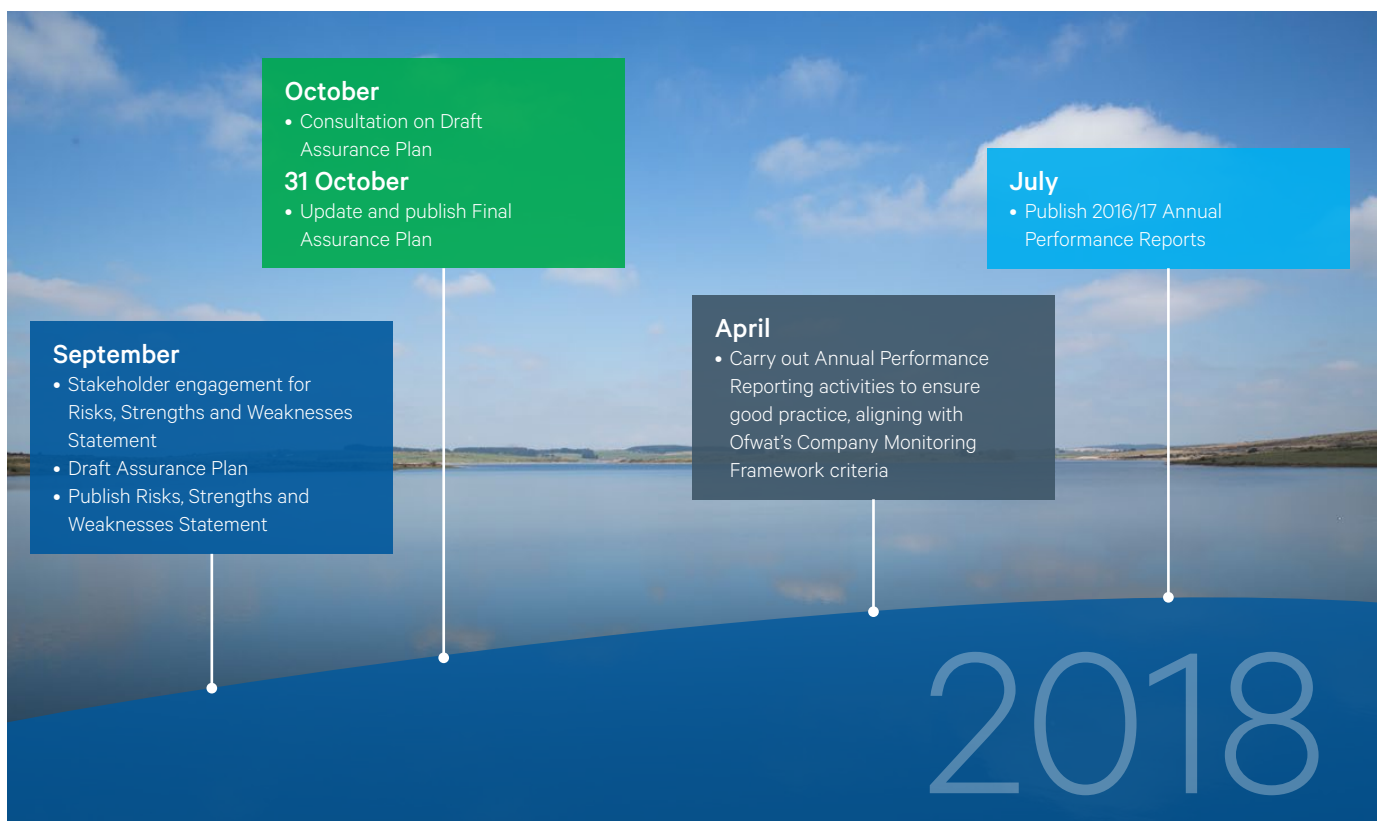
**Draft Assurance Plan consultation commences in October 2017**

**Send any comments to:**

[riskandcompliance@southwestwater.co.uk](mailto:riskandcompliance@southwestwater.co.uk)

**Final Assurance Plan published by 30 October 2017 on:**

[bournemouthwater.co.uk](http://bournemouthwater.co.uk)  
[southwestwater.co.uk](http://southwestwater.co.uk)



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