

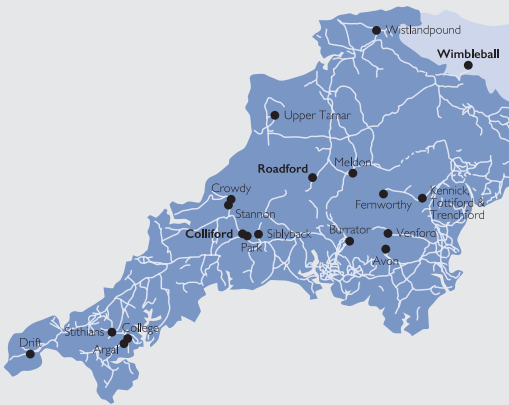


WELCOME TO SOUTH WEST WATER

WELCOME TO 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.

It is important that customers and stakeholders understand what they can expect from us and are able to place trust and confidence in the data and publications we provide.



SOUTH WEST WATER

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

BOURNEMOUTH WATER

Providing 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.

- 2.2 million** total population served
- 996,929** customers
- 23** raw water reservoirs
- 18,131km** of drinking water mains network
- 688** treatment works with **66** ultraviolet (UV) treatment facilities
- 15,600km** wastewater mains network*
- 900** wastewater pumping stations*
- 145** bathing waters and **24** shellfish waters*

2015/16 assured data
* South West Water region only

EXECUTIVE SUMMARY

This document is the beginning of a consultation on the assurance plans South West Water has in place to ensure that significant data and information relied upon by customers and other stakeholders is robust and receives the appropriate degree of assurance.

South West Water is 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.

Responding to customer and other stakeholder engagement during the 'Risks, Strengths and Weaknesses' consultation in January 2017, South West Water is introducing additional summary reports completing its suite of annual reports. These summary reports will be:

- **SUMMARY PERFORMANCE REPORT** – responding to customer feedback which sought 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.

This assurance covers these new documents as well as existing reporting provided. The significant areas covered in this document reflect both those which have been identified as significant to customers and other stakeholders through the Risks, Strengths and Weaknesses consultation and those which South West Water has assessed as significant due to the nature or complexity of the information being provided to customers.

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 business plans are described in the documents available at www.waterfuture.southwestwater.co.uk and www.bournemouthwater.co.uk.

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.

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

Following this consultation this assurance plan will be finalised and published at www.southwestwater.co.uk and www.bournemouthwater.co.uk by 31 March 2017.

DRAFT ASSURANCE PLAN

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ONLINE

southwestwater.co.uk
bournemouthwater.co.uk



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.

South West Water has recently been classified within Ofwat's Company Monitoring Framework as a 'Targeted Assurance' company.

As such this document aims to set out the methods of assurance South West Water uses to assure all significant areas.

RISKS, STRENGTHS AND WEAKNESSES

In January, South West Water published its 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 that improvements are made to address any weaknesses and that risks were mitigated.

Whilst this plan is not required to specifically address each of the actions identified, there are inherent links between some of the committed actions and South West Water's Assurance Plan. Indeed some of the actions have in isolation resulted in areas we deem significant for assurance [such as the Summary Assurance Report - see page 08].

As this was the first Risks, Strengths and Weaknesses exercise undertaken by South West Water, we have deemed 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 12].

FORMAT OF THIS PLAN

This Assurance 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 14 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 on 31 March 2017.

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, 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 assurance plan ensures that an appropriate balance of varied providers of assurance dependent on the assessed risk and complexity of assurance requirements. The integrated assurance approach includes:

<p>1ST LINE OF DEFENCE Management</p>	<ul style="list-style-type: none"> • performance reviews • local quality control • 'sense checking' • annual certification and 'sign off' of submitted data.
<p>2ND LINE OF DEFENCE Policy setting and compliance checking</p>	<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.
<p>3RD LINE OF DEFENCE External scrutiny</p>	<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 range of assurance methods used is reviewed by the South West Water Audit Committee, which is responsible for ensuring comprehensive assurance 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 PR14 business plan, tariffs/charges submissions and Company 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 developing and improving its governance structures and activities in accordance with best practice and aligned with Ofwat's Board Transparency and Governance requirements.

SOUTH WEST WATER'S MERGER WITH BOURNEMOUTH WATER

South West Water Limited is a subsidiary of Pennon Group Plc. The operations and licence of Bournemouth Water Limited has been merged into South West Water Limited since 1 April 2016. South West Water is therefore now responsible for delivering the business plans in both the original South West Water area of operation and the Bournemouth Water area of operation.

THE ROLE OF THE BOARD, AUDIT COMMITTEE AND EXECUTIVE MANAGEMENT BOARD 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 oversight 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 five members (each of whom is a Non-executive Director of South West Water and three of who 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.

APPROVAL OF THE ASSURANCE PLAN

This Draft Assurance Plan has been reviewed by South West Water's Executive Management, and by a sub-committee of the Company's Audit Committee prior to its publication.

The full Audit Committee and South West Water Board will approve the finalised Assurance Plan prior to publication.



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 and influence the amount the Company is allowed to charge customers. Achievement of some of the commitments results in both financial rewards and penalties.

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 and sense checks and explicit management sign off of the data by the 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. 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.

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, this audit included in its scope the internal and external reporting of the performance commitments relating to pollution incidents.

As a minimum for each commitment the external technical auditor 'c2hm', having access to all relevant management, will audit the methodology and process for compiling the data and 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 prior to the Board 'sign off' of the Annual Performance Report.

We have also agreed with our new technical auditors ch2m, that they will 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
- 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 (specifically pollution incidents and leakage during the year)
- 'c2hm' technical auditors
- SGS ISO auditors, including ISO9001 (Quality) and ISO14001 (Environmental) 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) 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, c2hm.

EY perform 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. 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 c2hm 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 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 information 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 provide 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 (Quality) and ISO14001 (Environmental) 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 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 2016-17, an internal audit was performed over the Company's purchasing and payables processes.

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, audit 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 audits of financial systems and processes
- 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 the consultation on our 'Risks, Strengths and Weaknesses,' our engagement with customers and stakeholders through meetings with our independent customer panels, customer focus groups and an online survey many stated that they would prefer a short summary of South West Water's performance to be provided in addition to the more comprehensive Annual Performance Report and Regulatory Reporting. The Summary Performance Report will, by design, be user friendly and engaging, focusing on key headlines and performance.

We want the document 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.

We have also decided to publish a Summary Assurance Report 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 will form 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 each of the eight outcomes in the original South West Water area and the six outcomes 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.

Bournemouth Water has in the past published a short summary document and we aim to take the best ideas from Bournemouth Water reports and the South West Water style of annual reporting to ensure that customers in both areas find the document useful and relevant. The Company's technical auditor's scope will also include a review of the document to ensure it is relevant in both areas and following publication we will consult with customers in both areas to seek any improvements for the 2017-18 report.

Specific Assurance Plan - Summary Assurance Report

The Summary Assurance Plan will be 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 and also provide a short report within the document including a statement on whether the report has been produced in an unbiased manner.

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

NON-HOUSEHOLD MARKET OPENING

Significant Assurance Area 5: Non-household market opening

Why is it significant?

The non-household water retail market will open in April 2017. South West Water has an extensive internal programme, established in July 2014, to ensure that business customers within our regions are able to fully participate in the market following opening, a level playing field is offered to all retailers and South West Water wholesale business will be able to operate efficiently and effectively within the market.

The opening of the market requires significant changes to internal systems, policies and procedures. The failure of these systems, policies and procedures could cause deterioration of service to non-household customers.

It is therefore important to business customers and to other stakeholders in the non-household water market that confidence can be placed in South West Water's preparations and readiness for market opening.

Specific Assurance Plan

The project has been subject to a rigorous project management approach and has reported on a monthly basis to the Board level project steering group. This reporting has included summaries of both progress towards critical milestones and the status of risks to the project. Using the Company's Integrated Assurance Framework a specific assurance framework for the project was established which utilises a combination of internal and external assurance expertise and resource.

Deloitte was appointed as our assurance partner for the project in November 2015 and internal and external assurance has been focused on a number of 'gateway assurance reviews' establishing whether the project will deliver market readiness.

One of the key aspects to the project's success will be a change in the culture within staff and our partners to ensure we comply with the principles and spirit of providing a level playing field to all non-household retail companies. An extensive programme of training has been delivered to all South West Water employees and training has also been provided to relevant partner companies.

The training provided to South West Water staff has been followed with an ongoing online test developed by external specialists to validate that staff have not only participated in the training, but continue to have a sufficient understanding of the key points from the training. Results are reviewed and further support is provided where deemed necessary.

South West Water has aimed to make best use of a period of 'shadow operation' from September 2016 to March 2017, by operating as closely as possible to the way the market will act. Pennon Group Internal Audit will perform an independent audit of South West Water's 'Wholesale Service Desk' in Summer 2017.

Alongside other market participants, South West Water has been required to submit three assurance letters to Ofwat and the central market operator (MOSL). These letters, signed by the Chair of the Board, Chair of the Audit Committee and Managing Director, confirm that South West Water views that it has a high level of confidence of being ready for the opening of the market. In line with the Company's transparent approach to assurance reporting, South West Water submitted reports of Deloitte alongside the letters highlighting progress, issues and management actions to address any issues.

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 preparedness for market opening

2nd line

- Risk and Compliance involvement within Gateway Assurance Reviews
- Development of policies and culture to ensure compliance continues to be embedded within the business
- Ongoing externally designed testing of staff knowledge following training
- Legal separation of wholesale and retail operations

3rd line

- Deloitte involvement and reporting on Gateway Assurance Reviews
- Pennon Group Internal Audit during 'Shadow Operation' of South West Water's retailer facing 'Wholesale Service Desk'

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 and that 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 our 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 (ICS Consulting Ltd.).

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 between South West Water and KPMG, 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 effectively passed onto customers by South West Water in the form of a £50 discount on customers bills (pro-rated for bills relating 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 received the contribution and equally that the Government Contribution is only received by those customers the Government has defined as eligible. During 2016 South West Water has also performed a thorough review of the classification of customers' accounts as domestic or business ahead of the non-household retail market opening in April 2017.

South West Water's domestic retail function has a specific compliance team overseeing the billing system and matters relating to Customer Service. The Independent Pennon Group Internal Audit also perform an 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.

Integrated Assurance Framework Elements Utilised

1st line

- Management review and oversight of process

2nd line

- Domestic retail Compliance team review

3rd line

- Annual Independent 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 January. We committed to six clear actions to achieve within the statement addressing risks and weaknesses in our data and information provision as identified by our customers and other stakeholders. Some of these were related to tangible changes to the way we report, whilst others concerned the nature of how we report (for example avoiding jargon). These improvements therefore underpin the confidence which stakeholders can place in the data and information we provide and are in line with South West Water's commitment to continual improvement.

Two of the six commitments have in isolation resulted in areas we have considered significant areas for assurance, these being non-household retail market opening (see page 09) and customer understanding of information provided – where we have committed to a 'customer friendly' summary performance report (see page 08). Below we have summarised assurance for the other four commitments.

Specific Assurance Plan

Articulation of Board and corporate governance – Refine provision of clear information in annual reporting and on website In the annual performance reporting and our annual report and financial statements we will clearly and unambiguously set out our Group structure and how we ensure we meet Ofwat's principles, not least requirements for independence as a regulated business and in its board composition. Revised summaries of the structure and how Ofwat's principles are met will be reviewed by South West Water's Executive Management and the Board ahead of inclusion in annual reporting in July. Our financial auditor EY and technical auditor, ch2m, will also review the substance and clarity of the disclosures ahead of publication.

Reporting of Outcome Delivery Incentives (ODIs) performance – Refine reporting for 2016/17 performance to ensure clarity

To address customers' concerns over the clarity of ODI reporting, South West Water will clarify symbols used within its Annual Performance report indicating whether we have 'met' or 'not met' our performance and better illustrate performance against targets. We will also introduce a summary towards the beginning of the Annual Performance Report showing performance against all performance commitments to give customers and other stakeholders a clear overall picture.

Improvements in the clarity of reporting will also be reflected in the Summary Performance Report (see page 08). Our technical auditor, ch2m, will review the clarity of reporting prior to publication.

Reporting of WaterShare performance – Refine reporting for 2016/17 performance to ensure clarity South West Water's WaterShare panel meets quarterly and the redesigned scorecard will be presented to and tested with the WaterShare panel. Feedback from the panel will then be reflected in subsequent versions. Our technical auditor, ch2m, will also review the clarity of the scorecard.

Our websites – Relaunch South West Water's website and realign Bournemouth Water's website South West Water's website will be relaunched in April 2017. This follows extensive work internally and with external specialists to make the website more user friendly. We will then consult with customers and other stakeholders to review the new South West Water website and revisions to the Bournemouth Water website and consider any further improvements necessary.

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 – Quality Management Systems
- ISO 14001 – Environmental Management Systems
- ISO 27001 – Information Security Management
- ISO 50001 – 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)
- effectively handles environmental issues mitigating the Company's impact on the environment (ISO 14001)
- systematically manages its sensitive data, ensures business continuity and reduces the likelihood and impact of a security breach (ISO 27001)
- delivers best practices in its management of energy (ISO 50001).

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.

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.



NEXT STEPS AND FEEDBACK

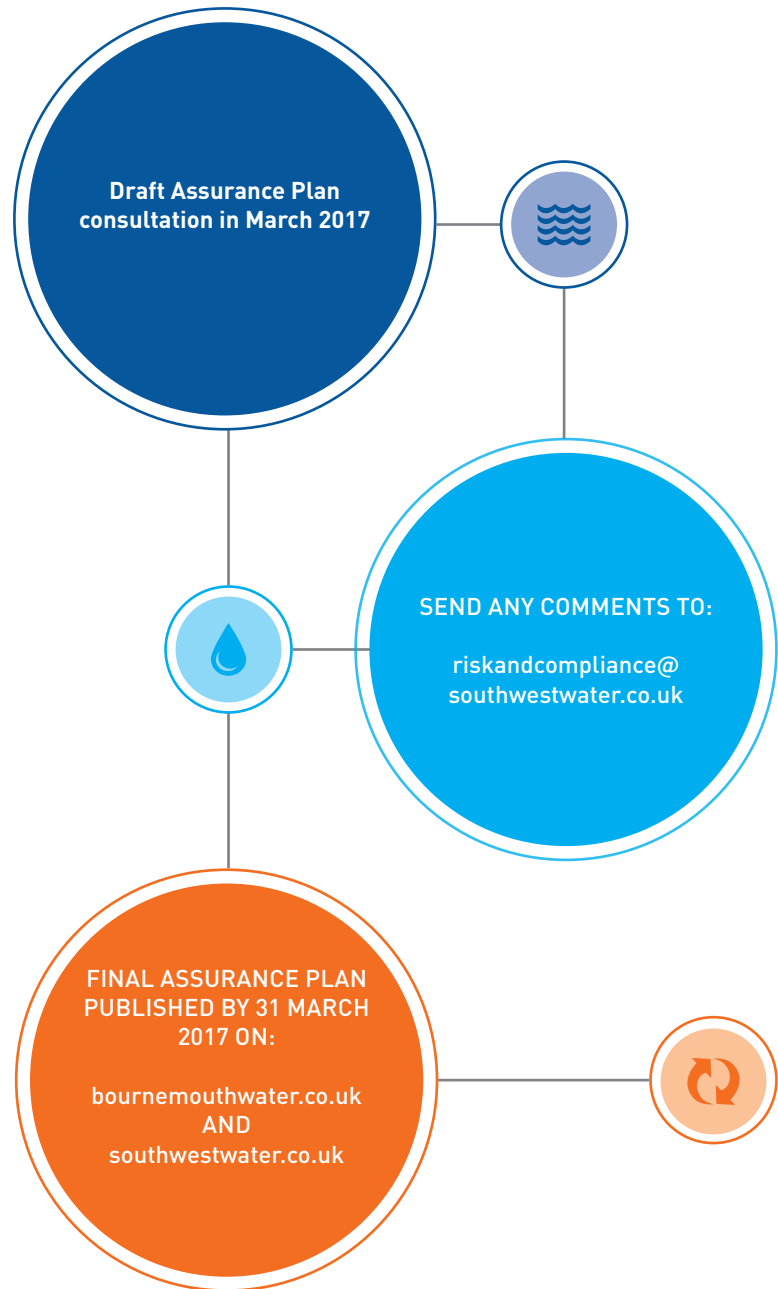
This document forms part of South West Water’s wider, ongoing engagement and assurance activities with customers, stakeholders and regulators. South West Water’s next key planned activities are shown in the calendar below.

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

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 Monday 20 March 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 March 2017. You can send any comments to riskandcompliance@southwestwater.co.uk.

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



<p>6 March 2017</p> <ul style="list-style-type: none"> • Publication of this Draft Assurance Plan 	<p>May - July</p> <ul style="list-style-type: none"> • Annual reporting and assurance summary published
<p>March</p> <ul style="list-style-type: none"> • Consultation on Draft Assurance Plan 	<p>31 March</p> <ul style="list-style-type: none"> • Final Assurance Plan published

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