

**DATA ASSURANCE
SUMMARY 2020/21**
YEAR ENDED 31 MARCH 2021



Data assurance summary 2020/21



In order for customers to want to be supplied by us, we know that we need to provide good quality water, a reliable service and be trusted. We understand that the data and information that we provide to our customers, regulators and stakeholders is of paramount importance.

This document summarises the assurance that we have undertaken during 2020/21 to ensure that we are providing data and information which is reliable, robust and complete.

OUR INTERNAL CONTROLS AND BOARD OVERSIGHT

In 2015/16 Ofwat issued new reporting requirements for the annual performance report which would incorporate a number of tables and information previously contained in the regulatory accounts. For 2020/21 Ofwat have significantly restructured the tables and added additional lines. We have included these changes into our annual reporting and have chosen to publish a separate supplementary tables report alongside our annual report, which contains tables 4L, 4Q, 4R, 5A, 5B, 6A, 6B, 6C, 6D and 9A.

The internal data assurance that we have undertaken for the contents of the annual performance report section of the annual report also covers the contents of our performance microsite **performance.southeastwater.co.uk**

Our governance and assurance process for the preparation of our annual performance report and performance microsite was based on our well-established systems of internal control for all regulatory and performance reporting and incorporated oversight by the board and scrutiny by the audit and risk committee following reviews by the executive directors, and the requirement for heads of department and/or manager level sign off.

The assurance methodology that we have adopted is in line with our approach set out in our company monitoring framework with the three levels of assurance as described below:

LEVEL 1

- peer review – data and information must be checked by a separate individual
- manager review/sign off – data and information is required to be checked by the line manager responsible for the individual completing the submission
- independent review is undertaken of the reporting requirements to ensure all required changes and actions are identified
- the changes identified are circulated and assigned to an owner
- formal review of last year's Ofwat queries and audit issues and circulated to the owners to ensure required actions are adopted
- data owners are required to complete pre-audit checklists which cover all areas of compliance including, Ofwat's reporting requirements

LEVEL 2

INTERNAL REVIEW

- data and process audit – data validity is tested through taking a sample and verifying the data for critical data such as PCs, ODIs and 'C' grade areas
- the methodology document is reviewed to ensure that the process and internal controls are complete and being followed
- any required changes are controlled by the Regulatory Assurance Manager. A log has been maintained to track sign off at all the assurance stages and provide an audit trail to the source data
- the processes for areas of high risk and importance are reviewed and additional assurance added. For example, all interruption events are separately reviewed and signed off by the manager

- internal consistency checks have been undertaken on the data within the annual performance report and against other published documents
- a master set of APR tables is linked to our source data to provide an audit trail. This is separately managed and controlled
- independent review is undertaken to check the tables are populated with the audited data
- the master set of data tables and submission version is checked manually cell by cell by an independent reviewer and by an automatic electronic lookup. These are used to try to eliminate any input errors arising for the manual entry process required for the submission version of the tables
- independent check to ensure all the formatting requirements have been met
- internal consistency checks on the APR tables with APR commentary

EXTERNAL REVIEW

- data, process and submission audit – this process is undertaken by an external assurance partner
- a review of methodology, data sampling and internal controls is undertaken
- meetings undertaken with senior managers and those who produce the data to ensure a thorough understanding is obtained. The external auditors attend the pre-audit meetings to review preparations for the audits and any potential issue that may arise
- external consistency checks have been carried out on our APR Tables, by our independent assurance partner Atkins
- independent review is undertaken to check the tables are populated with the audited data

LEVEL 3

- director/executive approval – final review of submission information
- audit and risk committee review
- board approval – overall review of assurance and auditing undertaken
- discussion and approval of external assurance partner findings

Annual reporting has a clear ownership structure with relevant managers and head of departments taking ownership of sections of the reporting and supporting material. Each data table has data providers assigned for each line and each section and table has an overarching owner who is a head of department, reporting to an executive director. The data providers are responsible for collecting, compiling and reporting the data to the table owner and the table owner is responsible for reviewing such data.

The board considered and approved the final processes used for the generation of the 2020/21 annual reporting. The audit and risk committee also scrutinised the annual performance report and related narrative, the risk and compliance statement. The internal data assurance that we have undertaken for the contents of the annual performance report section of the annual report also covers the contents of our performance microsite, which is the new format for our PPP report. This committee reported to the board before the board approved the annual reports as listed.

A summary of the performance by the company in 2020/21 against our performance targets including comments and recommendations received from our independent assurance partner, Atkins (who were appointed from 2021), were reviewed by the committee. The committee and board also reviewed the annual performance report, the risk and compliance statement and PPP microsite report. Our annual performance tables have been prepared under the scrutiny of our audit and risk committee, which also considered the declarations to be provided under conditions I and K of the Licence, and have been approved by the board.

OUR EXTERNAL ASSURANCE

As the processes and associated data items are complex and detailed, the board focuses on the process followed to prepare and review data, the robustness and clarity of the reported information, and obtains additional information and analysis from the executive directors. In addition, the board assures itself of the robustness of processes and data by gaining assurance from Atkins.

Atkins role is to assist the board to ensure completeness of the annual reporting, compliance with relevant duties and obligations, and to ensure that the information we provide to demonstrate compliance with our relevant duties and obligations is consistent, comparable, reliable and robust. They presented their summary report and findings to the audit and risk committee which reports into the board.

Details of the work performed by Deloitte LLP on our annual performance report are provided in the Independent Auditor Report on page 264.

For the current reporting period Atkins has reviewed all of our performance commitments and carried out process audits during the year, as well as the year end audits covering process and performance.

This is done through separate audits for each of the PCs, ODIs and sub measures, enabling additional information to be reviewed on a yearly basis and enable the auditors to provide a more robust challenge. Final audits of the APR tables are then undertaken (Table 3A, 3C, 3D, 3E, 3F, 3H and 3I). The following annual report tables are also assured by Atkins:

- 2B – Totex analysis – wholesale water
- 2C – Retail operating cost analysis
- 4A – Water bulk supply information
- 4C – Impact of price control performance on RCV
- 4D – Water resources and water network+ totex analysis
- 4F – Major project expenditure
- 4J – Water resources and water network+ base expenditure analysis
- 4N – Developer services expenditure – water resources and network+
- 4P – Expenditure on non-price control diversions
Atkins also reviewed the following tables included in the Supplementary tables report published alongside our annual report
- 4L – Enhancement expenditure – water resources & network+
- 4Q – Developer services – new connections, properties and mains
- 4R – Connected properties, customers and population
- 5A – Water resources asset and volumes
- 5B – Water resources operating cost analysis
- 6A – Raw water transport, raw water storage and water treatment data
- 6B – Treated water distribution – assets and operations
- 6C – Water network+ – mains, communication pipes and other data
- 6D – Demand management – metering and leakage activities

Deloitte, our financial auditor has audited:

- Section 1 except lines 1F.4, 1F.7, 1F.9 to 1F.11, 1F.15 to 1F.17, 1F.19 to 1F.22 and 1F.25
- Section 2

Deloitte have performed agreed upon procedures for the following tables:

- 4B – Analysis of debt
- 4H – Financial metrics
- 4I – Financial derivatives
- 9A – Innovation competition

Deloitte also performed agreed upon procedures in relation to the lines not covered in their audit of table 1F detailed above as follows:

- agree line 1F.10 is the sum of lines 1F.5 to 1F.9
- agree line 1F.15 is the sum of lines 1F.11 to 1F.14
- agree line 1F.16 is the sum of lines 1F.3, 1F.10 and 1F.15
- agree line 1F.18 is the sum of line 1F.16 plus 1F.17
- agree line 1F.20 is the sum of line 1F.18 minus 1F.19

The findings from annual audits will be incorporated into the process of updating our company monitoring framework replacement, which is currently under review.

Our teams use the feedback provided by Atkins to ensure that the information that is provided is robust and improvements are made where possible, either before finalising our annual reporting or as part of our ongoing enhancements to improve reporting in future years. A copy of the assurance letter we received from Atkins is appended to this data assurance summary.

Engagement from stakeholders is continually reviewed and processes updated or additional assurance is incorporated to address any concerns. Ofwat's minor concerns raised in their informal feedback set out on pages 7 and 8 have been covered with the introduction of additional formal assurance steps.

CHARGES SCHEMES

We publish a range of documents each year explaining our wholesale and retail charges and charges schemes. These are published on our website and can be found using the following link: corporate.southeastwater.co.uk/news-info/publications/our-charges

In setting our charges we ensure that they comply with the price controls determined by Ofwat and the charges scheme rules they issued, that our charges are defined following consistent principles and methodologies, and that no undue preference is shown to, and that there is no undue discrimination against, any class of customers or potential customers.

Our board assurance statement for our charges schemes can be found using the link: corporate.southeastwater.co.uk/media/4109/board-assurance-statement-for-chargesschemes-2021-22.pdf

OUR COMPANY MONITORING FRAMEWORK

In June 2015 Ofwat published guidance on its company monitoring framework. In which it stated:

“The company monitoring framework is a tool to challenge all companies to provide information for customers and stakeholders that is reliable, timely, appropriate to the audience, and for companies to be transparent with customers and stakeholders about the data assurance they put in place.”

Our company monitoring framework can be found using the following link: southeastwater.co.uk/cmfb

OFWAT’S 2020 ASSESSMENT

Ofwat has not undertaken a formal review of the Industry’s publications in 2020, but did send out informal reviews to each company. Ofwat identified a small number of issues which we have addressed.

The details can be found on pages 7 and 8.

COMPANY MONITORING FRAMEWORK: OFWAT FEEDBACK

Ofwat has not carried out a formal review of our company monitoring framework, but they have provided some informal feedback which we have set out below:

Our action plan has reviewed Ofwat’s concerns in detail and put in place actions to try to resolve these concerns.

FINANCIAL INFORMATION

“We identified a few small errors in the information published, and also an area which we consider would have benefited from further clarity. We did not consider that the minor errors had a material impact on the overall reliability of the data.”

We will ensure that we will use the correct tax number in the calculation for the effective tax rate as per the RAG guidance. We will also report the outlook/watch status of our credit ratings within table 4H, in line with the updated requirements of this table.

FINANCIAL FLOWS

“The values reported for ‘Cost of debt’ were not in line with expectations the table should be supported by sufficient narrative or a more detailed breakdown to allow the reader to understand the information that is being presented and how it was derived.

- **the company used the incorrect tax number in the calculation for the effective tax rate (4H.16): 1A.18 UK Corporation Tax**
- **the company did not state what the outlook on their credit rating was anywhere in the APR”**

Commentary will be included for areas that may not be in line with Ofwat’s expectations and to clarify how the figures were calculated. We will provide sufficient narrative or a more detailed breakdown, if deemed necessary, to allow the reader to understand the information that is being presented and how it was derived.

DIVIDEND POLICY

“The company did not provide detailed support / justification for the £11 million paid in dividends in the year to March 2020. From the year 2020/21, we expect the company to transparently set out how any dividend payments are arrived at, including how they take account of delivery to customers and other obligations. The company needs to explain how the amount paid in dividends tallies with their 2020 to 2025 dividend policy.”

Detailed support / justification will be provided for the dividend payments in the year to March 2021 and will be transparent in setting out how any dividend payments are arrived at, including how we take account of delivery to customers and other obligations. We will also explain how the amount paid in dividends tallies with our 2020 to 2025 dividend policy.

LONG TERM VIABILITY STATEMENT (LTVS)

“Only one concern was noted: There was no mention of the gearing sharing mechanism which would have been expected given that reported gearing was above 70 per cent at 74.55 per cent.”

We will include commentary for the gearing sharing mechanism where this is relevant.

To read Ofwat’s last formal assessment report see ofwat.gov.uk/publication/company-monitoring-framework-2018assessment-individual-company-report-south-east-water

HIGHLIGHTS FROM OUR 2020 COMPANY MONITORING FRAMEWORK

Our 2020 company monitoring framework (CMF) can be found at the following link: southeastwater.co.uk/cmfi

Each year we review our company monitoring framework to ensure it is fit for purpose and includes all of our key performance measures and publications. For our latest version we have added the following publications:

- Operational performance reports, Market performance report and R-MeX
- Bid Assessment Framework; Market Information
- Tables; Trading and procurement code; and Market In by WRSs
- Sustainable bonds

The outcomes have been updated with the PR19 (2020/21 to 2025/26) performance commitments, have increased in number and areas covered from last years outcomes.

The majority of the risks that were identified in our strengths, risks and weaknesses statement for 2020/21 were in our 2019/20 company monitoring framework too as they continue to be areas that are of higher risk or weather related issues.

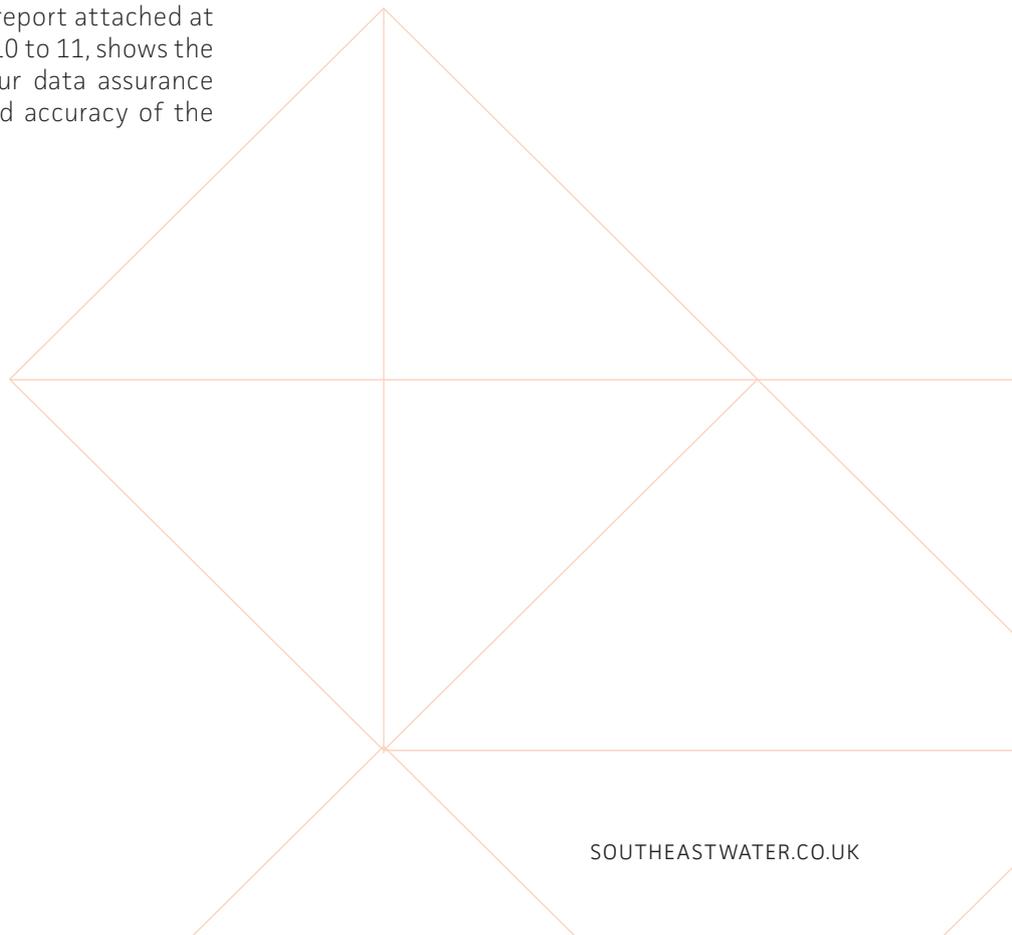
OUR PLANS FOR PUBLISHING OUR FUTURE COMPANY MONITORING FRAMEWORKS

Ofwat set out in their Information Notice 21/01 that they no longer required companies to fulfil any of the requirements of the CMF. Companies are allowed to choose to continue with some of the specific mechanisms which they employed under the CMF, for example the use of risks, strengths and weaknesses statements. However, Ofwat have no expectation that companies must do so and it will be for boards to determine the approaches which best work for their individual company.

Our board takes full ownership of our approach to the submission and publication of accurate and complete information, and this is outlined in this data assurance summary. We will review the current format, content and purpose of our March 2021 CMF publication to assess the elements that worked well and which if any we will retain or adapt for use in our publications going forward.

RESULTS AND EFFECTIVENESS OF OUR ASSURANCE PROCESS

Our external assurance partners report attached at the end of this document, pages 10 to 11, shows the results and effectiveness that our data assurance policy has had on the quality and accuracy of the data we have submitted.



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9th July 2021

Dear Mr Martin,

Assurance Letter for South East Water's 2020-21 Annual Performance Report

Atkins is engaged by South East Water to provide independent assurance on non-financial aspects of the annual reporting activities that South East carries out. This assurance statement encapsulates observations we made during the technical audit of South East Water's Annual Performance Report for 2020/21. This statement is part of a continuous improvement process that has involved detailed consideration of the methodologies and their applications by which South East Water reports on its performance at financial year end.

For the areas we cover and from the information we have been provided with, we conclude that the Company has a full understanding of, and has sufficient processes and internal systems of control to meet, its reporting obligations. We also conclude that the Company has appropriate systems and processes in place to allow it to manage its reporting risks.

Our approach to technical assurance is to draw upon our experiences at previous rounds of audit and to plan in detail who should be present, what information will be covered, where and when. We issue a notification, carry out the audit, provide immediate verbal feedback and a formal feedback summary including requests for further information or clarification with a table of issues raised. The issues from all of the audits and subsequent interactions are compiled into an Issues Log, which is used to manage the resolution of reporting issues before the finalisation of the technical assurance process. This statement reflects the technical assurance position after the iterative process of resolving outstanding issues has concluded.

South East Water has 40 Performance Commitments (PCs), 19 of which have associated underperformance payments and in some cases outperformance payments. As part of our independent assurance of South East Water's annual reporting, we have been engaged to audit the tables and submissions to be published in South East Water's 2020/21 Annual Performance Report and regulatory reporting to other bodies (CC Water, Water UK, Drinking Water Inspectorate, EA).

The areas in scope for this assurance are:

- Data and commentary (where applicable) reported as part of the Annual Performance Report (APR) to Ofwat:
 - Table 3A & 3E - Outcome performance tables (common and bespoke measures)
 - Table 3C – C-MeX
 - Table 3D – D-MeX
 - Table 2B, 2C, 3F, 3I, 4A, 4C, 4D, 4F, 4L, 4N, 4J, 4P, 4Q, 4R, 5A, 5B, 6A, 6B, 6C, 6D – Asset and financial data
 - PR19 in-period adjustments model
- Environment Agency – Annual average out-turns and the Generic Operator Return (GOR)
- Quarter 4 and yearly submission to CCW
- UK Government Environmental Reporting of Green House Gases
- Water UK Discover Water data

In a series of approximately 40 video enabled meetings from April to June 2021, we carried out combined methodology and data audits designed to confirm whether:

- South East Water has appropriate systems, procedures and reporting mechanisms in place to control and meet its reporting obligations.
- South East Water understands the accuracy of the data that it is providing and is able to identify where specific reported data may not be appropriate to meet regulatory expectations. Many of the items that we audit inherently contain an element of uncertainty, so it is not possible to assure their absolute accuracy.
- The key assumptions and processes that are used to report against South East Water's Performance Commitments are consistent with the way that the target was set for the PR19 Final Determination.
- The methodologies that have been used for reporting of the common metrics are consistent with the technical guidance that has been published by Ofwat, and where there are shortfalls these have been identified appropriately using the Red, Amber, Green classifications provided by Ofwat.

We note that Process Manuals are now in place for all Performance Commitments, and South East Water has actively engaged our assurance team in the development and enhancement of those manuals. We did not encounter any areas of material deviation from the processes described in the manuals. All of the material errors or areas of non-compliance with reporting standards for common performance metrics that we encountered during our audits were addressed prior to submission. Similarly, South East Water were able to resolve all material errors or non-compliance issues with the Regulatory Accounting Guidelines for all other tables in the Annual Performance Report (APR) that were included within our scope of assurance.

We observed for the water balance, void non-household properties, customer complaints, the severe drought index and priority customers some areas where there is potential for continuous improvement for next year or where risks may emerge. However, we do not believe these have impacted materially upon this APR or our potential to sign-off the Company submission.

We confirm that South East Water has continued to provide us with full and transparent access to its systems and processes, including unrestricted access to all systems, files and documents that we requested from the Company. During the assurance activities, we had free access to the Regulation & Strategy Director and his team and the full cooperation of the people responsible for preparing and reporting the 2020/21 APR and regulatory submissions and the supporting information.

Yours sincerely



Doug Hunt

Assurance Lead providing Technical Assurance Services to South East Water
