



# **Risks, strengths and weaknesses and our proposed assurance plan for 2020-21**

## **Performance and information you can trust**

This document provides an overview of the processes we have followed, and will continue to follow, to assure you that the information we publish is accurate and a true reflection of our performance

SES Water  
London Road  
Redhill  
Surrey RH1 1LJ

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[www.seswater.co.uk](http://www.seswater.co.uk)

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## Introduction

### What we do

We supply around 160 million litres of clean water every day to more than 735,000 people in parts of Surrey, Kent, West Sussex and south London.

We are committed to delivering the level of service our customers expect every day of the year by providing:

- high quality water all day, every day
- a service at a fair price and offering help when its needed
- a service that is fit now and for the future
- excellent service, whenever and however its needed; and
- supporting a thriving environment, we can all rely upon.

### Regulation and the Company Monitoring Framework

The majority of our customers cannot choose who they receive their water from.<sup>1</sup> We are regulated to make sure we deliver the service our customers expect for a fair price. Ofwat, the economic regulator for the water sector, makes sure we do this by monitoring whether we are delivering the promises we made to our customers.

One of the tools Ofwat use to do this is the Company Monitoring Framework.<sup>2</sup> The Company Monitoring Framework rightly places with us the responsibility for producing high quality information that is accurate and clear. The aim of this framework is to ensure that the information the sector produces:

- is of a high quality and transparent
- has been appropriately assured and can therefore be relied on
- demonstrates that we are listening to our customers.

The framework requires us to explain our assurance activity in a structured way through a number of publications each year:

- A Risks, Strengths and Weaknesses Statement which describes the process followed in choosing which areas to target for assurance in each year
- An Assurance Plan which explains our approach to assurance and the activity planned for the targeted areas

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<sup>1</sup> Since April 2017 businesses have been able to choose their retailer, but the water and its transportation to the customer tap remains our responsibility.

<sup>2</sup> For more information see Ofwat's [website](#).

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- Confirmation from the Board that the company has complied with all relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage the risks it faces
  - A summary of the assurance activity carried out on the targeted areas, including any actions taken as a result of it.

Our independent Customer Scrutiny Panel, in their role as a champion for customers, is also an integral part of our approach to transparency, clarity of communication and assurance. It brings together stakeholders that reflect the interests and expectations of our customers such as CCW and the Environment Agency. It meets at least quarterly to review performance against the commitments we have made to our customers and challenges the actions being taken to address any below expectation performance. In addition, the panel provides constructive feedback on our engagement with customers and the routes we use to communicate, including reviewing the layout of customer bills.

This document represents our Risks, Strengths and Weaknesses Statement and draft Assurance Plan for 2020/21.

## Shaping our assurance plan

This is our sixth annual Company Monitoring Framework report.

While we received no direct feedback from customers on either our Risks, Strengths and Weaknesses Statement or Assurance Plan in prior year, we continue to focus on our ongoing engagement with customers to understand that the information we send them regarding charges is transparent and understandable.

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## Performance and information, you can trust

Our communities are vital to our operations. We work to ensure that our communities and customers' have trust and confidence in the service we provide. Everyone will have their own view on what actions damage trust. It could be a slow response to a water supply issue, lack of timely updates, or receiving inaccurate or unclear information.

These factors cut across the services we deliver and we have made commitments to our customers to improve performance across the business.

Our draft Assurance plan primarily addresses damage to trust and confidence that could happen if we produce inaccurate or unclear information and what mitigations we put in place to reduce this risk.

## Transparency, trust and confidence

We produce a range of information – from our annual report through advice leaflets to data we submit to our regulators. We have procedures in place for making sure that the information we provide is accurate, clear and relevant for the audience it is produced for.

We have continued over the last year to enhance the transparency of our operations and make sure our activity is targeted at what matters most to our customers. Actions we have taken include:

- Continuing our 'Talk on Water' engagement programme to get a deeper understanding of our customers' expectations for current and future service delivery through interactive face-to-face sessions, online surveys, consultation documents and the creation of our first online community
- Holding virtual director roundtables to give all employees a chance, in small groups, to feedback their ideas or concerns and get a better understanding of the company's current performance and future ambition
- Producing shorter and easy to read versions of technical documents like our Business Plan for 2020 to 2025 and our Water Resources Management Plan
- A short customer focused online version of our Annual Performance Report with real-life examples of our actions and our customers' views on the service we provide
- Publishing 'Keeping it clear', a guide to how we are owned, run and financed.
- Publishing our Board minutes on our website

This activity has given us increased confidence that, if we deliver on the commitments we have made, the services we provide will continue to meet the expectations of our customers and communities.

## Assessing risk

When we publish information about our performance or our finances, we follow an assurance process which varies depending on our assessment of risk. The assessment of risk takes into

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account the probability of inaccuracy and the impact that any inaccuracy may have on individuals' 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.<sup>3</sup>

Risks are routinely managed through our corporate approach to risk management which is highlighted on pages 42 to 47 of our latest Annual Report. This approach includes a risk reporting tool with actions routinely evaluated by management so that trends or common themes can be escalated. We have drawn on this corporate approach to risk assessment and tailored it to the requirements of the Company Monitoring Framework.

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 this draft 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.

For this report we have not individually assessed the risk of delivering our performance commitments which was reported in our Annual Performance Report in July 2020. Delivery risk is monitored by management and the Board on a monthly basis 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).<sup>4</sup>

## Targeted areas

Based on the risk assessment described above we are targeting two areas this year:

- Charging information and customer bills – a record of the charges that apply from April each year and how this translates to individual charges to our customers via their bills
- Our annual performance report – this is the main way we demonstrate to our customers our performance against the commitments we have made to them.

If mitigations were not in place production of inaccurate information in these areas would be most likely and have more impact on our customers' and stakeholders' confidence in us. Other information, such as customer advice leaflets, has a lower likelihood of inaccuracy as they are less focused on data but may have an equally high impact on trust and confidence.

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<sup>3</sup> See chapter 7 of our [Business Plan 2020 to 2025](#).

<sup>4</sup> The Customer Scrutiny Panel has a dedicated page on our [website](#).

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The targeted areas are all areas where our existing approach has worked to minimise risk but were we not to apply our approach to assurance could quickly become a weakness.

We continue to apply our assurance processes to all the information we put in the public domain including independent external assurance where appropriate. We have focused on these three areas this year principally due to the reputational damage that would be caused if they were found to be inaccurate.

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## Our approach to assurance

We take a proportionate approach to assurance of the information we share based around the framework we describe in this chapter. This approach complements the application of the Company's quality management system which is accredited as meeting the ISO 9001 International Standard. 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.

The framework has two purposes:



These purposes are met through the audit and assurance framework we put in place which aims to put in place appropriate systems and processes and to conduct regular review and sign-off procedures.

## Governance

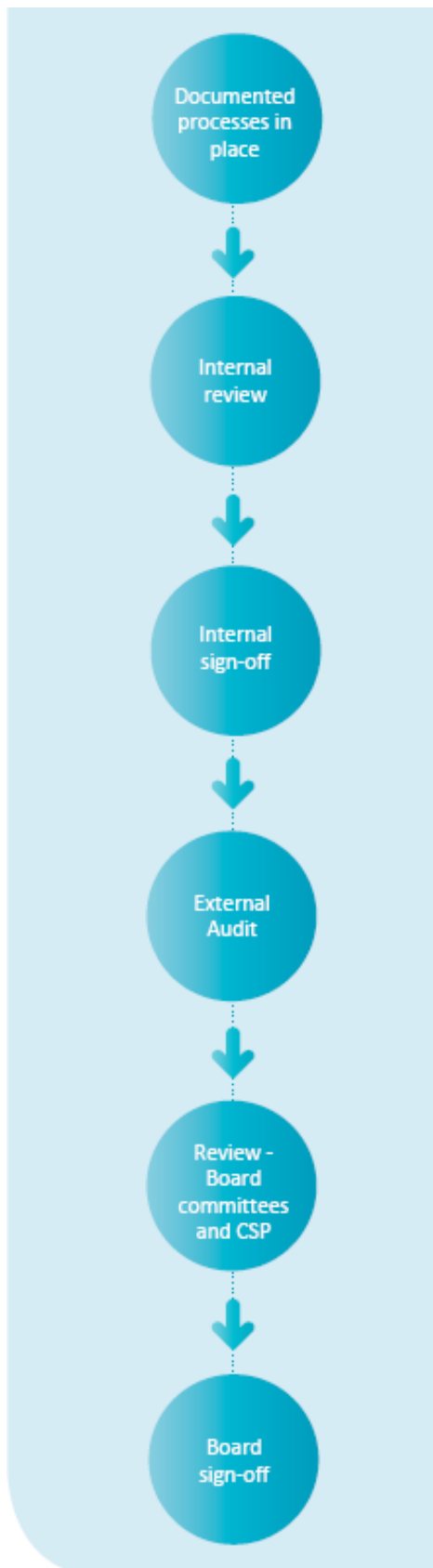
The company's Board is ultimately accountable for the quality and transparency of the information shared. The Board has consistently relied on the framework explained below over a number of years when it is signing-off the publication or submission of information to the sector's regulators and our customers.

## Application of framework

Not all the assurance steps summarised in this chapter are applied equally to all information that is shared. We take a risk-based approach to deciding the assurance steps required to meet the objective of ensuring information is accurate. In the following chapter we explain how we have applied these steps to the targeted areas.



## Audit and assurance framework



**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 (CSP):** These groups scrutinise and challenge the robustness and accuracy of the information. The Audit Committee also approves the overall plan for assurance.

**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.

## Assurance plan for targeted areas

After identifying areas to target through the risks, strengths and weaknesses exercise the Company Monitoring Framework has now been updated and we have agreed an assurance plan for each of the targeted areas. Our updated Draft Assurance Plan is provided in this chapter.

### Summary of draft assurance plans for targeted areas

We are targeting two areas for assurance this year as noted from our risk assessment:

- Charging information and customer bills
- Our annual performance report

### Annual charging information and customer bills

Every February we publish a Household Charges Scheme which outlines the charges for water that will be reflected in a customer's bill from April each year. We also publish a Wholesale Charges Schedule each January that outlines the wholesale charges that retailers will pay for the abstraction, treatment and transportation of water to their customers' properties.

Household customers' bills then show what they will actually pay. Some customers will receive only one bill in February or March. Others will receive bills throughout the year. The bill includes information and an explanation of the charges.

In Table 1 we explain how each assurance step is applied to the information contained in the charging publications.

**Table 1: Assurance steps for the charging publications**

Assurance step	How it applies to...charging publications
Documented processes in place	<ul style="list-style-type: none"> <li>• A process document outlines the sources of data used in the charging model and an explanation of any assumptions needed as an input to the model.</li> <li>• Data is predominantly from our billing system. Forecasts, for example for the number of customers on each tariff, are developed using evidence-based assumptions.</li> <li>• The process document explains how data from our billing system is used as the basis for setting charges. The document explains the assumptions applied in forecasting the key inputs – customer numbers and consumption.</li> <li>• The calculation of the charges uses an internally developed and externally assured modelling approach.</li> <li>• A two-stage check and review process are applied when transferring the calculated charges to the billing systems.</li> </ul>
Internal review	<ul style="list-style-type: none"> <li>• Responsible Senior Managers or Directors review inputs used during and on completion of the process.</li> </ul>
Internal sign-off	<ul style="list-style-type: none"> <li>• Sign-off is provided by the CFO on the basis that the steps before have been followed.</li> </ul>
External audit	<ul style="list-style-type: none"> <li>• An independent third-party organisation carries out assurance based on agreed procedures. This process focuses on checking that the calculations used to produce charges are accurate and aligned</li> </ul>

Assurance step	How it applies to...charging publications
	with the processes described and the regulatory requirements. In addition, this year we will be performing additional assurance procedures over the charges model itself.
Review	<ul style="list-style-type: none"> <li>The Board reviews the proposed charges, bill impacts and customer messages at two stages. Stage one in September before indicative wholesale charges are published and stage two in November, when all inputs are finalised except inflation (which is not known until mid-December).</li> <li>Draft approval is delegated to the Chairman of the Audit Committee and the CFO.</li> </ul>
Board sign-off	<ul style="list-style-type: none"> <li>The Chairman of the Audit Committee and CFO approve the draft charges.</li> <li>Assurance statements are published on our website alongside the indicative charging scheme and wholesale charges schedule.</li> </ul>

## Annual Performance Report

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. Table 2 explains the different sections.

**Table 2: Sections of the Annual Performance Report**

Section	Summary of content
Section 1: regulatory financial reporting	<ul style="list-style-type: none"> <li>Provides key financial statements – income, financial position, cash flows and net debt analysis.</li> <li>Provides reconciliations to the statutory accounts.</li> </ul>
Section 2: price review and other segmental reporting	<ul style="list-style-type: none"> <li>Provides a breakdown of key metrics, e.g. revenue and expenditure by business unit and type of expenditure.</li> <li>Provides data on the number of customers billed.</li> <li>Provides a summary of how actual revenue has varied from what was allowed under the wholesale price control.</li> </ul>
Section 3: performance summary	<ul style="list-style-type: none"> <li>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.</li> <li>Our Annual Report also includes explanations of performance.</li> </ul>
Section 4: additional regulatory information	<ul style="list-style-type: none"> <li>Contains a range of financial, including key financial metrics, and non-financial information including data on our assets.</li> </ul>

In Tables 3 to 6 we explain the assurance steps that apply to each section of the Annual Performance Report.

**Table 3: Assurance steps for regulatory financial reporting**

Assurance step	How it applies to...regulatory financial reporting
Documented processes in place	<ul style="list-style-type: none"> <li>The Financial Controller produces the data required by extracting relevant information on expenditure and income from our general ledger accounting system and billing system.</li> <li>The Financial Controller produces the audit trail and methodologies for review by the independent auditor.</li> </ul>
Internal review	<ul style="list-style-type: none"> <li>The responsible team assesses the accuracy of the data through establishing appropriate checking procedures.</li> <li>The CFO reviews the overall governance of the well-established systems and processes used to compile the published information.</li> </ul>
Internal sign-off	<ul style="list-style-type: none"> <li>The CFO signs-off the reported figures on the basis that the above steps were followed.</li> </ul>
External audit	<ul style="list-style-type: none"> <li>An independent financial auditor carries out agreed upon procedures on the basis of the requirements for the audit specified by Ofwat.</li> <li>A report from the financial auditor (the 'Independent Auditor's Report to the Water Services Regulation Authority') is published in our Annual Report.</li> </ul>
Review	<ul style="list-style-type: none"> <li>The Audit Committee reviews the output of the independent audits and meets with the auditor.</li> </ul>
Board sign-off	<ul style="list-style-type: none"> <li>The Board approve the publication of the Annual Report, on the basis that the assurance steps above have been followed, that includes Annual Performance Report tables.</li> </ul>

**Table 4: Assurance steps for price review and other segmental reporting**

Assurance step	How it applies to... price review and other segmental reporting
Documented processes in place	<ul style="list-style-type: none"> <li>The Financial Controller produces the data required by extracting relevant information on expenditure and income from our general ledger accounting system and billing system.</li> <li>The Financial Controller produces the audit trail and methodologies for review by the independent auditor.</li> </ul>
Internal review	<ul style="list-style-type: none"> <li>The responsible team assesses the accuracy of the data through establishing appropriate checking procedures.</li> <li>The CFO reviews the overall governance of the well-established systems and processes used to compile the published information.</li> </ul>
Internal sign-off	<ul style="list-style-type: none"> <li>The CFO signs-off the reported figures on the basis that the above steps were followed.</li> </ul>
External audit	<ul style="list-style-type: none"> <li>An independent financial auditor carries out agreed upon procedures on the basis of the requirements for the audit specified by Ofwat.</li> <li>A report from the financial auditor (the 'Independent Auditor's Report to the Water Services Regulation Authority') is published in our Annual Report.</li> </ul>
Review	<ul style="list-style-type: none"> <li>The Audit Committee reviews the output of the independent audits and meets with the auditor.</li> </ul>
Board sign-off	<ul style="list-style-type: none"> <li>The Board approve the publication of the Annual Report, on the basis that the assurance steps above have been followed, that includes Annual Performance Report tables.</li> </ul>

**Table 5: Assurance steps for performance summary**

Assurance step	How it applies to... performance summary
Documented processes in place	<ul style="list-style-type: none"> <li>Each commitment has its own process document that explains the data sources; data processing and calculations applied; key</li> </ul>

Assurance step	How it applies to... performance summary
	<p>assumptions required; risks identified and measures in place to mitigate these; and the checks and controls in place.</p> <ul style="list-style-type: none"> <li>The confidence grade, based on the system established by Ofwat, is also recorded.</li> </ul>
Internal review	<ul style="list-style-type: none"> <li>A Senior Manager, Director or, for some information, the Economic Regulation Manager or Compliance and Assurance Manager, reviews the process followed and the resulting outcome with the data owner.</li> </ul>
Internal sign-off	<ul style="list-style-type: none"> <li>The Senior Manager or Director responsible signs-off the reported performance on the basis that the above steps were followed.</li> </ul>
External audit	<ul style="list-style-type: none"> <li>Independent third-party technical assurance is provided for all reported performance information. The assurer reviews the process document and, where applicable, confirms that regulatory guidance was followed.</li> <li>The technical assurer reports back for each data item they review and provides an assessment of: the business process and method statement, the integrity of the data processing, the accuracy of the calculations and the governance in place.</li> </ul>
Review	<ul style="list-style-type: none"> <li>The Board reviews performance on an ongoing monthly basis and the Customer Scrutiny Panel reviews performance quarterly.</li> <li>The Audit Committee reviews the output of the independent assurance and meets with the technical assurer.</li> </ul>
Board sign-off	<ul style="list-style-type: none"> <li>The Board approve the publication of the Annual Report, on the basis that the assurance steps above have been followed, that includes Annual Performance Report tables.</li> </ul>

**Table 6: Assurance steps for additional regulatory information**

Assurance step	How it applies to... additional regulatory information
Documented processes in place	<ul style="list-style-type: none"> <li>Financial information is processed by the Financial Controller or Economic Regulation Manager as per the process described in this section of Table 4.</li> <li>Non-financial information is processed by the relevant manager in the business and documented as per the process described in this section of Table 5.</li> </ul>
Internal review	<ul style="list-style-type: none"> <li>The responsible team assesses the accuracy of the data through establishing appropriate checking procedures.</li> <li>The CFO reviews the overall governance and methodologies used to derive the financial data.</li> <li>For non-financial information a Senior Manager, Director or, for some information, the Economic Regulation Manager or Compliance and Assurance Manager, reviews the process followed and the resulting outcome with the data owner.</li> </ul>
Internal sign-off	<ul style="list-style-type: none"> <li>The relevant Senior Manager signs-off the reported figures on the basis that the above steps were followed.</li> </ul>
External audit	<ul style="list-style-type: none"> <li>Independent third-party technical assurance if provided for some of the non-financial data. The assurer reviews the process document and, where applicable, confirms that regulatory guidance was followed.</li> </ul>
Review	<ul style="list-style-type: none"> <li>The Audit Committee reviews the relevant output of the independent assurance and meets with the technical assurer.</li> <li>For areas not covered by independent assurance the Audit Committee relies upon the internal review and sign-off process.</li> </ul>

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Assurance step	How it applies to... additional regulatory information
Board sign-off	<ul style="list-style-type: none"><li data-bbox="539 315 1401 398">• The Board approve the publication of the Annual Report and additional data tables on the basis that the assurance steps above have been followed.</li></ul>

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## **What we will do next**

This statement on risks, strengths and weaknesses and draft Assurance Plan covers the areas that we have targeted this year in relation to information we share about our performance.

We will continue to monitor risks, strengths and weaknesses on the targeted areas in this report and will implement the agreed draft assurance plan activity for this year.