

Assurance Framework

2022



Overview

We are committed to providing transparent information and data in relation to all aspects of our performance. In order to deliver on this commitment, we must ensure that stakeholders trust the various data we provide to them through our various publications. This document sets out the assurance activities and procedures that we have in place to provide complete, timely, reliable and accurate data.

The 6 six main assurance areas are summarised below:

1 Measurement and data capture

Our performance commitments and other targets are measured on and reported on a regular basis within SES Water to provide management information to support and direct our key business activities. These metrics have been developed and reviewed to ensure their accuracy and timeliness to enable the business to make the right decision based on accurate and timely data.

We also provide awareness training to teach staff the importance of measurement and data capture.

2 Risk assessment

We have adopted a risk assessment process to underpin the governance and assurance processes supporting our regulatory reporting. The likelihood and impact of a risk is used to help to determine the level of governance and assurance that is applied to the reported information.

3 Targeted audit and assurance

We take a proportional approach to the assurance of information we share reflecting the risk register maintained by the board. We will increase the level of assurance required before publishing any documents or data based on the impact of error and to whom the data is shared with.

4 Governance and accountability

We continue to spend considerable time as a Company ensuring that the corporate governance framework is adhered to via our Governance Committee. The Governance Committee was set up in 2020 to ensure we take into account all guidance from Ofwat and the Financial Reporting Council (FRC). The Board has a Code on principles of good governance and addresses compliance with the Code on an annual basis. The Board takes its obligations extremely seriously and applies standards appropriate to the nature and ownership structure of the business. These standards are kept under continuous review and are amended in line with business developments to reflect best practice. We apply the principles and report against the provisions of the 2018 UK Corporate Governance Code. The Board systematically reviews the effectiveness of the Company's system of internal control, including control of financial, operational, and compliance matters and risk management to assure high standards of assurance are being maintained.

5 Independent challenge and review

To ensure that our reporting is independently challenged by our independent stakeholder forum called the Customer Scrutiny Panel (CSP) or challenged by our Environmental Scrutiny Panel (ESP). The CSP has a key role to act as a champion for our customers and to make sure we understand what they expect from their water company. It also plays a role in monitoring our performance on delivering our current commitments and challenging our progress on improvement plans. The ESP scrutinises, challenges and helps accelerate our environmental ambition and to ensure that the needs of the environment are integral to our strategy and operations.

6 Additional communications and publications

We are driven by what matters to our customers and other stakeholders. As well as publishing the minimum information requirements set out by Ofwat within the Annual Performance Report, we are committed to providing regular and transparent reporting of our performance and using a broad range of communications channels to communicate with our customers.

Measurement and Data Capture

Our AMP 7 business plan that covers 2020 to 2025 sets out our performance commitments that we have promised to deliver on to our stakeholders – these all are monitored through the data that we collect at regular intervals to ensure that the service we deliver is consistent and based on both our statutory and regulator obligations.

The data that we collect and monitor, on a daily basis, to run our operational business is the basis of the performance commitments that we report through our regulatory reporting. This data is collected and analysed, then reviewed by management and our board on a regular process through our reporting framework.

Accountability for performance delivery

Our business is divided into key operating units each responsible for delivering their operational targets and business processes. The organisational structure that we have in place gives clear accountability and review of performance commitments across the organisation. Within our internal reporting framework senior managers are held responsible for the reporting of our performance delivery through their owned operational and performance targets that further roll up into our agreed performance commitments. A significant proportion of what we capture through our regulatory reporting is already captured through the Company's internal reporting system.

Detailed data capture and measurement processes

We have created a series of performance dashboards that has our underlying performance measures and performance commitments, for each measure or subset of targets we have definitions of how the measure is calculated, how the data is captured and compared against a target that we set at the beginning of each year.

This subset of data and targets that we monitor against roll up into our performance commitments where we monitor against overall company performance including any forecast penalty or rewards that are the outcome of our performance to date.

Ensuring that we monitor against our targets and performance commitments form the underlying metric of reviewing how our business is performing, highlighting any risks or concerns that we need to ensure are addressed and escalated as appropriate.

Methodology and training

The company provides regulatory awareness training to employees which aims to teach staff the importance of data collection, quality assurance, reporting and their individual responsibilities when producing, collecting, and distributing data. This training is important as both financial and non-financial data are submitted to Ofwat, Water UK, and published on our own website for the public, as well as being used for gathering data in making key business operating decisions. It is important that all business units within SESW are reporting based on consistent methodologies across departments and throughout the reporting period so that comparisons can accurately be made. Our internal reporting function ensures consistency across these measures.



Risk Assessment

As a company we review our performance against targets and performance commitments on a regular basis ahead of our year end regulatory reporting, we challenge and interrogate to ensure that we are consistently report accurate information to minimise the risk of any misreporting. The reviews cover both our historic performance in the year or AMP to date and our forecast for the rest of the year and AMP. For our year end reporting we have several levels of review from data owner to senior leader or director sign off the methodologies and performance statements, including the audit trails that confirm where the data reported is sourced from, is reliable, accurate and complete and meets regulatory reporting requirements.

Assessing risk

We follow an assurance process which varies depending on our assessment of severity and likelihood of risk. The assessment of risk considers the probability of inaccuracy and the impact that any inaccuracy may have on stakeholder opinions of us.

The assessment is two-staged – first we evaluate the risk if no controls or mitigations were put in place, second, we evaluate the residual risk once identified mitigations are in place. This is the approach we use for risk assessment across the business including our corporate risk register and our assessment of risks to business resilience included in our most recent Business Plan.

Risks are routinely managed through our corporate approach to risk management, where we continually monitor and mitigate the risks we face.

For company-wide risks the Board maintains a formal risk register where we record and rank risks according to the likelihood of occurrence and magnitude of impact, as well as keeping track of mitigating actions. A formal assessment of both the principal and emerging risks has been carried out, with the Audit Committee reviewing the register of risks twice a year and reporting back to the Board on new and emerging risks, changes in principal risks and the status of mitigating actions being taken to address such risks. As new risks emerge, they are identified and assessed at an early stage so they can be included on the risk register with appropriate mitigation put in place.

All risks, being at the Board level or within the company, are regularly assessed at appropriate levels using a risk reporting tool with actions routinely evaluated by management so that trends or common themes can be escalated.

Mitigating actions to reduce risk relate to the assurance processes in place. Our strengths lie in the well-established data capture and assurance framework that we describe in our approach to assurance and our Assurance Plan. This approach remains unchanged from prior years but its application in different situations is assessed on an ongoing basis.

In Ofwat's last assessment of the information we had published we 'met expectations' in all areas. We take this as support for the approach we take to assurance of the information we provide.

Delivery risk is monitored by management and the Board monthly and appropriate mitigating actions are routinely assessed. One of the Customer Scrutiny Panel's main functions is to actively monitor progress, from a customer perspective, against the performance commitments we have made and to follow up on any shortcomings. This function is performed on a regular basis and reported through publication of the minutes of each meeting and an annual summary (within the Annual Performance Report).

Targeted audit and assurance

We take a proportionate approach to assurance of the information we share based around the company's audit and assurance framework.

This framework has two purposes:

- To prevent inaccuracy
- To spot errors before sharing information

It aims to put in place appropriate systems and processes and to conduct regular review and sign-off procedures.

There are several targeted areas for assurance plans:

- Charging Publications
- The Annual Performance Report
- Regulatory Financial Reporting
- Price Review and other segmental reporting
- Performance Summary
- Additional Regulatory Information

All data is subject to internal and external assurance. Internal assurance includes (but is not limited to) the following steps:

- 1) original data collection and calculation.
- 2) peer review within team; and
- 3) sign-off by responsible manager.

To facilitate the external assurance, internal assurance needs to be properly organised, both to save external assurance cost and to increase the chance that the data pass the assurance tests. When externally assured it needs to be assured by an independent recognisable professional party.

Not all assurance steps are applied equally to information that is shared. We take a risk-based approach when deciding the assurance steps required to meet the objective of ensuring information is accurate. The assessment of these risks was mentioned above in section 2.

Audit and Assurance Framework

The company's individual assurance frameworks follow this process:

Documented process: The steps followed to capture, analyse, process and report information. It includes descriptions of methodologies or assumptions needed and includes reference to any legal or regulatory standards that must be complied with.

Internal review: A colleague who is independent of the original process checks the information in detail to make sure it complies with the documented process.

Internal sign-off: An accountable manager or director approves the information, taking account of, amongst other factors, knowledge that the previous steps have been followed.

External audit: An independent third-party verifies the information and reports back to the Company on compliance with requirements, whether the previous steps have been followed and whether, in their opinion, best practice has been followed. External auditors include specialists in engineering, regulation or accounting.

Review – Board committees and/or the Customer Scrutiny Panel/Environmental Scrutiny Panel: These groups scrutinise and challenge the robustness and accuracy of the information. The Audit Committee also approves the overall plan for assurance and the chair of the Audit Committee will review the majority of reports produced for external use.

Board sign-off: Final approval is given after all the assurance steps have been satisfactorily carried out. Certain matters are reserved for the Board either because this is required by law, regulation or because of their importance.

Documented processes in place



Internal review



Internal sign-off



External Audit



Review - Board committees and CSP



Board sign-off

Assurance plan for our regulatory reporting

Every July we publish the Annual Performance Report, embedded within our Annual Report, which includes data and information that explains to our customers and stakeholders how we have performed against the commitments we have made, including the targets that we set out to achieve. This performance information is also shared through the Discover Water website that allows our customers to compare our performance against other water companies.

The Annual Performance Report has separate sections and the assurance steps applied to each section vary. These different sections are as follows:

Section 1: Regulatory financial reporting

- Provides key financial statements
- Provides reconciliations to the statutory accounts

Section 2: Price review and other segmental reporting

- Provides a breakdown of key metrics, e.g. revenue and expenditure by business unit and type of expenditure.
- Provides data on the number of customers billed.
- Provides a summary of how actual revenue has varied from what was allowed under the wholesale price control.

Section 3: Performance summary

- Summarises performance under each commitment and the financial implications of the performance, i.e. whether an outperformance payment was earned or a penalty is to be paid.
- Our Annual Report also includes explanations of performance

Section 4: Additional information

- Contains a range of financial, including key financial metrics, and non-financial information including data on our assets.

The Annual Performance Report is reviewed by the Chair of the Audit Committee, before being signed off by all members of the board.

Governance and accountability

Approach

The company is controlled through its Board of Directors. The Board's main role is to ensure the business is run properly in accordance with its regulatory and other obligations for the benefit of its customers and to create long term value for shareholders.

The board has a code on principles of good governance and are committed to the highest standards of corporate governance. These standards are kept under constant review and will be amended in line with business developments and to reflect best practises.

The board considers we comply with the Disclosure and Transparency Rules and seek to explain the way in which the Company is governed in an open, accessible and balanced way. We ensure that good practice is maintained across all elements of the Board's responsibilities including board effectiveness

Board level accountability and control

The Company is controlled through its Board of Directors. The Board's main role is to ensure the business is run properly in accordance with its regulatory and other obligations for the benefit of its customers and to create long-term value for shareholders. In fulfilling this role, the Board approves the Company's purpose, strategic objectives and ensures the necessary financial and other resources are made available to enable management to meet those objectives.

Policies

The board approves any policies including policies on;

- Code of Conduct and Business Ethics
- Equality, Diversity and Inclusion,
- Health and safety,
- Environmental,
- Corporate social responsibility,
- Charitable donations.

They also have oversight of any significant changes to accounting policy or practices and will also approve any treasury policies including currency exposure and the use of financial derivatives

and leadership, remuneration, accountability and relationships with our shareholders.

Good governance is not just the responsibility of the board and our executive leadership team – it has to run throughout the entire operation and will ensure that these standards and the way we conduct out business is replicated through all levels of management throughout the organisation.

The Company's quality management system which is accredited as meeting the ISO 9001 International Standard demonstrates this commitment to governance throughout the organisation. All employees are introduced to the importance of compliance in our induction programme. Those employees that provide information that is reported publicly attend an annual briefing to emphasise the importance of the process we have in place.

Governance and control

The board delegates responsibility for specific matters to a number of committees and working groups. This provides a framework that employees are expected to be aware of and comply with. The Board maintains responsibility for the approval of the Annual Report and Accounts, including the corporate governance statement and the remuneration report. The Board also has oversight of governance matters including:

- Undertaking a formal and rigorous review of its own performance, that of its committees and individual directors
- Determining the independence of directors
- Considering the balance of interests between shareholders, employees, customers and the community
- Review of the Company's overall corporate governance arrangements
- Receiving reports on the views of the Company's shareholders

Regulatory Reporting

The board will sign off the AMP7 Annual Regulatory Reports, and has oversight of the Company's operations ensuring competent and prudent management, sound planning and compliance with statutory and regulatory obligations.

Operational governance and review process

The Board systematically reviews the effectiveness of the Company's system of internal control, including control of financial, operational, and compliance matters and risk management. This system of internal control is founded upon the following key features:

1 Control environment

The directors have put in place an organisational structure with clearly defined lines of responsibility, including delegations of authority, and ensuring key business process controls are in place, such as balance sheet reconciliations and monitoring budgets to actual.

2 Risk Management

Managing business risk to enable opportunities is a key element of all activities. This is done using a framework which provides a consistent and sustained way of implementing the Company's values. Business risks, which may be related to business systems, physical assets, people, finances or customers, are reviewed regularly by the Audit Committee and discussed by the Board.

3 Information systems

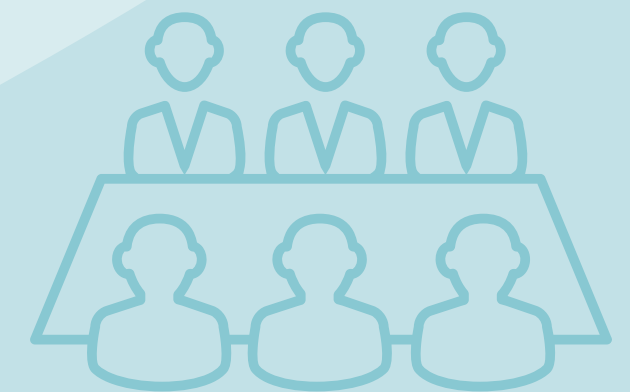
There is a comprehensive budgeting system with an annual budget approved by the Board. At each Board meeting, monthly trading results, balance sheets and cash flow statements are reported against the corresponding figures for the budget and the prior year, and the forecast for the full year is reviewed.

4 Control procedures

There are clearly defined policies, processes and controls for managing key business risks, such as appropriate delegations of authority for capital and operating expenditure, preventative IT controls to reduce the possibility of a cyber-attack being successful and automated controls within the treatment processes and networks. Larger projects and major investments require Board approval.

5 Monitoring System

The Company's internal financial, operational and compliance control systems have been reviewed in the context of evolving legal and regulatory requirements and additional assurance procedures have been agreed and implemented. Having agreed a programme of internal audit work to be undertaken by a combination of internal and external resources, the Audit Committee concluded that a separate internal audit function continues not to be needed at the present time. The monitoring and control arrangements operations are considered good based on the quality of insights, relevant actions and overall internal assurance received from the above audit programme, with enhancements planned to increase the capability of internal audit to review financial controls within the business. The external auditor is kept up-to-date regarding the internal audit programme and tailors its external audit work as needed.



Independent challenge and review

To ensure that our reporting is independently challenged we have established a stakeholder forum called the Customer Scrutiny Panel which reflects the interests and expectations of our customers. We have also recently created an independent board to ensure the needs of the environment are integral to our strategy and operations called the Environmental Scrutiny Panel.

The Customer Scrutiny Panel

The panel consists of a group of customer and stakeholder representatives, the panel has a key role to act as a champion for our customers and to make sure we understand what they expect from their water company. It also plays a role in monitoring our performance on delivering our current commitments and challenging our progress on improvement plans.

The objective of the panel's work is to help the company reflect on what type of consumer representation is needed and how this relates to the company's existing governance arrangements. The panel consists of people from a wide range of different experiences and backgrounds with its membership reviewed to ensure there is a healthy dynamic of both experienced and new views.

The make-up of the Customer Scrutiny Panel can be found on our website. (<https://seswater.co.uk/about-us/our-customer-scrutiny-panel>)

The Environmental Scrutiny Panel

The panel was established to scrutinise, challenge and help accelerate our environmental ambition and to ensure that the needs of the environment are integral to our strategy and operations. It monitors our delivery against our Business Plan commitments related to the environment, alongside our wider environmental performance, whilst simultaneously challenging that we look further into the future and develop a robust long-term environmental strategy with tangible outcomes for the local community. The independent panel provides a constructive challenge on our environmental ambition and performance and reports back to Ofwat. It works in parallel to the Customer Scrutiny Panel.

The make-up of the Environmental Scrutiny Panel can be found on our website. (<https://seswater.co.uk/about-us/our-environmental-scrutiny-panel>)

Challenge and review

We provide the panel with regular updates on our performance against each of our ODIs and targets. We also review and discuss potential actions the company has taken or is planning to take to deliver the current or target performance levels, together with the impacts that these actions could have upon potential financial penalties and rewards.

This forum provides the ideal opportunity to have detailed and transparent reviews of the risks, issues and opportunities facing the company with customer representatives and to have open and honest two-way conversations with them to help to ensure that our plans reflect our customers' views and that we continue to deliver the services that we promised.

We are also working with the Customer Scrutiny Panel to ensure that we provide information for customers and stakeholders that is reliable, timely, appropriate to the audience, and that we are seen to be transparent with customers and stakeholders about the data assurance that we have put in place.

Health, Safety and Wellbeing Committee

The committee is run by the board and ensures the Company adheres to strict health and safety standards across the business, and that there is appropriate focus on employees' wellbeing, especially recently in light of the COVID-19 pandemic. It is responsible for ensuring the Company is fulfilling its legal and moral duties in creating and maintaining an appropriate culture, system and processes to manage its health, safety and wellbeing obligations.

Additional communications and publications

In addition to publishing minimum requirements, we are committed to providing regular and transparent reporting on our Performance Commitments and ODIs and to updating customers and other stakeholders on our environmental performance. reported is sourced from, is reliable, accurate and complete and meets regulatory reporting requirements.

Whilst we seek to provide a detailed supporting commentary to our main Annual Performance Report, we recognise the requirement for clear concise information in order to enable our stakeholders to disseminate it readily. We constantly strive to improve our information and we are looking to adapt and improve the APR for the coming business plan period. We will continue to include relevant background information, reflecting the detailed review of our performance that some of our stakeholders may seek to undertake.

Some of the communication activities we deliver each year.

Keeping it Clear

This is a guide for stakeholders on how we are owned, run, and financed. This document simply explains complex terms such as Regulatory Gearing. It includes explanations about our index-linked bond, our ownership structure, and the composition of our board, whilst providing further information on the role of the Board and its commitment to enhancing leadership, transparency, and governance.

Additional stakeholder communications

We actively work with our regulators, such as the Environment Agency, Drinking Water Inspectorate, Consumer Council for Water, Public Health England and the Health and Safety Executive, providing all relevant regulatory data, as and when required.



