

# Assurance Summary 2018

July 2018

# 1. About this document

Severn Trent Water is one of the largest of the ten regulated water and sewerage companies in England and Wales and a FTSE100 company. Earlier this year, Ofwat approval was received to align the boundaries of Severn Trent and Dee Valley Water to the national boundaries of Wales and England. This statement covers the period from 1 April 2017 to 31 March 2018, as such, we are reporting performance for the previous Severn Trent Water business to which we strived to provide high-quality services to over 4.3 million households and businesses in the Midlands and mid-Wales. Our household customers pay the lowest average bills in Britain.

We have now completed the third year of our PR14 business plan, in which we set out our plans to deliver outstanding customer experience, the best value service and provide environmental leadership in the industry. We also set out our core company values and goals, one of which is to become the most trusted water company by 2020. This document sets out how we have ensured we have provided robust regulatory data that our customers and stakeholders trust – in line with our assurance approach published in February 2018 and our best practice governance as a public listed company.

Every year we publish a wide range of information about our services and our performance, through our formal regulatory reports and using our improved engagement channels with our stakeholders and customers. This information is used in a variety of ways; not least, it may shape the choices our customers and stakeholders make. We therefore want to make sure that it can be relied on.

This document summarises the outcome of the assurance we have undertaken. Its main focus is the data assurance undertaken for our Annual Performance Report and PR19, but also considers the outcome of our assurance activities more broadly.

Signed by and on behalf of the Board:



Andrew Duff  
Chairman  
Severn Trent Water Ltd



Liv Garfield  
Chief Executive  
Severn Trent Water Ltd



John Coghlan  
Chairman – Audit Committee  
Severn Trent Plc

## Background

In our [business plan for 2015-20](#) we made 45 performance commitments to our customers - 33 of which have financial rewards and penalties attached to them as customer Outcome Delivery Incentives (ODIs)<sup>1</sup>, and can impact the amount our customers' pay. Along with two other companies, some of our customer ODIs apply during the 2015-20 period, reflecting our performance on a year by year basis.

Our Annual Performance Report is the principal way in which we report on our progress against our commitments annually. The Annual Performance Report also considers our performance against other areas included in Ofwat's [2014 final determination](#) of our plans, for example, financial performance. Our Annual Performance Report is complemented by a suite of related documents:

- a summary for our customers (to be published in the summer of 2018);
- a risk and compliance statement from our Board; and
- this assurance summary.

This year, as we build our plans for the next price review (PR19) we realise the importance of demonstrating high levels of engagement with all of our customers to ensure that we are reflecting their needs, while also ensuring that we produce a plan that reflects their needs and is of a high quality with robust assurance undertaken. In recognition of this, alongside our customer ODIs, PR19 is a high priority for us this year, while we continue to build on the established levels of assurance we implemented in the previous years.

In our Assurance Summary, we explain the outcome of the assurance we have undertaken for our Annual Performance Report as well as our wider assurance activities this year.

## Ofwat's company monitoring framework

Ofwat's company monitoring framework (published in June 2015) set out its expectations for how it will oversee information that we, and the other water companies, provide to our customers<sup>2</sup>. Under this framework, Ofwat assess companies and place them in one of three categories of either self-assurance, targeted or prescribed assurance.

We were disappointed to be moved to 'targeted' assurance this year after achieving 'self-assured' last year. The requirements for 'targeted' companies are the same as 'self-assured' – companies must put in place assurance processes that give stakeholders the confidence that the information they publish is accurate and reliable. In addition however, 'targeted' companies are required to:

- Carry out an exercise with stakeholders to identify areas of risks requiring additional assurance.
- Publish a statement of risks, strengths and weaknesses on this in the autumn of each year in advance of submitting information.

This year, our aim has been to address the issues highlighted by Ofwat in their assessment and improve the trust and confidence of our stakeholders, which will enable us to return to the 'self-assured' category.

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<sup>1</sup> Our performance commitments and customer ODIs focus on the issues that are most important to our customers – as informed by extensive customer research and stakeholder engagement carried out during the 2014 price review process - as well as our statutory and regulatory obligations. Certain ODIs have a financial reward or penalty associated with them, which dependent on our performance in the year, is then reflected in customers' bills.

<sup>2</sup> <https://www.ofwat.gov.uk/regulated-companies/company-obligations/information-and-assurance/>

The main area of concern noted by Ofwat was ‘compliance with principles of board leadership, transparency and governance’. In particular, Ofwat commented that it ‘*could not identify a description of its group structure either as part of its annual reporting or on its website. It is important that companies set out the structure of the group clearly and unambiguously for all stakeholders to provide transparency.*’ As a result, we provided an easy to follow company structure on our website and will include in our regulatory publications as part of our annual reporting at the financial year end.<sup>3</sup>

## Engaging our customers and stakeholders

Throughout 2017 and 2018 we have carried out our most extensive customer engagement programme ever to inform our PR19 plan, as well as continuing to track customer sentiment through our quarterly customer tracker. Our Water Forum has continued to play a vital role in challenging our customer engagement.

In addition to our established ‘business as usual’ engagement with our regulators, investors, customers and other stakeholders, we have also undertaken the following:

- Targeted research with over 18,000 customers over the past two years, including willingness to pay research, deliberative research on strategic investment areas and developing a better understanding of how we help customers who are struggling to pay their bills.
- Launching our online community Tap Chat with over 8,000 customers. Tap Chat represents an opportunity to establish an ongoing dialogue with our customers, as well as undertaking diverse research activities.
- Research with customers on the performance commitments they are most interested in hearing about, the ways in which they would like to see information presented and how bills should be broken down. We have also explored, in a number of research projects, the role that comparative information plays when customers make choices.

In November 2017 we published a written consultation on our [statement of risks, strengths and weaknesses and a draft assurance plan for 2017/18](#) which takes into account our customers' and stakeholders' views, along with our own internal risk assessment. Our assurance plan set out how we proposed to respond to the risks we identified. We asked for our stakeholders' views about our proposals. The responses we received during the consultation were used to shape our [final assurance plan for 2017/18](#), which was published in February 2018 on our website<sup>4</sup>.

Our Audit Committee Chair attended our multi-stakeholder customer challenge group, the Water Forum, to report on our assurance and governance for the year.

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<sup>3</sup> The company structure can be found on our website: [https://www.stwater.co.uk/content/dam/stw/about\\_us/STOSummary-Group-Structure-as-at-31.03.18.pdf](https://www.stwater.co.uk/content/dam/stw/about_us/STOSummary-Group-Structure-as-at-31.03.18.pdf)

<sup>4</sup> Regulatory publications can be found on our website: <https://www.stwater.co.uk/regulatory-library/regulatory-library-documents/>

## 2. Our statement of risks, strengths and weaknesses

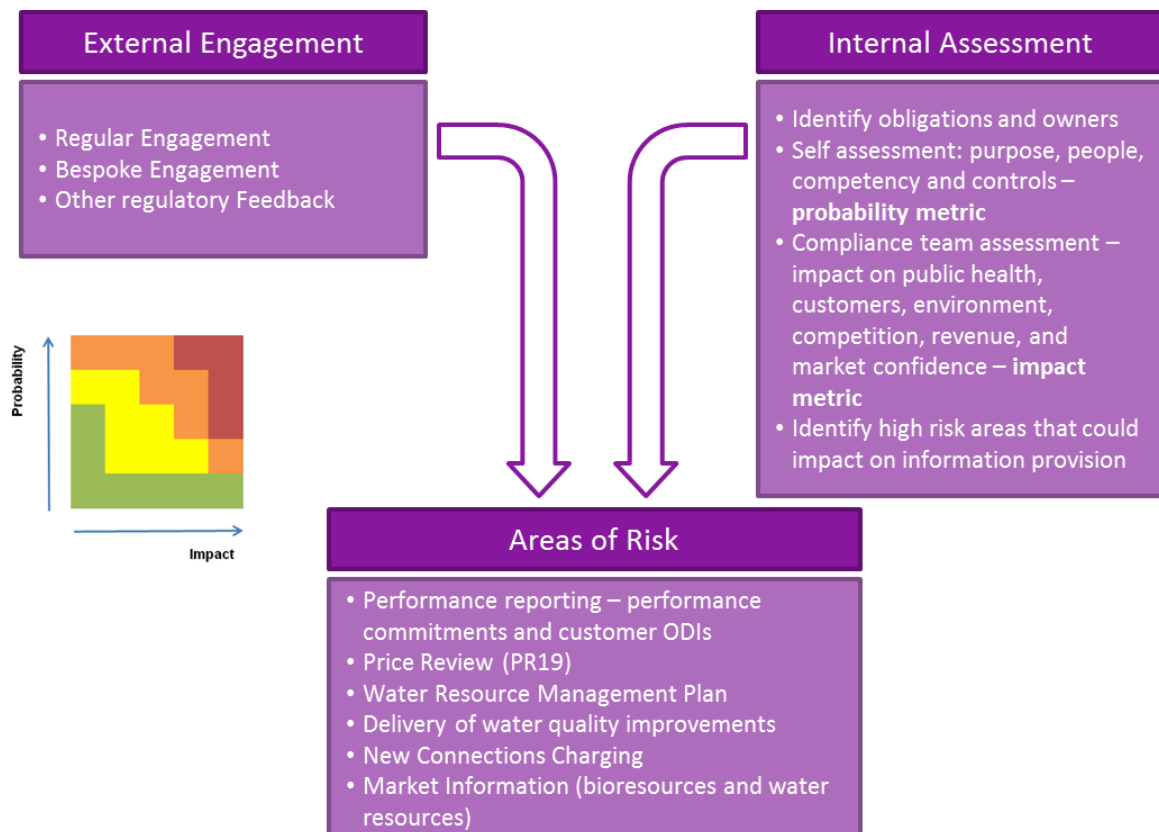
*In this section we summarise how we developed our statement of risks, strengths and weaknesses, and the target areas for assurance that we identified.*

### 2.1 Approach

Figure 1 below illustrates how we developed our statement using two inputs: external engagement and an internal assessment.

We did not limit these assessments to just our end of year performance reporting, but rather considered the information we provide to customers and stakeholders, and our regulatory and statutory obligations, more broadly.

Any critical risks identified also helped to feed into our group-wide assessment of risks inherent in our business activities, which we include in our Annual Report and Accounts.



## 2.2 Statement of risks

The risks we included in our statement principally reflect:

- reporting requirements and statutory obligations;
- changes in our external environment or our customers' and stakeholders' expectations; and
- our internal assessment.

This year we identified the following areas of potential risk:

- a. Performance reporting – performance commitments and customer ODIs
- b. Price Review (PR19)
- c. Water Resource Management Plan
- d. Delivery of water quality improvements
- e. New Connections Charging
- f. Market Information (bioresources and water resources)

These were identified in addition to areas where we already have established assurance processes:

- g. Charges Scheme (including access prices)
- h. Statutory and regulatory accounts
- i. Annual Performance Report
- j. Annual report to CCWater
- k. Operational Performance Standards (OPS) and Market Performance Standards (MPS)

In section 4, we explain the outcome of our assurance to mitigate risks under area a, which is an important component of our Annual Performance Report. In section 5 we provide an update on assurance of the other areas of risk (b-f) and our other annual assurance activities more broadly (g-k).

## 3. Our approach to assurance

This section provides an overview of our approach to assurance and related governance.

We have a well-established assurance and performance reporting framework. Our assurance plan for this financial year, 2017/18, continues the processes we implemented in last year's assurance plan.

Our framework is underpinned by four key principles:

- *Robust assurance* – we operate a three-lines of assurance model, targeted at areas of greatest risk.
- *Ownership and accountability* – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- *Effective governance* – provided by our Board, Audit Committee, and Disclosure Committee, with additional challenge provided by the Water Forum and CC Water.
- *Transparency and public accountability* – we publicly report on our performance, and hold ourselves to account where we do not meet our commitments.

### 3.1 Robust assurance

We have an established approach to internal controls and related assurance. We operate the 'three lines of assurance model', which distinguishes between first line processes and controls, second line oversight and third line independent assurance.

**Table 1: Three lines of assurance model**

Line	Functions	Purpose	Typical Activities
1a	Business operations:	Responsible for the reporting of performance.	<ul style="list-style-type: none"> <li>• Provision of source information and reporting</li> <li>• Monitoring and improving performance where required</li> <li>• Defining and documenting methodologies and processes</li> </ul>
1b	Embedded first line:	First line of assurance for ensuring high quality and robust submissions	<ul style="list-style-type: none"> <li>• In-depth quality checks and reviews</li> <li>• Assist with production of required documentation</li> </ul>
2	Independent second line:	Second line of assurance ensuring that first line has undertaken its duties	<ul style="list-style-type: none"> <li>• Ensure adequate first line undertaken</li> <li>• Quality checks and reviews of systems and controls</li> <li>• Coordination of assurance activities between first and 3rd</li> </ul>
3	Independent challenge: Internal Audit, external assurance providers, Customer Challenge Groups (Water Forum, CCWater)	Provide independent challenge of levels of assurance provided by first and second line	<ul style="list-style-type: none"> <li>• Review application of methodologies and processes and ultimate integrity of the data</li> <li>• Review completeness and appropriateness of assurance framework (Internal Audit)</li> <li>• Provide challenge on expert areas (i.e. Water Forum on vulnerability, affordability and customer needs)</li> </ul>

Assurance is a year round activity for us. First and second line activities are undertaken throughout the year giving us visibility of potential risk areas. For areas identified as higher risk, or where we have specific reporting obligations (e.g. financial accounts), we employ external third line assurance at relevant points during the year, which culminates in our year-end financial and performance reporting.

Section 4 sets out where we employed third line assurance this year (2017/18), and in the light of the risks identified in section 2, in order to produce our Annual Performance Report.

### **3.2 Ownership and accountability**

Strong personal and collective ownership is critical for ensuring the accuracy of information we produce, driving improvements and holding ourselves to account. Regular internal performance reporting to our Executive Committee (weekly and monthly) and Board (at every meeting), and half-yearly performance reporting to the Water Forum reinforces this culture of ownership and accountability. Every year we refresh our compliance framework to ensure that individual accountabilities are assigned to our regulatory and statutory obligations. As part of this, we operate a rigorous process of sign-off for our performance commitment data – sign-off by the data owner, the responsible senior manager and finally the accountable director in addition to our Board governance arrangements (see below).

Our three lines of assurance model ensures that there is clear separation of accountabilities between those responsible for delivery of a performance commitment or a regulatory/statutory obligation and those responsible for ensuring the integrity of that data. This delineation is mirrored in our governance arrangements.

### **3.3 Effective governance**

As a publicly listed company Severn Trent Plc has committed to comply with reporting requirements under the UK Corporate Governance Code<sup>5</sup>, and the UKLA's Disclosure Guidance, Transparency Rules and Listing Rules. As the Severn Trent Group's principal operating subsidiary, oversight of Severn Trent Water Limited's performance against its strategic objectives, internal controls, operating risks, assurance, pay practices, sustainable business practices and financing structures are overseen by the Board and Board Committees of Severn Trent Plc. We continue to adhere to the principles set out in Ofwat's 'updated assessment of monopoly water companies' governance arrangements'<sup>6</sup> published in June 2015.

Our assurance approach provides for governance of our performance commitments and other external reporting with a clear delineation of accountabilities:

- The Board's role is to approve and ensure delivery of the Group's strategic objectives. It makes sure that the necessary financial, technical and human resources are in place for the Company to meet its objectives. The Board leads the Group within a framework of practical and effective controls which enable risk to be assessed and managed.
- The Board's Audit Committee assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, the assessment of the effectiveness of the systems of Internal Control and Risk Management. The Audit Committee scrutinises the work of the Internal and External Auditors, including providers of technical and regulatory assurance in respect of the Company's regulated activities and regulatory reporting requirements. It also reviews the adequacy of the Company's whistleblowing arrangements. In support of the Board's assessment of the Company's

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<sup>5</sup>The version of the Corporate Governance Code applicable to the current reporting period is the April 2016 UK Corporate Governance Code

<sup>6</sup>[https://www.ofwat.gov.uk/wp-content/uploads/2015/11/pap\\_pos20150615boardleadership.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2015/11/pap_pos20150615boardleadership.pdf)



current financial position and long-term prospects, the Audit Committee considers the expectations of regulators and other stakeholders, and scrutinises the stress-testing of scenarios aimed at proving the Company's financial resilience and viability over fixed periods of time.

- The Disclosure Committee oversees the Group's reporting obligations under the Companies Act 2006, the UK Corporate Governance Code, the UKLA Listing, Rules, Disclosure Guidance and Transparency Rules and the Company's annual and continuing regulatory reporting requirements, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.
- The Water Forum including CCWater provides independent external challenge of both our performance against our commitments and the information we provide on it. This year the Water Forum has recruited new members to increase the level of expert challenge it provides. Minutes of the Water Forum's quarterly meetings are available on our website.

### **3.4 Transparency and public accountability**

Since 2008 we have had a Continuous Disclosure and Communications policy. This sets out our commitment to earn the trust of our customers and stakeholders by being open in our communications and performance reporting.

Our communications are based on transparency, integrity, accessibility and timeliness. Each year we publish Annual Report and Accounts for Severn Trent Plc and Severn Trent Water Limited and publish an Annual Performance Report against our regulatory performance commitments for the latter.

### **3.5 Non Household retail market obligations**

For the whole of 2017/18 our regulatory obligations relating to the non-household retail market have been serviced by Water Plus. This includes payments to non-households for retail failures under the Guaranteed Standards Scheme and the reporting of retail related written complaints to CCWater. Our compliance framework has been updated to reflect the responsibility that Water Plus has for discharging our statutory duties and obligations in this area. In order to provide confidence these obligations have been met, the Water Plus Board provides us with an annual compliance statement.

## 4. Assurance of our Annual Performance Report

*In this section we explain how the data included in our Annual Performance Report has been assured, and the outcome of that assurance.*

We have a well-established assurance and reporting framework, which incorporates Ofwat's Regulatory Accounting Guidelines<sup>7</sup>. Our assurance plan for this financial year, 2017/18, continues the established and robust processes we developed over the last three years for reporting our performance commitments in our Annual Performance Report.

The Annual Performance Report comprises four sections. Our assurance process mirrors this structure:

1. regulatory financial reporting;
2. price review and segmental reporting;
3. performance summary; and
4. additional regulatory information.

In 2017 we provided to Ofwat additional cost assessment information which was submitted alongside, but separate to, the Annual Performance Report. This year, we are also providing this information however this will be included in item 4 above – additional regulatory information.

We summarise the assurance undertaken for each section, and the outcome of that assurance, below.

### 4.1 Regulatory financial reporting

This section of the APR provides a baseline level of historical cost financial information, which is aligned to our price controls (and associated regulatory performance commitments and incentives) set out in Ofwat's 2014 Final Determination<sup>8</sup>. Data for this section is produced consistent with the definitions set out in Ofwat's Regulatory Accounting Guidelines (RAGs), Accounting Standards and our own published accounting policies. Deloitte LLP ('Deloitte'), Severn Trent Water Limited's statutory auditor, audit this section and section 2, which together form the Regulatory Accounting Statements. Deloitte provide an audit opinion on the Regulatory Accounting Statements, which is set out in full in the Annual Performance Report.

### 4.2 Price review and segmental reporting

This section of the Annual Performance Report provides a more detailed disaggregation of revenue and costs. Data for this section was audited by Deloitte as explained above.

Deloitte's audit opinion does not extend to the appropriateness of the methodology used to allocate costs in relation to Ofwat's RAGs. In the light of the above, and as in previous years, we asked Jacobs Consulting (Jacobs), our independent technical assurers, to review our cost allocation processes in more detail – not least because our company and our sector continues to evolve, and our approach to cost allocation must too evolve.

This year, Jacobs were asked to perform assurance on both our established financial year-end cost allocation processes and those relevant to PR19. In line with our approved application to align the boundary of Severn Trent Water (STW) and Dee Valley Water (DVW) (to become Hafren Dyfrdwy (HD) on 1 July 2018) to the

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<sup>7</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2017/11/IN-17-08-Regulatory-accounting-guidelines-201-18.pdf>

<sup>8</sup> [http://www.ofwat.gov.uk/wp-content/uploads/2015/10/det\\_pr20141212svt.pdf](http://www.ofwat.gov.uk/wp-content/uploads/2015/10/det_pr20141212svt.pdf)

national boundary of England and Wales respectively, Jacobs have undertaken assurance on the current boundary in respect of our APR assurance and the new boundary in respect of PR19. The overall scope includes:

- Challenge methodology for compliance with Ofwat specific guidance or adherence to cost allocation principles in the absence of specific guidance.
- Review whether our Process Description Templates adequately explain methodology for cost allocation and outline dependencies, assumptions, risks and associated mitigation measures.
- Challenge assumptions made in the cost allocation process for both 2017-18 and 2018-19.
- Accuracy of completion of relevant data tables for PR19.

#### Outcome of Jacobs' assurance

Jacobs carried out the work in stages, the first stage comprising the review of cost allocation documentation and process in the following areas:

1. Price controls within STW – Wholesale Production & Customer Delivery
2. Allocations between STW and DVW / HD
3. Allocations between STW and Water Plus
4. The capital business plan structure and assignment to regulatory categories (price control/business and expenditure by purpose) for STW

Jacobs reported that *'Overall, for the documentation and processes we reviewed we found that you continue to have a satisfactory level of documentation and processes in place to report data that are compliant with the principles and rules within the RAGs'*.

Jacobs did not identify any material areas of non-compliance, however have identified areas we can improve going forward, notably by providing more detail in our processes. We will continue to improve these over the coming months in line with our boundary changes and alignment to the PR19 price controls.

## **4.3 Performance summary**

### **Performance Commitments**

This section of the Annual Performance Report explains how we have progressed against our performance commitments (PCs) in the third year of delivery of our business plan. As in the previous two years, independent technical assurance on our performance commitments was provided by Jacobs. Jacobs undertake assurance using a staged approach which is completed in full before any internal sign-off of data occurs.

Stages one and two focus on documentation and process. During stage one, Jacobs reviewed the process description templates which are followed in order to report against performance commitments. Stage two included both desktop reviews and face-to-face interviews. These reviews ensure that:

- Processes are in place to produce data that are consistent with the performance commitment definition.
- Improvements and changes in processes from previous assurance rounds are clearly stated.
- Accountability and responsibility of each stage of the process is clear with dependencies, assumptions, risks and mitigations identified.

- There is appropriate quality assurance with checks and controls identified.

Stage three focuses on data produced and associated commentaries which explain our performance in more detail. Audits are carried out in person with the responsible data owners. These audits ensure that:

- Data produced are consistent with the PDT and any deviations from this are identified and evidenced.
- Any rewards/penalties or further data points are calculated in line with Final Determination requirements. This focusses on the mechanistic calculation to give the gross reward/penalty position.
- Commentaries accurately reflect the data and performance within the year.

Following the audit, all individuals within the approval process sign-off the data and commentary, culminating in the relevant Director who will approve both the data and commentary.

As with last year, our risk assessment in 2017/18 identified performance commitment reporting as a key area of risk taking into consideration the potential impact on our customers' bills.

The assurance undertaken this year reflects that level of risk, and also takes into account the findings of our assurance in this area in 2016/17, with reviews being carried out on a risk-based approach in line with our assurance framework at both the half and full year.

#### Outcome of Jacobs' assurance

##### Half year

This year we asked Jacobs to focus the above staged approach on targeting PC that we considered as high risk. The desk top reviews focused on whether actions from last year's assurance had been addressed. Process and data meetings were held where:

- Areas where we had made significant changes to our process since last year and/or the PC did not meet our target confidence grade.
- Performance Commitments where there is potential to impact the customers' bill due to earning a significant reward or incur significant penalties.
- Areas where we may be underperforming and/or lack confidence in the data quality feeding into the PR19 programme.

Of the ten PCs Jacobs reviewed only one was identified as a potential material reporting risk. W-E1 & S-D1 (size of carbon footprint) was considered as a risk due to only one member of staff having full knowledge of the reporting process. It was noted at the time of the audit that an additional resource had been assigned to ensure that going forward a single point of failure would not exist. We are pleased that at year-end Jacobs did not identify any material risk to our reported data for this area.

##### Full year

Jacobs reviewed the reported full year performance for the vast majority of the PCs set out in our Final Determination (FD) and the processes that were used to produce the figures. In line with our risk-based assurance framework, Jacobs did not review the PC data or process where it is deemed low risk, for example 'S-C7 Overall environmental performance' where we cannot assess performance until 2018/19.

For the process stages Jacobs focused on:

- whether actions from previous assurance had been addressed;
- changes to our process, personnel or risks; and
- the teams' planned approach to allocating its performance figure between England and Wales regions of current Severn Trent Water boundary.

For the data stages Jacobs focused on:

- checking whether the teams had been through our own internal assurance processes;
- checking whether material actions from the process audits had been addressed and the PDTs updated;
- asking the teams to demonstrate how they had produced the reported number, sampled data back to source inputs and tested teams understanding of performance relative to prior years and the levels set out in the FD;
- looking at the mechanistic calculation of rewards/penalties for 2016-17 – pre-adjustments for price base, tax and any management adjustments;
- the appropriateness of the confidence grades our teams assigned to their reported performance; and
- reviewing teams' performance figures and confidence grades for the England and Wales regions of the current Severn Trent Water boundary (including whether they used our centrally produced tools and whether the apportioned figures tallied back to the APR PC figure).

Jacobs noted *'overall, across all the areas we reviewed we observed robust processes and reporting procedures'*.

We are pleased that our improvements made in the year have been recognised and Jacobs were satisfied with our reporting of the PCs and considered that for our year-end PC reporting *'you have processes in place to produce data that are consistent with the PC definition in the FD and PC rewards/penalties are calculated in line with FD requirements'*<sup>9</sup>.

#### **4.4 Additional regulatory information**

This section of the Annual Performance Report contains additional financial and non-financial information, including accounting policies, financeability statement, current cost reporting, totex analysis. For 2017/18 Ofwat expanded the scope of the APR to incorporate additional information, including on an expanded set of shadow PCs and additional cost and non-cost data in section 4 of the APR. These additional items were previously reported outside the APR and are designed to inform its PR19 determinations.

Due to the mixture of financial and non-financial information in section 4, we use both Jacobs and Deloitte to undertake assurance on this section. The table on the next page notes assurance undertaken.

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<sup>9</sup> Jacobs reviewed the mechanistic calculation of rewards/penalties pre adjustments for price base, tax and any management adjustments.

Table	Methodology and Process	Data
4A	Jacobs	Jacobs
4B	Deloitte	Deloitte
4C	Deloitte	Deloitte
4D	Deloitte (upstream services cost driver calculations)	Deloitte
4D	Jacobs (Volumetric information submission)	Jacobs
4E	Deloitte	Deloitte
4E	Deloitte	Deloitte
4F	Deloitte	Deloitte
4G	Deloitte	Deloitte
4H	Deloitte	Deloitte
4I	Deloitte	Deloitte
4J	Deloitte	Deloitte
4K	Deloitte	Deloitte
4L	Deloitte	Deloitte
4M	Deloitte	Deloitte
4N	Deloitte	Deloitte
4O	Jacobs (Non-financial data)	Jacobs
4O	Deloitte (Financial)	Deloitte
4P	Jacobs	Jacobs
4Q	Jacobs	Jacobs
4R	Jacobs	Jacobs
4S	Jacobs	Jacobs
4T	Jacobs	Jacobs
4U	Jacobs	Jacobs
4V	Deloitte	Deloitte
4W	Deloitte	Deloitte

For non-financial data, consistent with our approach to performance commitments, Jacobs has:

- used a three stage approach that considers documentation, process and data;
- taken a risk based approach and not reviewed data for years where data had already been assured or where the line definitions and data were unchanged from the 2016/17 submission; and
- considered the appropriateness of confidence grades applied and assumptions made.

Where tables contain information that is substantially financial in its nature (Deloitte have performed agreed upon procedures to confirm extraction from source records) and that the information has been prepared in a manner consistent with the definitions provided by Ofwat and a management prepared data collection methodology.

#### Outcome of Jacobs' assurance

APR section 4 cost assessment tables (CAT): Jacobs *'have reviewed the 2017-18 data your teams proposed to report in the APR section 4 tables that correspond to the old CAT data we reviewed last year and the majority of the processes they followed in producing the data'*.

Jacobs reported that:

- *"your interpretations of the APR section 4 CAT line descriptions and definitions are reasonable and the data submission has been prepared in a manner compliant with guidance;*
- *all individuals within the approval process have signed-off the reported PC and APR section 4 CAT figures; and*
- *you have used the processes set out in your documentation to produce the reported PC and CAT figures, with any deviations justified"*

We are pleased that overall Jacobs *'note all of your PCs and all but one of the APR section 4 items we reviewed were therefore graded A or B at the end of our data stage, indicating no material weaknesses in the production of the data and that the confidence grade is appropriate.'* However, we set ourselves high standards and for the one line indicated, population equivalent - treatment capacity enhancement (4s.25) we are working on providing the additional detail needed to increase the confidence in our data. We will provide the additional information to Jacobs to assure when complete.

#### Deloitte's assurance procedures

Assurance for the tables that include additional financial information and the supplementary disclosures is provided by Deloitte, who have performed a series of agreed upon procedures to confirm the accuracy of the calculation of the data, extraction from source records and that the calculation methodology is in line with management prepared methodology statement (and RAGs where appropriate).

#### **Shadow Performance Commitments**

Ofwat has been working to develop consistent guidance for 14 common performance commitments that it intends all companies to report on in the next AMP. While we are not required to publically report on these measures until 2020-21, Ofwat has included ten of these measures in Table 3S of the APR for 2017-18. As a result, we asked Jacobs to utilise their three staged assurance approach in line with our other Performance Commitments by reviewing our processes, methodology and data. In addition, as these measures are still being developed, we have performed an internal RAG assessment for each measure to understand how compliant we believe our current methodology and data is with Ofwat's guidance. We asked Jacobs to review our compliance assessments, risk assess the level of reporting risk associated for each measure and whether our plans to reach full compliance were adequate.

Overall, Jacobs noted that for the majority of measures:

- *"teams demonstrated good understanding of the final guidance released by Ofwat;*
- *the teams' red/amber/green compliance assessments appear appropriate;*
- *where your teams have identified areas of non-compliance and minor non-compliance, they have developed plans to reach full compliance; and*
- *your commentaries and supporting documentation were consistent with the data and compliance plans we saw and did not contain any obviously false or misleading statements in relation to the data or plans."*

Jacobs did report one material departure for the 'unplanned outages' measure, which we are currently unable to report against in line with the guidance. Improvements are being made to ensure our data recording aligns fully with the new methodology published in March 2018 and we have a plan in place to improve the confidence in our data over the coming year. As a result of their findings, we have included 'unplanned outages' within our Compliance Statement for 2017-18.

Other areas noted for improvement were Leakage, Per Capita Consumption and Sewer Collapses, which again we will work to progress in the next reporting year.

## 5. Additional assurance activities in 2017/18

In this section we summarise additional assurance activities undertaken in 2017/18 as part of our company wide assurance plans. In our assurance plan for 2017/18, we set out a number of other areas where we would be undertaking assurance (in addition to the Annual Performance Report).

Area	Reason for Inclusion	Summary of outcome of assurance
Charges scheme	We have established processes to ensure that our charges scheme is consistent with charging principles and our revenue caps. With the opening of the non-household retail market last year, we publish non-primary charges in line with our primary charges scheme.	Our final Scheme of Charges for 2018/19 was approved by our Board ahead of publication in line with our established governance. Independent external assurance was undertaken by Jacobs, and Internal Audit, the outcome of which was reported to the Board's Audit Committee prior to approval. No material issues were outstanding and a <a href="#">Board assurance statement</a> was published with our charges. Third line assurance undertaken by Internal Audit of data inputs.
Statutory and regulatory accounts	The continuation of established processes to audit our accounts in line with statutory and regulatory requirements.	Deloitte have provided our financial audit opinion in line with statutory and regulatory guidelines. Their opinion is included in both our Annual Report and Accounts and our Annual Performance Report.
Annual report to CCWater	On a quarterly and annual basis, we submit operational performance data to CCWater for a number of measures including customer complaints, sewer flooding, pressure and supply interruptions. The majority of this data is directly from our performance commitments (PCs) reporting. For example, the written complaint data submitted to CCWater forms a part of the Service Incentive Mechanism (SIM) and is subject to internal and external year end assurance. For measures that are not a part of our performance commitments, we provide appropriate second line assurance	Each quarterly submission is subject to internal first and second line assurance. Substantial components of the annual submission are additionally subject to third line assurance, through the performance commitment reporting. No issues were identified during these processes.
Operational Performance Standards (OPS) and Market Performance Standards (MPS)	We are required to submit a number of key performance indicators to the market operator, MOSL who then publishes the information on their website. This information is used by retailers, Ofwat and MOSL to ensure that wholesalers are delivering a competitive and fair service to all customers in the market. Next year, failure to meet MPS SLAs will also result in a financial penalty for the company.	Assurance has been completed on our all OPS submissions with the third line provided by Internal Audit. At the start of 2017/18 we identified some areas to improve our performance reporting. In line with our established governance, the rectification of these areas and each reporting submission is reviewed by the Disclosure Committee with any additional actions for improvement noted and reported upon at the following meeting. We have kept MOSL informed of any issues and actions to rectify.



Area	Reason for Inclusion	Summary of outcome of assurance
Performance commitments and customer ODIs	<p>In our own assessment, and in our stakeholders' view, all performance commitments are a priority area given the immaturity/complexity of some performance commitments and the potential impact on customers, environment and market confidence. Risk-based targeted assurance will be undertaken at both half and full year (to identify any issues well in advance of final end of year reporting). Further 'deep dives' may be applied to areas of greater risk identified at half-year review and during the year.</p>	<p>Section 4 above provides the findings of our assurance in this area covering:</p> <ul style="list-style-type: none"> <li>External third line review of methodology</li> <li>External third line face to face review of methodology application</li> <li>External review of reported performance figures</li> <li>Additional deep dives into key customer priorities and emerging areas of process risk from half-year review</li> </ul>
PR19	<p>This year PR19 becomes a business critical activity as it determines our business plan for the next AMP period (2020-2025). We aim to submit a plan that is classified by Ofwat as at least 'fast tracked'. Delivery of this requires robust assurance plans given the scope of data, research and engagement requirements set out in the draft Ofwat methodology.</p> <p>Prior to the main PR19 submission next year, there are a number of earlier submissions that require the same robust assurance approach.</p>	<p>We engaged PwC to develop a robust framework of assurance that encompasses all aspects of our plan and Ofwat's methodology to ensure customers and stakeholders can trust our PR19 business plan submission on 3 September 2018. This framework was reviewed by the Audit Committee and approved by the Board in July 2017. We have followed the framework for our early PR19 submissions and continue to do so for the remainder of our PR19 business plan. In addition to the assurance provided by Internal Audit, Jacobs and Deloitte as our established third line assurers, we have engaged other industry experts to provide targeted assurance on specialist areas. We have discussed our assurance approach with the Water Forum and we will provide a full assurance report with our PR19 submission in September.</p>
Delivery of water quality improvements	<p>As demonstrated by our research, this area remains a high priority for customers and external stakeholders such as the DWI. Our risk assessment has also assessed some obligations relating to water quality as high risk in terms of accountability and processes.</p>	<p>The 'Cleanest Water Plan' continues to be our dynamic means of monitoring water quality improvement activities and performance. Our Water Quality Steering Group has provided us with a focal point for water quality direction and strategic review. The Water 'Upper Quartile' Programme provided governance for our stop-remove-prevent-inform activities for reducing water quality complaints. This successfully delivered a 12% improvements in performance in 2017/18 and is now transitioning into 'Business as Usual'. Annual reporting of our Water Quality measures with ODIs are also subject to three lines of assurance.</p>

Area	Reason for Inclusion	Summary of outcome of assurance
New connections charging	New regulatory requirement to publish a charging scheme for new connections. Process will be aligned to our Charges Scheme process, which is already subject to third line assurance	<p>Our new connections charging arrangement for 2018/19 was approved by our Board ahead of publication in line with our established governance. Independent external assurance was undertaken by Jacobs, the outcome of which was reported to the Audit Committee prior to approval. No material issues were outstanding and a Board assurance statement was published with our charges.</p> <p>Following publication, though ahead of the charges coming into force, we discovered a minor error in our charging scheme documentation. We corrected the error, and notified Ofwat and our customers. No customers were impacted and lessons were learned to prevent a repetition.</p>
Market Information (Bioresources and Water Resources)	To help these markets grow successfully, it is important that customers and potential market participants can trust our costs are accurate in these areas for activities such as demand management, treatment, transport and other 'search costs'. We will support these new market areas and ensure our data is accurate and has had a third line review before publication	We utilised our established risk-based assurance approach and as these are new submissions we deployed all three lines of assurance in our approach prior to submission. No material issues were found.
Draft Water Resources Management Plan (WRMP)	This document sets out how we plan to meet our customers' need for clean water both now and in the future, taking into account the changing impacts of climate change and population growth. Ofwat have set out the approach they expect companies to follow in completing the submission and have outlined specific requirements for assurance, including a signed Board assurance statement.	External third line assurance of data, methodologies and the presentation of information was provided by Jacobs. Jacobs found no material issues in the plan however made recommendations which we have implemented. Our WRMP was approved by our Board in line with our established governance and the assurance reviewed by the Audit Committee. Our Board provided a <a href="#">statement of assurance</a> with the publication of our draft WRMP.