

## Statement of risks, strengths and weaknesses and final assurance plan for 2017/18

### 1.1 About this document

*Dee Valley Water supplies drinking water to people in northwest Wales, Cheshire and the surrounding areas. We have around 126,000 customers and provide 62 million litres of water a day. This year, Dee Valley Water became part of the Severn Trent family and it is our aim to implement a consistent assurance framework across both companies. We strive to provide accurate, clear and understandable information, which can be trusted.*

We provide a diverse range of information to customers and stakeholders about our performance, activities and assets. We are committed to providing a robust governance framework around our processes, data and reporting to meet the needs of both our internal and external stakeholders.

This document sets out our statement of risks, strengths and weaknesses and our final assurance plan. It sets out our information assurance activities for our key financial and non-financial performance information for 2017-18.

### 1.2 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 17 other largest water companies, provide to our customers<sup>1</sup>. In the 2017 assessment, we were disappointed that Ofwat had placed us in the 'prescribed' category of assurance despite acknowledging that we had made improvements in the prior year. Our 'prescribed' status means we are required to publish our assurance plans for all information in advance of reporting rather than the risk based approach as undertaken by 'self-assured' and 'targeted' companies. This document includes all areas we intend to undertake assurance in section 3.2.

Our aim this year is to demonstrate that we have progressed from that assessment into the 'targeted' category. We hope that by implementing best practice for assurance we can achieve 'self-assurance' in future years.

### 1.3 Scope of this document

This document is in two parts.

The first is our statement of risks, strengths and weaknesses. It has been developed using feedback we have received from our customers and stakeholders about the information we provide. It also takes into account our own assessment of risks to our ability to provide information that they trust.

The second part of this document is our final assurance plan for 2017/18. This sets out how we plan to respond to those risks.

Later this year we will publish an Annual Performance Report and an assurance summary setting out our progress against our performance commitments.

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<sup>1</sup> <https://www.ofwat.gov.uk/regulated-companies/company-obligations/information-and-assurance/>

## 2.1 Our statement of risks, strengths and weaknesses: summary

In this section we summarise how we carried out our risk assessments, and the target areas we identified. Our draft assurance plan in section 3 sets out how we propose to respond to these risks.

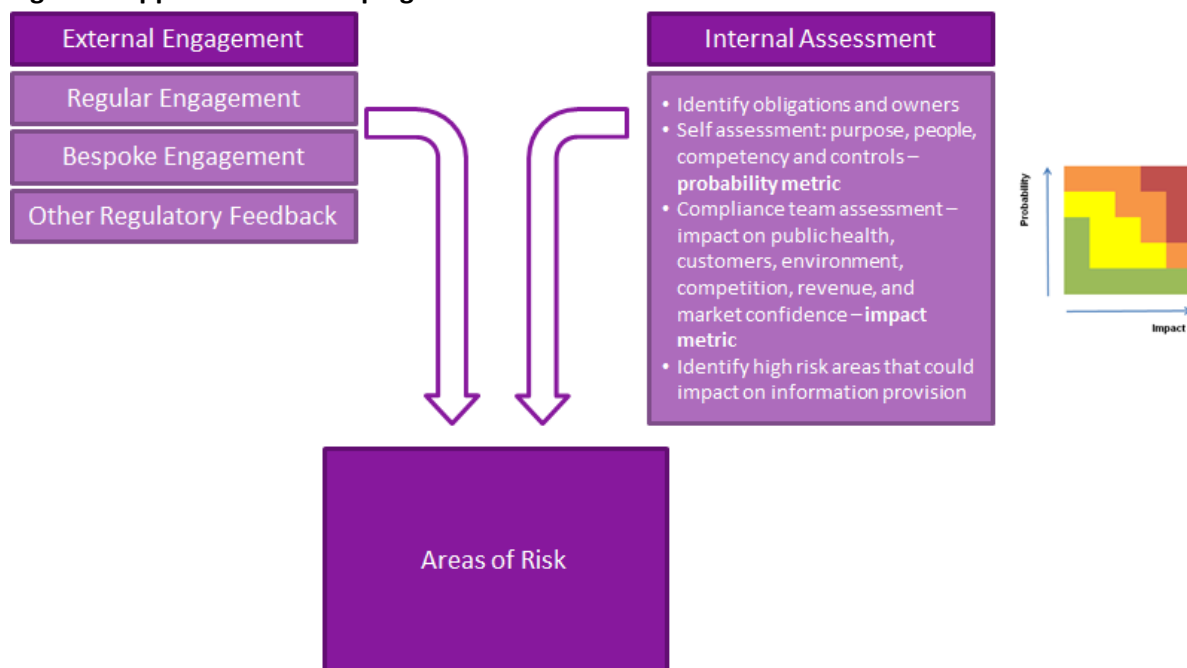
### 2.1.1 Approach

Figure 1 below illustrates how we have developed this statement using two inputs: external engagement and an internal assessment. The following section (2.2) explains this approach and the outcome in more detail.

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

Any critical risks identified in our assurance plan feed into our company-wide assessment of risks inherent in our business activities and mitigation measures, which we include in our Annual Performance Report.

**Figure 1: Approach to developing this risk assessment**



### 2.1.2 Statement of risks

The risks we identify in this statement principally reflect:

- Reporting requirements and statutory obligations;
- Changes in our external environment or our customers' and stakeholders' expectations;
- Our internal assessment.

They are:

- ***Performance reporting – performance commitments and customer Outcome Delivery Incentives (ODIs).***

Every single one of our performance commitments, regardless of whether a financial incentive is attached, could impact our customers' and stakeholders' perceptions of us, and shape the choices they make. Given the importance that we, and they, attach to performance commitments, we have implemented a robust assurance plan, which is covered in section 3.

All performance commitments are to undergo targeted external assurance at both the half and full year (in addition to our ongoing internal quality checks, controls and improvement plans). Our half year review will allow us to identify performance commitments where further assurance 'deep dives' may be required in the run up to full-year reporting. We have seen the benefits of this established approach at Severn Trent Water (STW) as the mid-year review enables us to spot any potential risks and challenge our performance data rigorously prior to publication. We hope this will be beneficial at Dee Valley Water (DVW) and allow us time to improve any identified risk areas.

- **Price Review (PR19)**

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 high-quality and meets our customer and stakeholder needs while aligning with Welsh government policy and demonstrably meets all of our statutory obligations. The PR19 plan will be aligned to the boundaries set out in our New Appointments and Variations (NAV) application i.e. proposals and research will be based on the needs and requirements of our customers exclusively located in Wales. DVW customers that are currently located in England will be covered by the STW PR19 plan. More details about our NAV application and what this means for customers is included on pages 5-6.

Our Internal Audit and Compliance teams have worked together to design a risk-based PR19 Assurance Framework. We engaged PwC to develop a 'bottom up' risk assessment to highlight what levels of assurance were required for which areas in line with our established three lines of defence model. All component parts of our PR19 plan will have an internal first and second line assurance review (as defined on page 14). As part of the 'bottom up' risk assessment, areas that were assessed as being of high materiality or risk will undergo a third line review, either by Internal Audit, external assurers or by other independent parties such as the Customer Challenge Group (CCG) and/ or CCWater depending on the measure e.g. customer vulnerability measures will be independently challenged by the CCG as opposed to the PR19 data tables, which will be examined by a technical auditor.

Our PR19 Assurance Framework will culminate in our newly appointed Board signing an assurance statement. The assurance framework has been reviewed and approved by our Audit Committee.

- **Water Resource Management Plan (WRMP)**

Every five years water companies have a statutory obligation to produce and publish a Water Resources Management Plan (WRMP). The WRMP should demonstrate that we have long term plans in place to accommodate the impacts of population growth, drought, environmental obligations and climate change uncertainty. For the WRMP19 there will also be a new, strategic challenge in the form of demonstrating that our plan does not put at risk the Water Framework Directive status of the water bodies in our region. It is also important that our plan demonstrates we will deliver the best value for

our customers and that we have undertaken robust engagement to understand customer needs and priorities, which we are doing through our WRMP stakeholder workshops in both England and Wales.

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 and evidence from independent reviews.

In addition to above areas, there are a number of activities we are undertaking as part of our integration programme with STW that we believe have the potential to impact on customers. Shortly after acquiring DVW, STW made an application to Ofwat to create a new NAV area, which would encompass all geographically Welsh customers in both the DVW area and STW's area. Any remaining DVW English customers would then be transferred to STW's existing licence. This programme of work and other integration activity is being managed by the Implementation team that has representation from both DVW and STW personnel from across the business.

There are some key areas in particular associated with the programme that we feel may constitute a risk:

- **Boundary realignment - Accuracy of data**

We are currently in the process of accurately identifying where our customers are located geographically (either in Wales or England) to ensure they are transferred to the correct licence. As part of this activity there will be an element of data cleansing. Once the boundaries have been redrawn, there are a number of reporting activities dependent on our customer data such as cost allocation activity, financial reporting and regulatory reporting, that could be impacted by any material data issues. We have undertaken an exercise to analyse how our ODI targets would require adjustment following the boundary realignment, which was subject to three lines of assurance and shared with both Ofwat as part of our NAV application and CCWater. We are committed to maintaining the performance commitments from PR14 for each set of customers that would transfer to a different licence e.g. DVW English customers under STW's licence will continue to be subject to DVW's PR14 targets, while STW Welsh customers under the new NAV will continue to be subject to STW's PR14 targets.

- **Data Migration to STW systems**

Similar to above, as part of our ongoing efforts to improve DVW's technical capabilities and deliver a better customer experience for DVW customers, we plan to migrate all customers onto STW's billing system, that will deliver a number of improvements in customer service and business information.

- **Brand change**

The NAV changes will be accompanied by some brand changes. We therefore need to clearly communicate any changes with customers and ensure they are kept well informed throughout the process. We will engage with our Water Forum and CCWater share how we will communicate these changes while also meeting any regulatory obligations we have from the retail exit legislation. More detail can be found below under the Level Playing Field / Retail Exit Communications section.

We conducted research with customers before we decided on the brand change. This included customers in Dee Valley and Powys with specific focus groups in both English and Welsh. Most people felt attached to the brand they already knew but the DVW customers in particular recognised that 'Dee Valley Water' would not work as a name outside the region. There were also aspects of identity that emerged in particular with the Welsh language.

Our communications plan, which has been shared with CC Water and the Water Forum) includes two direct communications – a farewell from their old company and a welcome to the new company as well as an advertising campaign in Wales which will help promote the launch further and build engagement with the brand.

- **Level Playing Field / Retail Exit Communications**

In the Non-Household (NHH) market in England, customers can choose which retailer provides their billing service to them. Currently, for customers who have not chosen to switch retailers, STW's retail service is provided through an agency agreement by Water Plus while for DVW's customers, retail services are provided directly by DVW's customer department. For both companies, wholesale services are provided collectively by our Wholesale Market Unit (WMU), which has separate staff and geographic location to the DVW customer department.

To ensure we comply with competition law and our licence conditions, transactions between the DVW customer department and the WMU are conducted at 'arm's length' using the rules set out in the market codes, therefore demonstrating that the DVW customer department does not have a competitive advantage over other retailers in the market. This is known as maintaining a 'level playing field' (LPF) whereby all retailers can expect to receive the same levels of information, service and price from DVW and STW as wholesalers.

Following the boundary realignment proposed in our NAV application, our intention is for all English customers under the new STW licence to 'retail exit' completely from the NHH retail market in 2018, which would eliminate this element of LPF risk for these customers. For the remaining market eligible customers in Wales, their billing service will still be managed by our customer department in the new branded company (subject to any customer choosing to switch). The WMU will continue to provide wholesale services at 'arm's length' as it does today.

To ensure the level playing field is maintained, specific LPF training was provided to all customer facing staff prior to market opening with additional face to face sessions targeted at teams particular impacted by market opening such as the WMU. We are now in the process of organising refresher training in the form of a LPF e-learning package for all staff who deal with customers in the competitive market. We also hold regular forums with our WMU and Legal team to allow teams to flag any potential LPF risks or issues. This business as usual activity will continue after the boundary realignment has occurred.

In addition to maintaining a level playing field, there are also a number of statutory obligations that we will need to meet as part of our retail exit application in particular around communicating with customers who will be impacted about the changes and informing them where they can go to find

further information. Our Internal Audit team has reviewed these communication plans to ensure they are fit for purpose.

- **Monitoring NHH customer views in Wales**

On a quarterly basis, we continue to receive feedback from our NHH customers through our NHH SIM ODI and customer tracker, which includes NHH customers. As noted below in section 2.2.2 we have plans to improve our business as usual customer analytics tools so that we can gain more immediate insight into our customer journey.

In future, we are committed to maintaining a PC that measures NHH customer satisfaction in our PR19 plans (potentially a NHH CMEX equivalent that would mirror the household measure) to ensure we listen to any specific concerns this section of our customer base may have, particularly for those customers who are ineligible for competition and unable to switch their retailer. We are discussing our proposals with Welsh Water as we understand the benefits of potentially having a measure that is comparable across the two companies operating in Wales. We will share these plans with our Water Forum and CCWater as part of our PR19 engagement.

### **Market Information (water resources)**

Ofwat is promoting new markets in the water industry such as water resources. This will allow companies to provide and trade services between each other at a fair and competitive price. 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.

In addition to above, there are established regulatory reporting requirements where we will implement third line assurance consistent with those already in place at STW. Next year, under the new area of appointment we will be providing biosresources (also known as sludge) information as well.

- **Annual Performance Reporting**

This report is the principal way that we will document our annual performance and hold ourselves publicly to account. It is important that we present information in a fair and balanced way that is accessible to our broad range of customers and stakeholders. We are committed to ensuring that our regulatory reporting is easily accessible on our website in both English and Welsh.

- **Charges Scheme including Access Prices**

We need to ensure that our charges schemes and access prices are consistent with charging principles, our licence and revenue caps. Additionally, we are also conscious that this may be a sensitive area for our customers in part due to acquisition of DVW by Severn Trent Plc. We want to be transparent with customers about how charges are calculated and be clear that any change in price is not a direct result of the acquisition or the licence variation that we are proposing as part of the NAV application. We will engage with CCWater and our Water Forum to help alleviate customer concerns. We will continue to share any indicative changes in price in line with the required charging schedule (i.e. draft wholesale charges will be published in October in advance of the next financial year).

Any impacts on price for the 2020-2025 period, will be determined by our future business plan. We will engage with both our customers and expert stakeholders (including CCWater) as part of our PR19 plan.

- **Statutory and regulatory accounts**

Our financial accounts including those included with the Annual Performance Report (APR) and the Annual Report and Accounts (ARA) will be subject to third line assurance processes as required.

## 2.2 Our approach in more detail

*In this section we explain in more detail how we identified the target areas set out in section 2.1.*

Our statement of risks, strengths and weaknesses has been developed using two assessments:

- *An external assessment.* We asked our stakeholders if they had an areas they would like us to look at.
- *An internal assessment.* We carried out a self-assessment to identify risks to our ability to comply with our statutory and regulatory obligations. We considered if these risks would impact our ability to produce information that our stakeholders can trust.

We describe each in turn. We set out in Section 3 of this document our approach to assurance in these areas.

### 2.2.1 Engaging our customers and stakeholders

We recognise the need to engage with our customers and stakeholders to understand the issues that matter to them in the information we produce and address any concerns they may have.

We have utilised the following channels of engagement:

- regular meetings with our regulators and statutory customer representative (CCWater);
- continuing to meet on a quarterly basis with our Welsh Water Forum (CCG); and
- ongoing investor engagement, and annual announcements of interim and preliminary results

This engagement helps to inform, and plays a part in, our assurance approach. For example, we may work with CCWater to challenge our customer focussed documents.

We continue to see the Water Forum as an important method of customer engagement. We established an independently chaired, multi-stakeholder group – the Water Forum – to challenge how our customers’ priorities were reflected in our company strategy. The Water Forum now has a continuing role to challenge whether we are delivering our commitments to our customers, and how we communicate that performance. It was involved in the development of our assurance proposals in our business plan and going forward for PR19, they will provide independent challenge on parts of our business case with a particular focus on high customer priority topics such as vulnerability and affordability.

### 2.2.2 Engagement for this statement

As we produce information that is used by a diverse range of stakeholders in a number of ways, we have considered our engagement in the context of two broad groups:

#### **Group 1: Water expert stakeholders**

*Stakeholders with both a high level of interest and reliance on the information we produce.*

We regularly meet with our regulators and have a common understanding of the information they need from us to effectively perform their statutory remits.



Prior to publication of our draft assurance plan, we shared our key risk areas (highlighted in section in 2.1.2) where we wanted to focus our assurance plans with our Water Forum including CCWater and there were no initial objections to the proposals. Following, the formal publication of our draft assurance plan for consultation, we received feedback from CCWater who noted that 'this is a much improved document compared to the one we commented on previously'. CCWater did request more clarity around certain sections of the plan in particular in relation to our proposed NAV application, boundary changes and how we were acting to mitigate impacts on customers. As such we have incorporated their recommendations into this version of the document.

In 2016, Ofwat assessed DVW as requiring 'prescribed' assurance i.e. Ofwat dictated required levels of assurance on the majority of regulatory reporting requirements. Ofwat's criteria to move a company from 'prescribed' to 'targeted' is to show 'that there was no evidence of behaviour that would reduce trust and confidence, and no significant problems with its assurance plans in the previous year.' We were disappointed that in the 2017 assessment despite Ofwat acknowledging that they had 'seen evidence of improvement from last year', we still retained our 'prescribed' status.

In Ofwat's assessment, they noted two areas that were classified as having 'minor concerns' and one as 'major concerns':

- **Outcomes (minor concerns)**

While Ofwat noted overall that we had 'provided accurate, reliable information in tables 3A (outcome performance) and 3D (service incentive mechanism), and its annual reporting commentary' they noted they had concerns about the ease of finding regulatory information on our website, particularly the Welsh version of our Annual Performance report and customer summary. This is something we will be addressing as part of our brand changes as we will be producing a new website for the new area of appointment, which will consider the best way to display regulatory publications.

- **Compliance with principles of board leadership, transparency and governance (major concerns)**

Ofwat stated that they were concerned that since the acquisition of DVW by Severn Trent Plc, we had not issued new governance arrangements or explained the structure of how Severn Trent plc and DVW interact. We acknowledge that this should be clearer in our regulatory publications and are committed to improving this for this year's annual reporting. In particular, we will include an easy to follow board structure on the DVW website and our annual regulatory reporting.

- **Assurance plan (minor concerns)**

Ofwat considered that last year our assurance plan was 'too high level in the other areas for a prescribed company and does not enable stakeholders (including Ofwat) to gain confidence and if necessary provide comments or guidance in relation to these areas.' We believe that this year's assurance plan addresses these concerns. As a result, CCWater have already given us positive feedback in the consultation stage of our draft assurance plan noting that the document is much improved on prior publications.

We will seek to address these issues through this year's assurance activities with the ultimate aim of improving our position in next year's assessment by re-gaining the trust of our customers and stakeholders.

### **Group 2: customers**

*We are working to engage directly with Dee Valley customers in a manner that is proportionate and relevant to them*

As part of our engagement for PR19, we have started by deepening our understanding of customer's needs. We've gone back to basics by trying to better understand our customers, what's important to them in their lives, and what their needs are both in general and in relation to the services their water company could, or should, provide. We have considered customers with a diverse range of interests, backgrounds and experiences, e.g. future customers, those in vulnerable circumstances (from both a financial and health & wellbeing perspective) and different faiths and cultures. We have ensured that we use the right research techniques for each topic, using more deliberative research as well as in-home depths to truly delve into customer priorities, in a way which is sensitive to their circumstances. Some of the initial feedback we have gained from this research is that many view and appreciate water companies as a 'silent partner' who they can trust when they 'turn on the taps and the water is there'. This appears as a consistent message across the groups. There also appears to be a desire to understand more about what we do, and the role that education might play in promoting the efficient use of our services. Additionally, to ensure the views of our Welsh customers are reflected in our plans, we have conducted specific focus groups in Powys and Wrexham.

We are also seeking to increase our 'business as usual' engagement activities in line with STW's including;

- Regular tracking of customer views through our quarterly tracker
- Increasing our visibility of the Voice of the Customer (VOC) through increased use of tools such as Rant and Rave and other 'live' feedback mechanisms.
- Increasing the membership of the Welsh Water Forum
- Listening to all interviews with DVW customers from the quarterly SIM surveys.

Following the publication of the draft assurance plan, we have now incorporated Welsh customers into our regular quarterly tracker. Further improvements into our customer engagement and insight tools will be progressed.

### **2.2.3 Our internal assessment**

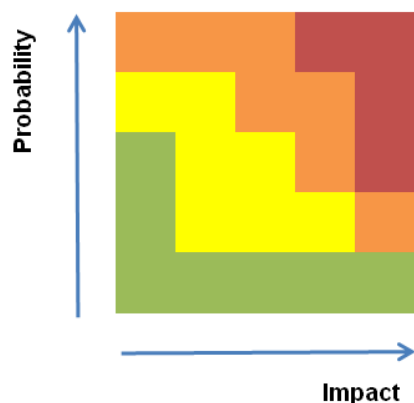
This year at DVW, we implemented the annual internal assessment that is already an established part of the assurance framework at STW. This helps us to identify potential risks to complying with our statutory and regulatory obligations (relating to our regulated water business), which we internally call 'Licence To Operate'.

Our framework seeks to ensure there is clear ownership and accountability for each of our duties and obligations from director level, to accountable strategic leaders (senior management) and responsible managers. The framework includes existing obligations, and new statutory obligations yet to be commenced.

Each year, strategic leaders accountable for the delivery of obligations are asked to perform a ‘self-assessment’ against four key parameters – purpose, people, competency and controls. This assessment allows us to form a probability metric – to identify areas of compliance risk.

We use an impact metric based on the impact of a risk materialising to: public health and safety; the environment; customer service; competition; revenue and market confidence (e.g. reputational impact). This helps us to prioritise areas for improvement during the course of the year. Where risks are identified, our ‘second line of defence’ (explained in section 3) oversight teams work with the teams accountable for delivery to make process improvements. At the end of the financial year, strategic leaders carry out a further assessment. This process helps to inform our Board’s annual risk and compliance statement. The exercise is reviewed by our independent Internal Audit team and the outcome is cross-checked against the risks that are identified by our enterprise risk management (ERM) process.

**Figure 2: illustrative risk matrix**



Our aim is to target areas where we can make process improvements. However, the framework can also help to indicate where there could be risks to the quality of information we provide to our customers and stakeholders.

This year, from our internal assessment we identified two high priority risks relevant for this statement:

- **Charges Scheme including Access Prices and New Connections**

As noted above, we need to ensure that our charges schemes are consistent with charging principles, our licence and revenue caps.

DVW’s charges scheme is reliant on historic information from its billing system and other sources, which are manual and paper based i.e. we are unable to easily extract this information electronically.

For this year’s charging scheme we have undertaken a forecasting process, that has been subject to third line assurance (the draft scheme of charges published in October 2017) and based on recommendations made by our external provider, we have made improvements for the final

publication in January 2018. We will also continue to work to understand the assumptions behind DVW's historic charging scheme.

For next year's scheme, we believe that further integration with STW's IT systems will improve our data collection methods and forecasting processes.

- **Statutory and regulatory accounts**

Under Licence Condition F, we must provide and publish annual financial information with a number of disclosures required with robust financial assurance performed with an accompanying note from our external auditors stating they are satisfied with the data provided. Similar to the charges scheme, the information gathering process is often manual based and reliant on particular members of staff who provide the information.

Our draft assurance plan sets out our approach to assuring these areas in section 3.1

### **3.1 Final assurance plan: our approach**

*This section sets out our final assurance plan for 2017/18. The first part provides an overview of our approach to assurance. The second part focuses on the key areas identified in our risk statement as well as where we have additional assurance processes that we are proposing for 2017/18.*

Our final assurance plan for this financial year, 2017/18, seeks to implement the best practice assurance we have established at STW while being proportionate and specific to the requirements of DVW.

Our framework is underpinned by four key principles:

- *Robust assurance* – we operate a three-lines of defence 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, Disclosure Committee and with additional challenge provided by the Water Forum including CCWater.
- *Transparency and public accountability* – we publicly report on our performance, and hold ourselves to account where we do not meet our commitments.

In this section we provide an overview of each principle.

#### **3.1.1 Robust assurance**

We are implementing a robust approach to internal controls and related assurance. We will operate the 'three lines of defence model', which distinguishes between first line processes and controls, second line oversight and third line independent assurance.

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

Line	Functions	Purpose	Typical activities
1a	<i>Business operations:</i> Wholesale operations, Customer teams, Business Information teams	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	<i>Embedded first line:</i> Wholesale operations, customer teams	1 <sup>st</sup> line of defence 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	<i>Independent second line:</i> Wholesale Planning and Performance, Customer Planning and Performance	2 <sup>nd</sup> line of defence ensuring that 1 <sup>st</sup> line has undertaken its duties	<ul style="list-style-type: none"> <li>• Ensure adequate 1<sup>st</sup> line undertaken</li> <li>• Quality checks and reviews of systems and controls</li> <li>• Coordination of assurance activities between 1<sup>st</sup> and 3<sup>rd</sup></li> </ul>
3	<i>Independent challenge:</i> 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, 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 and affordability, CCWater through quarterly reporting and monitoring)</li> </ul>

Assurance will be a year round activity with first and second line activities 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, much of which is brought together and culminates in our year-end financial and performance reporting.

Section 3.2 sets out where we propose to employ assurance this year (2017/18), and in the light of the risks identified in section 2 and other areas.

### 3.1.2 Dee Valley Water Plc

As a publicly listed company, Dee Valley Water Plc is required to comply with the UK Corporate Governance Code, UKLA Listings Rules and Disclosure Guidance and Transparency Rules and we continue to adhere to the principles set out in Ofwat's 'updated assessment of monopoly water companies' governance arrangements' published in June 2015.

The Board's role is to understand and meet its obligations to the Company's stakeholders within a framework of practical and effective controls which enable risk to be assessed and managed. The Board approves the Company's strategic objectives and ensure that sufficient resources are available to enable it to meet those objectives and monitors and reviews the operating and financial

performance of the Company. It has responsibility and accountability for the long term success of the Company.

The Company operates an established governance and assurance process which enables a rigorous internal system of review. 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 and Board, 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.

The assurance process follows the below approach:

1. Internal sign off by data owners, senior managers and the accountable executive committee member;
2. Internal and external assurance activities;
3. Sign off by the Group Disclosure Committee; The Board's Disclosure Committee oversees the Company's compliance with its disclosure obligations and considers the materiality, accuracy, reliability and timeliness of information disclosed;
4. Sign off by the Group Audit Committee; The Board's Audit Committee assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, the assessment and effectiveness of internal controls and risk management systems, and the effectiveness of the Company's internal and external auditors.
5. Sign off by the Board of Dee Valley Water Plc.

In addition to the above lines of assurance, the Water Forum provides independent external challenge of both our performance against our commitments and the information we provide on it. This approach provides stakeholders with the trust and confidence required that the Company operates transparently, with integrity, and complies with its legal obligations.

Our three lines of defence 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. This year we will continue to publically hold ourselves to account with the publication of a new annual performance report (which will incorporate Ofwat's reporting requirements).

### 3.2 Draft assurance plan: in detail

Section 2.1 sets out our overall approach to assurance. In this section we set out our final assurance plan for 2017/18. It details every assurance activity to address key areas of risk identified in section 1 and also other areas of assurance that we undertake during the financial year.

**Table 2: Processes that will be subject to additional assurance in 2017/18**

Area	Reason for inclusion	Overview of activity
<b>Activities associated with our implementation programme with STW / NAV application</b>	Shortly after acquiring DVW, STW made an application to Ofwat for a new NAV licence, which would effectively split the STW and DVW area into a Welsh licence and an English licence. The implementation programme also covers activities to implement STW IT systems into DVW such as the STW billing system. There is a potential for customer confusion / impact if these changes are not communicated or implemented effectively.	<ul style="list-style-type: none"> <li>Regular programme monitoring by the Implementation team with representation at appropriate level of the business.</li> <li>Internal Audit have reviewed initial programme plan and risks to ensure appropriate mitigations in place</li> <li>Additional assurance requirement identified for the implementation of STW IT systems and our customer communication plans.</li> <li>Engagement with our Water Forum and CCWater</li> </ul>
<b>Annual Performance Report</b>	This report is the principal way that we will document our annual performance and hold ourselves publicly to account. The report will include inputs from other areas covered by this assurance plan (e.g. financial accounts) and require some forecasts of performance. It is important that we present information in a fair and balanced way that is accessible to our broad range of customers and stakeholders.	<ul style="list-style-type: none"> <li>External third line assurance of data, performance forecasts (and methodologies) and the presentation of information</li> <li>Water Forum review of the presentation and dissemination of information</li> </ul>
<b>Annual report to CCWater</b>	On a quarterly, bi-annual 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.	<ul style="list-style-type: none"> <li>Where data is derived from performance commitments e.g. SIM, it is subject to the same assurance as noted below.</li> <li>Where data is not derived from performance commitments, second line assurance is undertaken.</li> </ul>
<b>Charges scheme including access prices</b>	We have established processes to ensure that our charges scheme is consistent with charging principles and our revenue caps.	<ul style="list-style-type: none"> <li>External third line assurance of tariffs model and application.</li> <li>External third line review for 'margin squeeze' and methodology of charging inputs and principles.</li> </ul>

	We are also conscious of customers' perception around Severn Trent Plc's acquisition of DVW and how this may be perceived to affect price.	<ul style="list-style-type: none"> <li>• Third line assurance undertaken by Internal Audit of data inputs.</li> <li>• Engagement with customer representative groups such as CCWater and our Water Forum to ensure our charges scheme is transparent in how it has been calculated.</li> </ul>
<b>Information provided to the Drinking Water Inspectorate</b>	We report both formally and informally on a regular basis to the Drinking Water Inspectorate (DWI). Similar to our CCWater reporting, some of the information is already part of our PCs such as number of water quality complaints and drinking water compliance.	<ul style="list-style-type: none"> <li>• Where data is derived from performance commitments e.g. it is subject to the same assurance as noted below.</li> <li>• Where data is not derived from performance commitments, second line assurance is undertaken.</li> </ul>
<b>Licence To Operate</b>	Our annual review of statutory obligations and risks through our internal risk assessment framework as described in section 2.2.3	<ul style="list-style-type: none"> <li>• Areas of medium high and high risk are reviewed by our Board for inclusion in our annual Compliance statement</li> <li>• Accountable and responsible managers create action plans to drive improvements in areas where required.</li> </ul>
<b>Performance commitments and ODIs</b>	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. 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.	<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>
<b>Convergence measures (PCs and ODIs)</b>	As requested by Ofwat we have commenced shadow reporting on a number of measures that will be implemented in the 2020-2025 period. These measures are undergoing to the same level of assurance as our current PCs and ODIs	<ul style="list-style-type: none"> <li>• See Performance Commitments and ODIs above.</li> </ul>
<b>PR19</b>	This year PR19 becomes a business critical activity as it determines our business plan for the next AMP period (2020-2025). The board will be required to sign a statement confirming at our PR19 submission has been produced at a good level of quality.	<ul style="list-style-type: none"> <li>• Comprehensive PR19 Assurance framework designed by Compliance and PwC. This has been approved by our Audit Committee.</li> <li>• All areas will be subject to a minimum of second line assurance including reviews of data, methodology and processes.</li> <li>• Higher risk or high materiality areas will be subject to additional third line assurance (via a mixture of external assurers, specialist groups and Internal Audit)</li> </ul>



<b>Statutory and regulatory accounts</b>	The continuation of established processes to audit our accounts in line with statutory and regulatory requirements.	<ul style="list-style-type: none"> <li>External third line audit of accounts in line with agreed procedures.</li> </ul>
<b>Operational Performance Standards (OPS) and Market Performance Standards (MPS)</b>	On a quarterly basis, 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.	<ul style="list-style-type: none"> <li>Implementation of third line review by Internal Audit of outputs</li> </ul>
<b>Water resources management plan (WRMP)</b>	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 and evidence from independent reviews.	<ul style="list-style-type: none"> <li>External third line assurance of data, methodologies and the presentation of information</li> <li>Independent challenge from external stakeholders - Natural Resources Wales, Environment Agency</li> </ul>
<b>Market Information (Water Resources)</b>	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.	<ul style="list-style-type: none"> <li>External third line assurance of data, methodologies and the presentation of information</li> </ul>

#### **4.1 Any questions?**

If you have any questions about our assurance plans, you can contact us at:

[futureconsultation@severntrent.co.uk](mailto:futureconsultation@severntrent.co.uk)

Or by post to:  
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