

TA 7.2 - Corporate Risks - Ethical Business Practice and Modern Compliance Framework Technical Annex

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Version 1.0

Navigation: TA 7.2 – Modern Compliance Framework and Ethical business practice

Purpose: This annex provides greater detail of our work to develop and embed a Modern Compliance Framework supported by Ethical Business Practices. This is to support our wider cultural change programmes, including Water First and Environment+, and improve compliance across our water and wastewater operations.

The table below summarises the Ofwat tests that are addressed by the evidence presented in this Annex.

Table: Relevant Ofwat tests

Ref	Ofwat test	Comment
Primary Focus Areas		
CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance processes and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	<ul style="list-style-type: none"> Has the company demonstrated that they have the necessary capability, systems and processes? <p>Our Modern Compliance Framework, supported by Ethical Business Practices, is designed to embed a compliance culture across our organisation – starting with a recognition that our performance has not always met our regulators expectations.</p> <p>We have worked with the DWI to develop our programme, and it is being shared across the industry as an example of good practice.</p> <p>Our Board has been, and remains, fully involved and committed to building a values-based culture – improving compliance and data reporting across all aspects of our business.</p>

Introduction

Our Business Plan has been prepared while we are under investigation by the Environment Agency (EA) and Ofwat, and under scrutiny by the Drinking Water Inspectorate (DWI) for a number of historical issues. Our investigations and assessments show these are related to aspects of our organisational structure, processes, culture and behaviours that have not always led to the right outcomes for customers, regulators, stakeholders and the environment. In this context, the Board has made, and continues to oversee, wider changes (both cultural and structural) to governance and assurance processes to make sustained improvements. This includes improvements to the quality and accuracy of all data, not just compliance.

We believe a strong, ethical culture helps drives the right results for customers, communities and the environment. We recognise it is the right thing to do for all and to improve the confidence our stakeholders and regulators can have in us. As set out by our Chairman in the 2017/18 annual report we *'...are introducing measures to ensure we operate within a modern, transparent and ethical compliance framework'*.¹

Furthermore, it is consistent with the approach set out in the June 2018 Financial Reporting Council consultation on 'The Wates Corporate Governance Principles for Large Private Companies'. On values and culture, it advises:

'... the company's values (should) support appropriate behaviours and practices within the organisation. This includes discouraging misconduct and unethical practices and promoting behaviour that balances short-term needs with long-term aspirations.'

A healthy company culture is critical to the company's competitive advantage, and vital to the creation and protection of long-term value. A board is responsible for fostering and maintaining the company culture.'

This approach is consistent with Ofwat's principles that represent the minimum standards for board leadership, transparency and governance for companies operating in the water sector.

Working with independent experts in the field of Ethical Business Practice, we are in the process of establishing and embedding ethically based business practices across our business.

Ethical Business Practice is a values-based approach to performance and compliance and will support how we deliver an effective relationship with our customers, stakeholders and regulators, resulting in better outcomes for all.

Our Modern Compliance Framework

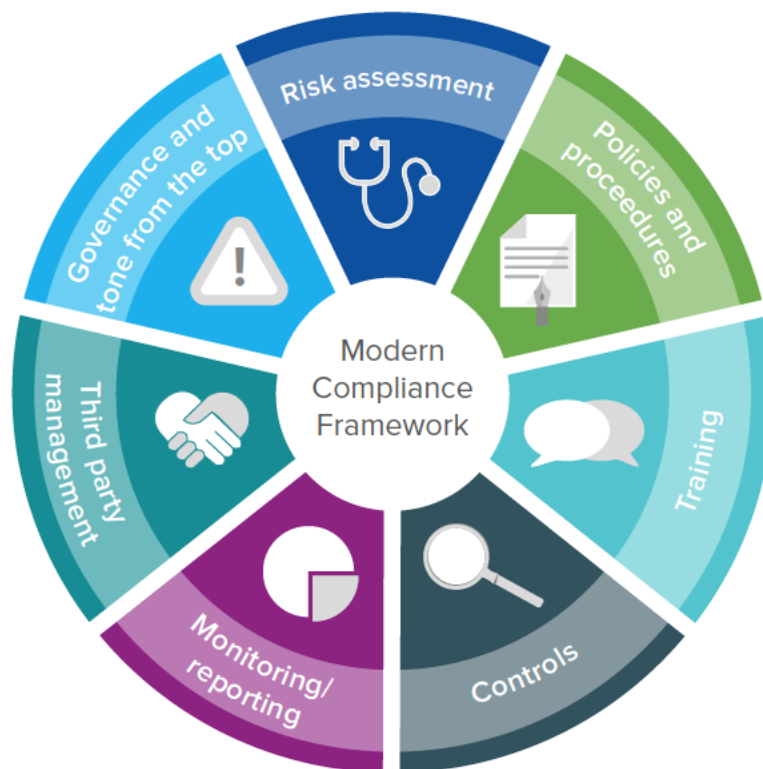
We have designed a Modern Compliance Framework, taking best practice from the US Department of Justice; UK Ministry of Justice and the UK Bribery Act. We worked with experts from PwC, who supported the design, to ensure it meets best practice. Our framework is published in our Data Assurance Summary, part of our 2017/18 Annual Report.²

¹ https://annualreport.southernwater.co.uk/media/1798/annualreport_2017_18_chairman.pdf

² https://annualreport.southernwater.co.uk/media/1796/data_assurance_summary_2017-18.pdf

Our Modern Compliance Framework (see Figure 1) is the foundation of an active programme of compliance capability improvements. Many aspects of this programme will be related to improvements to our processes and systems, however it will be underpinned by changes to our leadership, governance and culture driven by our Ethical Business Practice programme.

Fig 1. Modern Compliance Framework



We have completed a thorough gap analysis and identified a number of improvements under each element of our Modern Compliance Framework. Our Risk and Controls Framework is being reviewed and updated and we are in the process of procuring a new risk management tool. This will enable us to have a better visibility of all compliance risks and allow us more robust control management, escalation and intervention.

To allow us to manage risks linked with third parties, such as supply chain partners, as described in Chapter 7 – Delivering Resilience in the Round, we will be reviewing our Third Party Framework to ensure processes are reviewed and in place for due diligence, on-boarding, ongoing management and termination.

Our policies and procedures will be rationalised, reviewed and updated following the refresh of our values and a launch of the new Code of Ethics. We will further develop our company-wide training needs analysis and design and deliver a tailored Ethics and Compliance Training Plan, which we will refresh on an annual basis.

We are committed to strengthening our governance and leadership by developing new values, embedding Ethical Business Practice and assigning clear accountability and responsibility for our regulatory requirements, processes and compliance risks. At present, our approach to compliance and sign-off of regulatory reporting is not connected to the level we require, with different approaches

applied in different circumstances. Work is underway to ensure there is a single harmonised approach which, for example, assures the appropriate level of sign-off (including Board where necessary) is obtained for all regulatory submissions. In addition, we have already implemented regular formal reporting arrangements to provide the Executive Leadership Team (ELT) and the Board with visibility of compliance performance and maturity.

How will we achieve it?

By embedding our Modern Compliance Framework, supported by the principles of Ethical Business Practice, we will ensure we change our culture to encompass a belief that doing the right thing is everyone's responsibility. This is a multi-faceted programme that interacts with many other aspects of our wider transformation programme. We have set out some of the core aspects of our work below.

Board Sponsorship



Our Board will continue to promote and develop its vision of the company's purpose and monitor and assess the companies' values and culture. This will help to ensure the behaviours demonstrated within the company are consistent with its purpose.

In order to provide focus and direction, the Board has appointed Mike Putnam, one of the Independent Non-Executive Directors, to support and champion our ethics and values transformation within the Company. Our full Board will have visibility of this programme through our annual reporting and assurance process.

Values and Code of Ethics refresh



We believe a values-based approach to compliance is more engaging and inspirational than traditional compliance approaches, and this will help ensure compliance becomes ingrained in the way we do business.

We are determining the best approach to refresh our values and we are committed to complete this exercise by the end of 2018. We will review what we have been able to achieve at the end of 2019.

The refresh of our Code of Ethics is underway and expected to be completed by mid-2019. It will be aligned with our vision, company purpose and values and to make it an engaging, clear and succinct document that acts as an enabler to ethical behaviour.

Our new values will be approved by the ELT and the Board and they will assist us in maintaining our Code of Ethics as a living, relevant document and allow us to target training to drive effective change.

We will also develop methodologies to measure how our values are embedded in everyday practice within the company to determine whether any elements of our Code of Ethics need reviewing during AMP7.

Training



We will have a structured programme of training and communication for all employees which will demonstrate what is expected of them, how to achieve this and where additional support can be found. The training will link to our refreshed values and new Code of Ethics and will be rolled out in a programme of work from late 2018 and through 2019.

In addition, we will improve our decision-making skills and support our employees with training on ethical dilemmas. The training will be targeted, to ensure areas that need the most support in making consistently ethical decisions receive it as a priority. To support this overall improvement, we will train a network of employee 'Ethics Ambassadors' to assist in embedding values and to support engagement, communications and training.

Risk

Risk Governance

To ensure all appropriate risks are managed in one place and there is a robust process for reviewing and evidencing controls monitoring, we will review and enhance our risk governance and tools. We are in the process of scoping and procuring a new risk management tool which will allow us to move all such risks into one platform, link the risks with obligations, processes and controls to enable us to evidence compliance.

Register of Obligations

We will further develop and refine our Register of Obligations to collate all technical and UK PLC regulatory requirements, guidance and codes of practice into one tool. This will assist our employees' understanding of obligations impacting their areas, as well as drive development of tailored compliance training covering specific risk areas. At present, this information is dispersed across our business. Pending completion of this exercise, it is being supplemented by cross-departmental collaboration and knowledge sharing within the company.

So far, we have succeeded in moving all our obligations into one register, we are validating this register for completeness and the next phase will be to map the obligations against our business and operational processes. This is expected to be completed by the end of Q1 2019.

Controls

Process mapping

We have identified significant historical failings in our end-to-end processes. For example, some data reporting processes having multiple instances of manual intervention and single points of failure between capturing, recording and reporting data, often with inadequate oversight. We have already started and will complete all our end-to-end process mapping, including our regulatory reporting processes, so we can reliably track data from the point at which it is first recorded, to the point at which it is ultimately submitted to a regulator. This on-going effort is improving the accountability and ownership of processes, driving the review and improvement of risks (including those around regulatory data accuracy), helping increase the effectiveness and robustness of controls and identify efficiency and quality improvements. The core work of this end to end process mapping will be completed by mid-2020. At present, the programme is prioritising key elements of our reporting to the DWI and the EA.

Data Governance

Data governance and assurance is being implemented and embedded in our operational processes. This includes the introduction of a Data Governance Framework to understand and manage our data risks and issues. In addition, the identification, ownership and stewardship principles being implemented in our data processes will help provide accountability and assure accuracy and compliance. A programme of work on data lineage for reporting is supporting our end-to-end process mapping and is expected to be embedded by mid-2020.

Monitoring and Reporting



Compliance Management Reporting

We will further develop compliance management reporting. This will provide visibility of compliance maturity across all levels of management to allow them to make appropriate interventions and escalate risks and decisions as required. We will carry out compliance maturity assessments on a quarterly basis. This analysis will ensure we have a view of progress in strengthening our reporting processes. The assessments will have particular focus on external assurance (outcomes of expert third party assurance) and information management (how we report to our regulators). We currently report our compliance maturity to our Board on a quarterly basis.

Statement of Compliance

We have rolled out incremental improvements to our Statement of Compliance (SoC) and will be enhancing it further to ensure it is aligned to the new Code of Ethics. By mid-2019 we will have implemented changes that will increase the level of second line assurance over information provided within SoC. The SoC enables consistent reporting across the business, helps us to better understand internal compliance risks, and will allow us to direct improvement and assurance activities to high risk areas of concern.

External Assurance



We will engage an expert independent external assurer who will report to our Board on our progress with, and the effectiveness of the culture change element of our wider transformation programme, including:

- Actions to refresh our values and Code of Ethics and deliver employee training
- Employee Engagement activities
- Speak Up initiative

We will make our findings available to our stakeholders and publish them as part of our annual reporting process (in parallel to the publication of our annual reporting in July each year).