

UUW42

# Approach to corporate resilience

October 2023

Chapter 7 supplementary document

This document provides information about the structures and governance that provide corporate resilience. It demonstrates the extent to which Governance, Accountability and Assurance processes throughout United Utilities provide resilience against multiple threats and provide the foundation for financial and operational resilience.

## Contents

<b>1.</b>	<b>Approach to corporate resilience</b> .....	<b>3</b>
1.1	Key Messages .....	3
1.2	Structure .....	3
1.3	Overview .....	3
<b>2.</b>	<b>Governance</b> .....	<b>5</b>
2.1	Our obligations .....	5
2.2	Meeting our obligations through our purpose, strategic priorities and culture .....	6
2.3	Meeting our obligations through our governance structure .....	7
2.4	Responding to our obligations .....	11
2.5	Meeting our obligations through integrated processes .....	13
<b>3.</b>	<b>Accountability</b> .....	<b>16</b>
3.2	Accountability through our business model .....	16
3.3	Accountability through the organisational structure .....	17
3.4	Accountability through incident management processes .....	18
3.5	Accountability through the Risk and Resilience Framework .....	19
<b>4.</b>	<b>Assurance</b> .....	<b>26</b>
4.2	Assurance Framework .....	26
4.3	The Board delegate responsibility for assurance activity to the Audit Committee (Principal Board Committee). .....	28
4.4	Three lines of Assurance .....	29
4.5	Assurance through the Whistleblowing framework .....	31

# 1. Approach to corporate resilience

## 1.1 Key Messages

- **We have mature and comprehensive governance, accountability and assurance processes:** These processes are integrated and transcend across and throughout the various organisational layers, demonstrating the capacity and capability to anticipate, avoid, cope and /or recover from all types of disruption or variability.
- **We operate a multi-layered approach to corporate resilience:** This enables us to recognise our obligations, key stakeholders (notably customers and the environment), consider multiple hazards from both the internal and external environment and therefore be proactive in its resilience across short, medium and long term horizons.
- **Corporate resilience provides a robust approach in the face of change:** Horizon scanning for new and emerging circumstances, continual improvement and lessons learnt are constantly employed, which combined with modelling /forecasting keeps us abreast of ever changing, complex and often sophisticated threats such as Climate change, Demographic change and Cybercrime. Our purpose, Strategic Priorities and values drive the company to be resilient, in a consistent, innovative and efficient ways.

## 1.2 Structure

1.2.1 The chapter is structured as follows:

- **Section 2** provides an overview of our approach to corporate resilience.
- **Section 3** sets out our governance of corporate risk.
- **Section 4** summarises how our business model, company business plans, organisational structure and corporate risk and resilience framework align.
- **Section 5** we summarise how we collect, monitor and validate the effectiveness of governance, risk and controls, operations, accuracy of information, and provide advice on improvements.

## 1.3 Overview

1.3.1 Corporate resilience, as defined in Ofwat’s “Resilience in the Round” guidance, is the ability of an organisation’s **governance, accountability and assurance** processes to help avoid, cope with and recover from, disruption of all types; and to anticipate trends and variability in its business operations.

Figure 1: Integrated Governance, Accountability and Assurance processes



Source: UUW corporate risk framework

- 1.3.2 The focus of this supplementary document is to support the articulation of United Utilities' Corporate Resilience published in Chapter 7 of the main document by outlining how the key elements of the company's governance, accountability and assurance processes provide resilience.
- 1.3.3 Table 1 below highlights the key elements of Governance, Accountability and Assurance and their capacity and capability to anticipate, avoid, cope and recover from disruption or variability.

**Table 1: Resilience through Governance, Accountability, Assurance**

Governance		Accountability		Assurance	
Element of governance	Relationship with disruption	Element of accountability	Relationship with disruption	Element of assurance	Relationship with disruption
Understanding our obligations	Avoid	Business model and company business plan	Anticipate Avoid Cope	Three lines of assurance framework	Avoid
Purpose, strategic priorities and values	Avoid Cope	Organisational structure	Anticipate Avoid Cope Recover	Internal control manual	Avoid Recover
Principal board and management committees	Anticipate Avoid Cope	Risk & resilience framework	Anticipate Avoid Cope Recover	Accreditation of international standards	Avoid Cope
Strategic appetite and tolerance	Avoid Cope	Incident and management	Cope Recover	Maturity assessments	Anticipate Avoid
		Key performance indicators	Anticipate Avoid	Going concern and long-term viability statements	Cope Recover
				GARB and Audit Committee	Avoid Cope Recover

Source: UUW corporate risk framework

- 1.3.4 The remainder of this supplementary document examines, in turn, our governance, accountability and assurance processes.

## 2. Governance

In this section, we demonstrate our understanding of our supply, service and legal obligations and how we meet them through a mature governance structure, established purpose, strategic priorities and core values, and developed risk appetite.

### 2.1 Our obligations

2.1.1 In Chapter 7 we highlighted the Water Industry Act 1991 as the primary source of many of our fundamental statutory obligations, including:

- Securing the long-term resilience of water supply and sewerage systems;
- Meeting the long term service needs for consumers;
- Promoting appropriate long-term planning and investment;
- Managing water resources in sustainable ways; and,
- Increasing efficiency in the supply and demand of water.

2.1.2 We also highlighted how our “Instrument of Appointment” – more commonly referred to as our licence - not only codifies some specific applications of the Water Industry Act 1991, but also requires us to meet the requirements imposed under any statutory and regulatory obligations as necessary to fully discharge our duties as a water and sewerage undertaker. These can include, but are not limited to, consideration of issues related to:

- Competition Act 1998;
- Health and Safety at Work Act 1974;
- Environment Act 2021;
- Data Protection Act 2018;
- Companies Act 2006; and,
- Employment Act 2023.

2.1.3 The licence is also an instrument through which various specific regulatory requirements are applied by Ofwat. These include specific requirements in relation to charges, financial resilience and ring fencing, and other aspects of the regulatory regime that companies and their Boards must comply with. Another key licence requirement is that companies comply with Ofwat’s Board Leadership, Transparency and Governance principles. Many of these principles are consistent with and aligned to the UK Corporate Governance Code which, as a company listed on the London stock exchange, United Utilities must either comply with, or explain non-compliance. Examples of these obligations include:

- That the company’s strategy, values and culture are consistent with its purpose;
- Provide an explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;
- Promote of long term sustainable success; and,
- Contribute to the wider society.

2.1.4 The Company Secretariat, Legal teams and Strategy Policy and Regulation teams are fundamental in the governance and assurance of our obligations at all levels of the organisation.

2.1.1 Since 2015 we have also put in place a Compliance Working Group to anticipate the challenges arising from new and changing requirements and assess any ongoing compliance concerns. The group exists to determine how the company’s diverse obligations are identified and discharged.

- Chaired by the company’s senior solicitor, with representation from relevant business areas, the group maintains a log of the company’s key obligations, together with a list of the internal policies, associated risk assessment and assurance activities for each obligation.
- Each obligation also has an owner who is a member of the working group and a named owner of each obligation’s linked policy, who usually is more senior and often at executive or board level.
- The group carries out horizon scanning to identify new legislation and identifies any areas of potential non-compliance against obligations.

2.1.2 In April 2023 we have also constituted a Board Compliance Committee, chaired by the Senior Independent Director. The purpose of the committee is to provide oversight and challenge for regulatory assurance and compliance matters. Please refer to the Assurance section for more detail.

## 2.2 Meeting our obligations through our purpose, strategic priorities and culture

2.2.1 Our purpose, strategic priorities and culture are detailed in Chapter 2 of our main business plan document. These are also key driving influences for how the company approaches long term corporate resilience.

- (a) Our Purpose “To provide great water for a stronger, greener and healthier North West” drives us to deliver our services in an environmentally, economically beneficial, and socially responsible manner and create long term value for all. This reflects the obligations set out in the Water Act, Ofwat’s Board Leadership, Transparency and Governance principles, and UK corporate governance code, providing direction to the company. This alignment of purpose to obligations sets the foundation for resilience. We recognise that in order to be sustainable and provide long term value that we need to be resilient to ever changing circumstance and threats through our Governance, Accountability and Assurance processes.
- (b) As described in Chapter 2, our strategy to enable delivery of our purpose has six priorities as listed below. These demonstrate and give further direction to the business and our supply chain of how we intend to deliver our purpose, and in turn our obligations. Strategic priorities aligning to our purpose is an obligation set out in Ofwat’s Board Leadership, Transparency and Governance principles. Recognising the threats and changing circumstances relevant to each priority, they also promote the requirement to be resilient in their own right. Threats are emphasised in more detail later in this document, however examples include climate change, demographic change and economic conditions. Our strategic priorities are:
  - Improve our rivers;
  - Create a greener future;
  - Provide a safe and great place to work;
  - Deliver great service for all customers;
  - Spend customers’ money wisely; and,
  - Contribute to our communities.
- (c) Our culture of focusing on stakeholders, being responsible and sustainable is underpinned by our core values: Do the right thing; Make it happen; and be better. Focusing on stakeholders, being responsible and sustainable fully aligned to our purpose, fulfilling the obligations set out above. The emphasis of delivering for the benefit of our stakeholders, taking accountability and being innovative, efficient and effective further sets the foundation to be resilient.

## 2.3 Meeting our obligations through our governance structure

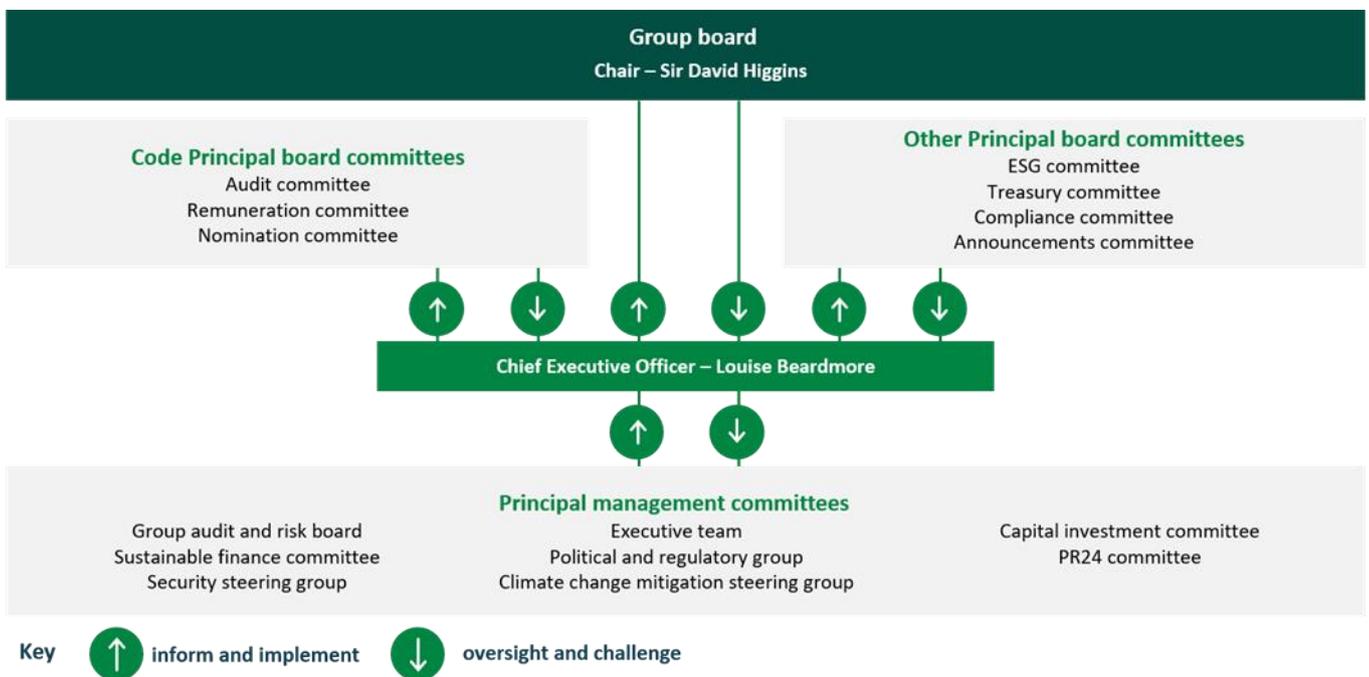
2.3.1 In Chapter 7 and Chapter 10 we highlight that the United Utilities Group PLC ('United Utilities Group') Board retains overall responsibility for managing the effective and efficient delivery of its obligations and operations and its subsidiary undertaking, United Utilities Water Limited ('United Utilities Water'), is the licensed appointee providing water and wastewater services to customers in the North West of England.

- United Utilities Group and United Utilities Water are distinct legal entities and are operated as such, with each company holding separate board meetings with board packs and agendas being prepared specifically for each company's meeting. Furthermore, there are no items/ topics relating to the regulated activities of United Utilities Water contained within the United Utilities Group's schedule of matters reserved for the Board's own decision.
- Certain roles and responsibilities are delegated to the principal board committees, allowing them to probe deeply and develop a more detailed understanding of the matters under discussion.

2.3.2 The diagram below highlights the Principal Board and Management Committees.

- The Board Committees provide strong governance with authority and independence over obligations and subject matters where disruption or and /or variability could affect the company.
- The Management committees discuss the needs of the business, raise issues, identify and delegate appropriate actions, monitor progress of key performance measures, and ensure any lessons learnt are implemented.
- The diagram below illustrates (via arrows) the escalation and dissemination of information, oversight and challenge throughout the governance structure, recognising the need for an integrated and intelligent response to current and future threats.

**Figure 2: Governance Structure of the board, its principal committees, and the principal management committees**



Source: United Utilities Group PLC Integrated Annual Report and Financial Statements y/e 31 March 2023

2.3.3 The three tables below (Table 2, Table 3 and Table 4) highlight the responsibility of each principal committee. In each case we confirm it as supporting Corporate resilience through being part of the Governance, Accountability and Assurance process and structure, and also illustrate the contributions to Financial and Operational resilience where appropriate.

2.3.4 Table 2 highlights the Principal Board Committees - Code obligations. These committees are those required by the UK Corporate Governance Code, and Ofwat's Leadership, transparency and governance principles respectively.

**Table 2: Principal Board Committee - Code obligations**

Principal Board Committee - Code obligations				
Committee	Scope/ Responsibility	Corporate Resilience	Financial Resilience	Operational Resilience
Group Board	The board has responsibility for establishing the purpose, values and strategy, reflected in our six strategic priorities.	✓	✓	✓
Audit Committee	This committee reviews the effectiveness of risk management, internal controls financial and narrative statements, and non-financial/ESG reporting and assurance.	✓	✓	✓
Remuneration Committee	This committee is responsible for setting the salaries and other forms of compensation for the company's executives.	✓		
Nomination Committee	This committee he is responsible for ensuring the succession plans for the board and senior management identify the right skill sets to face the challenges of the business	✓		

2.3.5 In addition to the Group Board and Audit Committee's support of Corporate Resilience, they also contribute to financial and operational resilience notably:

- Ensuring financial experience within the board;
- Ensuring necessary resources are in place;
- Ensuring workforce policies and practices are consistent with the company's values and support its long-term sustainable success;
- Reviewing internal control and risk management systems
- Reviewing the company's internal financial controls; and,
- Reviewing the integrity of the financial statements.

- 2.3.6 The Other Board Committees contribute to ensuring that the group focuses on its strategic priorities. These include the Environmental, Social and Governance (ESG) Committee, Treasury Committee, Compliance committee and Announcement committee

**Table 3: Principal Board Committee - Other Committees**

Principal Board Committee - Other Committees				
Committee	Scope/ Responsibility	Corporate Resilience	Financial Resilience	Operational Resilience
ESG Committee (formally Corporate Responsibility committee)	This committee is responsible for overseeing environmental, social and governance (ESG) issues.	✓		✓
Treasury Committee	This committee is responsible for reviewing policies in relation to key financial risks along with oversight in relation to the activities of the treasury function.	✓	✓	
Compliance Committee	This committee is responsible for providing initial oversight and challenge for regulatory assurance matters and reviewing key regulatory submissions and underlying governance processes.	✓		
Announcements Committee	This committee is responsible for overseeing compliance with the group's disclosure controls and considering the materiality of information.	✓		

- The Environmental, Social and Governance Committee contributes to operational resilience through the positioning, objective setting and strategy development for Environmental and Societal factors through assets, infrastructure, operational process, customer service and our management of employees.
- The Treasury committee contributes to financial resilience through policy development and governance over financial factors including: interest rate, inflation, currency, credit and energy exposures; financing opportunities and liquidity management.

- 2.3.7 The principal management committees (Table 4), enable senior managers to discuss the needs of the business, raise issues, identify and delegate appropriate actions, monitor progress of key performance measures, and ensure any lessons learnt are implemented.

**Table 4: Principal Management Committees**

Committee	Scope/ Responsibility	Project Management Committee		
		Corporate Resilience	Financial Resilience	Operational Resilience
Group Audit & Risk Board	This Executive Board is responsible for reviewing governance, risk and compliance matters	✓	✓	✓
Sustainable Finance Committee	The committee is responsible for ensuring funds raised under the sustainable finance framework are allocated to eligible green or social projects.	✓	✓	
Security Steering Group	The group is responsible for the oversight of cyber and physical security matters, risks and mitigating actions.	✓		✓
Executive Team	The executive team is responsible for the day-to-day running of the business and other operational matters and implementing the strategies that the board has set	✓	✓	✓
Political and Regulatory Group	This forum is responsible for discussing political and regulatory issues affecting the company, where any 'horizon scanning' issues are raised and business responses to consultations are agreed.	✓		
Climate Change Mitigation Steering Group	Leads the ongoing development and delivery of our strategy and activity to achieve our science based targets and carbon pledges.	✓		✓
Capital Investment Committee	The committee is responsible for authorising expenditure relating to the capital investment programme.	✓		✓
Future plan strategy board	This board is responsible for delivery of the PR24 programme focusing on strategic decisions on scope, risk appetite; monitoring, and oversight of risk and issues; reporting, advisory and managing the overall budget.	✓		

- 2.3.8 The cross business oversight of the Executive and Group Audit and Risk Board (GARB) support the Financial and operational resilience. The Executive sets strategic direction and monitors performance of all aspects of the business through Key Performance Indicators which include, Financial, Operational and Health Safety and Environmental Measures. The GARB reviews Governance, Risk and Compliance across all aspects of the business including Finance and Operations.
- 2.3.9 Chaired by the Chief Financial Officer the Sustainable finance committee supports financial resilience through ensuring specific covenants are met.
- 2.3.10 Other committees such as the Security Steering Group, Climate Change Mitigation Steering Group and Capital Investment Committee, contribute to the Operational resilience. The majority of their focus is on Water, Wastewater and Bioresources assets, infrastructure and skill sets (people, process and technology) to operate these. Part of this focus is on the reliability and, resistance to avoid with disruption where possible, but also to cope and recover from disruption through a combination of

redundancy built into production lines and response / recovery capability through such mechanisms as Business Continuity and Incident management.

- 2.3.11 In Chapter 7 we also highlighted further layers of focus at management and business unit level, all of which feeds up through the layers of committees above and, ultimately, to the Group Board where relevant. Table 5 below provides an example of such forums. However, please note that this is not exhaustive.

**Table 5: Other management committees or forums**

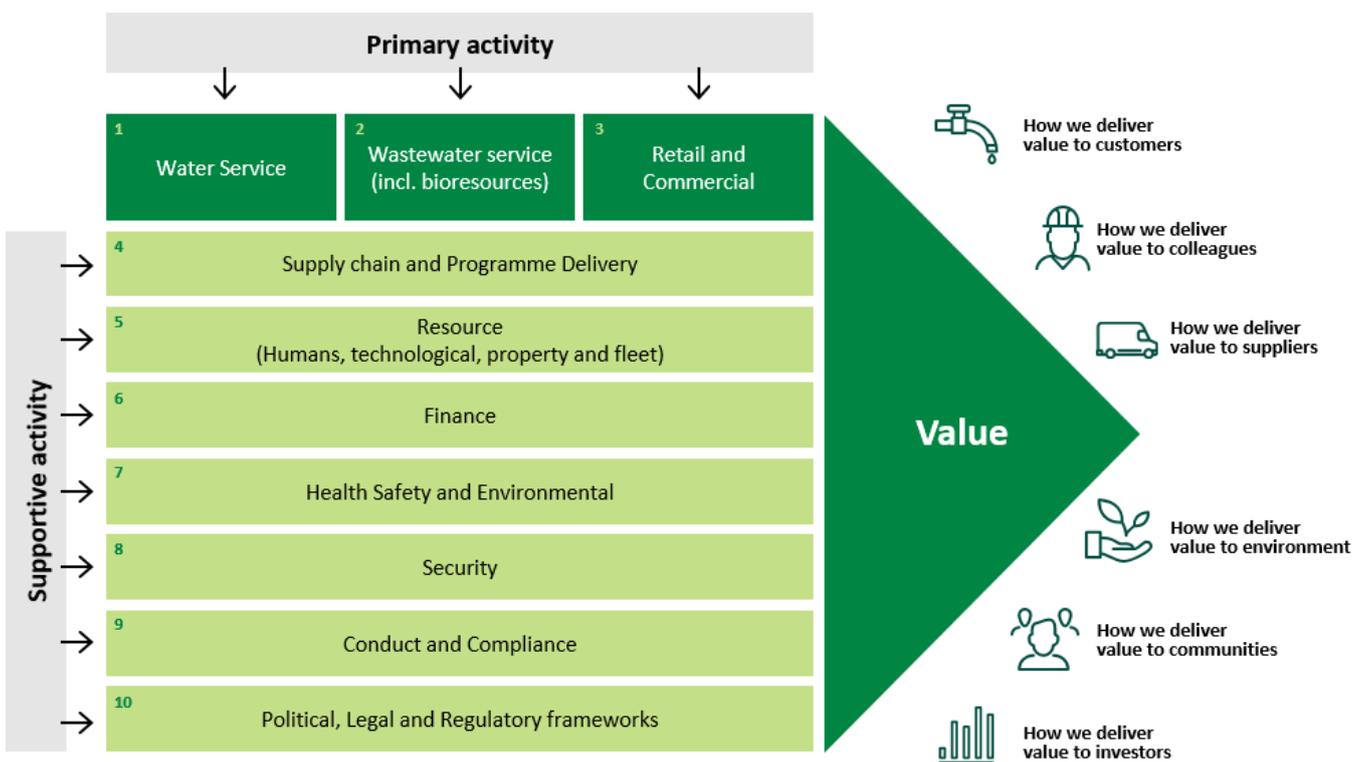
Forum	Scope
Compliance Working Group	A cross business forum focusing on anticipating the challenges arising from new and changing requirements and assess any ongoing compliance concerns.
Water Quality First (WQF) Board	Ensures that water quality is placed at the heart of our activities at United Utilities. Its primary aim is to establish a cohesive approach to water quality across multiple programmes, whilst creating a working culture to introduce new ideas, initiatives and projects to improve water quality along its entire journey from source to tap. The Water Quality First programme was a key contributor to United Utilities' successful exit from transformation in February 2023 and won the Water Quality Initiative of the year award at the Water Industry Awards in July 2023.
Price Control Board Water	Monthly meeting focusing on reviewing and driving performance across the end to end Water System from a water quality and water sufficiency perspective.
Price Control Board WasteWater	Monthly meeting focusing on reviewing and driving performance across the end to end Wastewater System including Bioresources.
New and Emerging Risk Forum	A cross business biannual meeting to identify new and emerging risk and allocate ownership for analysis and mitigation.
Reputational Risk Meeting	Identifies and manages internal or external factors that could affect the reputation of United Utilities from multiple stakeholders.
Operational Risk and Resilience meeting	To review operational risk, issues (including incidents) and mitigation.
Land Management Steering Group	Monthly meeting to provide governance over land strategy and projects.
Leadership Meetings (Multiple)	Each department holds a monthly leadership meeting to review progress against departmental objectives, budgets and resource issues.

## 2.4 Responding to our obligations

- 2.4.1 Appetite and tolerance was highlighted in Chapter 7 as supporting resilience. The relevance is that appetite and tolerance proactively supports decision making, providing direction of what to avoid, what we can cope with and the priority to recover in the face of disruption, variability and opportunity. We deploy a number of appetite and tolerance tools, as summarised below.
- 2.4.2 At a high level, there are ten Strategic Appetite statements which aim to provide direction as to the level of risk the company is prepared to accept to achieve its objectives. The ten statements relate to inherent risk areas which constitute the company's ten principal risks as reported in the Annual Report.

- The ten inherent risk areas (Principal Risks) were developed by considering the value chain of the company.
- Using the value chain for this development demonstrates and helps to emphasise the company’s activities as an integrated system from which value can be gained, preserved or lost. It also helps to identify areas of correlation and interdependency.
- It highlights three Primary (core) activities of Water Service, Wastewater Service and Retail / Commercial. These represent the inbound logistics of raw water, the collection of wastewater, the associated operations and treatment, all aspects of our customer service, and the supply of water to customers and the distribution of final effluent and sludge to the environment. The focus of these Primary activities is on the assets, infrastructure and skill set (capacity and capability).
- The interrelated supportive (functional) activities cover internal and external aspects beyond the core asset, infrastructure and skill set. These activities cover areas of correlation and interdependency such as Supply Chain, Health and Safety, Environmental management, Finance and Resource (People, Technology, Fleet), but also fundamentally cover conduct and compliance and the related political, legal and regulatory frameworks.
- The value chain diagram (Figure 3 below) highlights the ten principal risks and demonstrates the interrelationship between the primary and supportive activities.

Figure 3: Value chain of principal risks



- Each high level appetite statement represents one inherent risk area (Principal risk) and sets out directional principles which provide the foundation for more specific criteria as we mature further in this area with the completion of underpinning tactical statement. These Strategic Statements include the scope of each principal risk, the accountability to meet our obligations, what we intend to do within the scope and relevant stakeholders, governance forums and performance indicators.

2.4.3 Running in parallel, we have also established the General Appetite. This is a set of financial parameters, one illustrating materiality and the other a financial tolerance relative to liquidity. Strategic and tactical level risks are mapped against these boundaries giving an initial indication of our ability to cope with the consequences from a financial perspective, should the risk event occur, and to trigger further mitigation to avoid disruption.

## 2.5 Meeting our obligations through integrated processes

2.5.1 Our obligations are the foundation of our overall approach to corporate resilience and are integrated throughout governance, accountability and assurance processes. Using drinking water safety as an example Table 6 highlights this integration. Please refer to sections 3 and 4 for more detail on Accountability and Assurance.

**Table 6: Meeting obligations through integrated Governance, Accountability and Assurance processes –“Water Quality” example**

Water Quality				
How governance, accountability and assurance processes support water quality resilience				
	Structure	Governance Processes	Accountability Processes (See section 3)	Assurance Processes (See section 4)
Board and Principal Board Committees	UUG Board	Determines and defines company <b>purpose</b> “to provide great water.....”	Endorse Strategic Appetite and Tolerance statements, which includes “Water Service”.	The UUG and UUW Board receive reports from the Audit Committee and Compliance Committee on the outcome of assurance activities.
		Sets <b>strategic priorities</b> , including "Deliver great service for all customers", which covers water quality.		
		Sets the tone for <b>culture</b> , defining <b>core values</b> : Focusing on stakeholders; Being responsible and sustainable; Do the right thing; Make it happen; and Be better.		
	UUW Board	Sets overarching policy to meet all regulatory requirements	Hold the Executive accountable for water quality performance and compliance against obligations	
	Compliance Committee	Oversight over new or changes to laws and regulations, regulatory reporting and will consider in detail material compliance issues that might arise or be anticipated to arise.		
Audit Committee			Review of third line assurance (in particular Internal Audit) over water quality risks and controls.	
Principal Management Committee	Executive Strategy Meeting (ESM)	The development of <b>long term water strategy</b> and business plan through the monthly Executive Strategy Meeting (ESM). The Water Service Director and Network Director both sit on the Executive Committee.	Water Service delivery through development and management of assets, process and people.	KPI's are presented to the on a monthly basis to Executive Performance Meeting (EPM) to ensure the relevant service directors are held to account.
	Executive Performance Meeting (EPM)		Robust set of key performance indicators (KPIs), including metrics on water performance and customer service.	

Water Quality				
How governance, accountability and assurance processes support water quality resilience				
	Structure	Governance Processes	Accountability Processes (See section 3)	Assurance Processes (See section 4)
	Capital Investment Committee	Approve investment strategy for Water Quality and Supply capital schemes.		
	Group Audit & Risk Board			Review Internal Audit findings to ensure appropriate management actions is being taken.
Organisational Structure and Management Forums	Water Treatment and Network departments	Water Treatment and Network Directors respectively adopt policy from UUW Board and strategy from the Executive, and together with Scientific Services developing procedures and processes.	Managing the assets, processes and people to ensure production and distribution of clean, safe drinking water to customers.  Operational risk assessment process MyRisk and associated Tier systems for maintenance and investment prioritisation.	Site and asset specific inspections and operational meetings to review key aspects of water quality.
	Capital Delivery department and partners	Asset design criteria.	Construct / configure water service assets and infrastructure.	Engineering technical assurance.
	Water Quality First (WQF) Programme Board	Establish a cohesive approach to water quality across multiple work streams. Provides oversight of the programme with escalation to the Executive.	The programme is applied and embedded through Water Services, Water Network and Scientific Services.	
	Price Control Meeting - Water	Driving performance across the end-to-end water system from a water quality and water sufficiency perspective.	Reviewing performance across the end to end Water System	
	Scientific Services		Undertake advisory work to the Water Treatment and Network departments in relation to water quality.	Undertake sample testing of water quality, with reporting to Executive, Board and regulators.
		Develop Drinking Water Safety Plans as an end-to-end risk assessment tool to identify, analyse and treat risk across the entire system from source to customers tap with escalation processes internally and externally to regulators.		Undertake proactive Drinking Water Safety assessments, developing actions with the Water Treatment and Network teams, escalating status to the Executive and DWI.
	Assurance Team			Inspects and reviews assets, processes and compliance through site and theme audits.
	Internal Audit			Internal Audit undertakes periodic audits of: Water Quality, including the effectiveness of the Drinking

Water Quality				
How governance, accountability and assurance processes support water quality resilience				
	Structure	Governance Processes	Accountability Processes (See section 3)	Assurance Processes (See section 4)
				Water Safety Plan; Labs and the water sampling processes; regulatory performance reporting.

### 3. Accountability

3.1.1 In this section, we summarise how our business model, company business plans, organisational structure and corporate risk and resilience framework align to our obligations, notably to deliver resilient services in the short and the longer term.

#### 3.2 Accountability through our business model

3.2.1 In Chapter 7 we highlight how the business model supports corporate resilience through its focus on delivering long-term value that reflects customers' priorities and has the environment at its core, demonstrating alignment with our Purpose, Strategic priorities and obligations.

3.2.2 It achieves this by considering key resources, external drivers and the full range of stakeholders demonstrating we are focusing on the wider business environment, and being resilient against all types of disruption.

- **External Environment:** political; natural; economic; regulatory; technology and innovation; and stakeholders.
- **Key Resources:** human; social; natural; environmental; manufacturing; and financial.
- **Stakeholders:** customers; communities; employees; the environment; investors; suppliers; regulators; politicians; and the media.

3.2.3 We also highlight how the business plan takes an integrated approach across short, medium and long term, demonstrating that our focus on resilience considers the long term rather than simply the five year regulatory price review period.

3.2.4 In Chapter 7 we highlighted how we test our resilience capability by undertaking sensitivity and stress testing as part of our company business planning and other strategic planning processes. We achieve this by modelling to forecast / anticipate possible situations and then apply the various scenarios to plans or test the effect of significant impacts. This emphasises our focus to avoid and cope with disruption and variability, but also to test our capability to recover across the scenarios.

3.2.5 We undertake sensitivity and stress testing across both financial and non-financial risks including:

- Our water resources management plan is tested for population growth and household properties, changes in water use behaviour and design standards, metering, water efficiency and climate change.
- Our water supply is also tested for shocks and stresses including power failure, flooding, contamination, malicious attack, and drought (see below).
- The Drought plan is tested for a variety of dry weather scenarios and with sensitivity testing on the supply and demand side options.

##### Short term

We set annual targets for operational and financial performance, but retain flexibility in these plans to respond to challenges and ensure we are meeting our five-year goals in the most effective and efficient way possible.

##### Medium term

Our AMP7 determination sets targets for the 2020–25 period, and we are building our plan for 2025–30. Our long-term delivery strategy is embedded into our medium-term targets to help us work towards our long-term plans.

##### Long term

Our business is very long term by nature and we use adaptive planning, looking far into the future, to ensure we are resilient to risks that may arise and can continue to provide this essential service for the long term.

- Climate Change planning incorporates defined climate scenarios, and use Representative, Concentration, Pathways (RCPs) of 2.6 (1.5 - 2.0°C increase by 2100), 4.5 (2.5 - 3.5°C increase by 2100) and 8.5 (5°C increase by 2100).
- Company Business Plan: downside stress scenarios to the group's baseline plan are tested for internal and external scenarios, including a totex shock, totex underperformance, inflation, increased bad debt, additional penalties, debt refinancing at less favourable terms, and a combined scenario.
- Viability assessment: tests the ability of the group to absorb a number of 'severe but plausible' scenarios, relative to principal risks facing the group.
- Profitability is tested for interest rates change and inflation based on the amount of index-linked debt.
- Defined benefit pension scheme surplus is tested for various independent assumptions including inflation, long term mortality improvement, life expectancy and asset volatility.

### 3.3 Accountability through the organisational structure

3.3.1 In Chapter 7 we highlight how the organisational structure supports our resilience capability through its design to deliver the business model and the company business plan. Each department has targeted accountability to deliver specific tasks, and needs to be resilient to multiple threat and vulnerabilities.

- **Core business areas:** These business units deliver services directly to customers and include Water Service, Wastewater Service, Network, Bioresources, and Customers Services.
- **Functional areas:** These business units support the core business areas, although also interface with key stakeholders beyond the customer base i.e. Regulators, Communities, Politicians, and media. These include Finance, Commercial (Supply Chain), Legal, Corporate Affairs, Company Secretariat, Health, Safety & Wellbeing, Strategy Policy and Regulation, Engineering, Capital Delivery, Technological Services, Property and Fleet. Central operations is also a critical supportive business area which includes the Emergency planning and response team.

3.3.2 Key factors from a resilience perspective are:

- The extent of in house specialist knowledge and expertise available to support the resilience of core services;
- Our ability to draw upon external specialist knowledge and expertise through existing partnerships, co-source / framework agreements and retained service level agreements. This includes specialist solicitors, engineers and cyber incident support;
- Our close relationship with the five Local Resilience Forum (LRF) areas which cover the north west region (Cumbria, Lancashire, Greater Manchester, Merseyside and Cheshire) and Derbyshire and West Mercia where UU work across their boundaries. This relationship includes regular consultation in response to incidents, contribution to response plans and procedures, or to plan training and exercises.
- The mobilisation of cross business resource in the event of an incident (see below); and
- Ability to anticipate, avoid, cope, and recover from distribution or variability from the wider / macro business environment. For example, the corporate affairs team proactively engages with our stakeholders through a range of channels understanding trends and variability in perceptions and requirements. The team also responds to press and media queries.

3.3.3 We maintain a table of accountabilities which clearly highlights executive ownership in relation to the capture, and reporting of data. The accountability is defined in methodology, performance and compliance statements outlining:

- (1) How to comply with reporting requirements;
- (2) The systems used to capture and report data;
- (3) Role accountabilities;
- (4) The processes used to analyse and calculate the resultant performance levels; and,
- (5) The key process controls and checks that assure the resulting data.

### 3.4 Accountability through incident management processes

3.4.1 The ability to respond and recover from disruption is an important element of resilience.

3.4.2 As highlighted in Chapter 7 we have a well-established incident management procedure to provide central co-ordination for all types of disruptions. Due to the nature and extent of our business the majority of incidents are operational and we have a good track record of being able to respond and recover from these challenges. Examples of where we have invoked the incident management process in order to respond to, or avoid, disruption are set out below. It is important to note that establishing an incident management approach is, wherever possible, done in anticipation of the potential for service disruption with the aim of avoiding customer and environmental impacts. Examples include:

- **Storm Christoph 2021:** In January and February 2021 we had higher than average rainfall along with Storm Christoph. Ahead of the storm, we received an amber weather warning for rain from the 18th January 2021, which was in place for 36 hours. On receipt of the weather warning a major incident was convened with 12 tasks teams within the incident team which subsequently prepared and managed the response. Workstreams included: customer messaging, asset protection and inspections, mobile generation, preparation for raw water quality deterioration, local resilience forum liaison and increasing resources. Storm Christoph itself brought over a months' worth of rain in 4 days, substantially affecting watercourses and property across the Mersey Basin and the River Dee catchment which led to widespread river and surface water flooding. There was a record number of customer contacts, we recorded the highest number of Wastewater Network work bank jobs raised in a day and 101 Wastewater Treatment facilities were affected, but without any major loss of service. Whilst there was a clear impact on customers, teams and performance, there was minor asset damage with no significant loss and limited financial impact.
- **2022 Water Resources incident:** 2022 was the first year in the UK when 40°C temperatures were recorded, it was also the warmest year in records back to 1884 with record high temperatures set in the North West. All months of the year except December were warmer than the 1991-2020 average. In terms of rainfall, it was a dry year overall. January, March, April, July and August were all notably dry with large parts of the North West experiencing a period of prolonged dry weather. The period January to August was the driest across England and Wales since 1976 with several areas outside of the North West experiencing restrictions on water use to mitigate the impact. Our Drought Plan (updated in 2022) lays out the levels at which action is taken to manage our water resource zones when storage levels reduce. This Drought Plan operates as a contingency plan, working in harmony with our emergency and incident management processes. This complementary approach of implementing our Drought Plan within the framework of our incident management process, coordinating our water resource management, production planning, operational system management, customer campaigns and stakeholder management, meant that United Utilities customers were not subjected to water use restrictions.

- **December 2022 Freeze/Thaw incident:** This incident occurred when temperatures remained below freezing from 6 to 17 December 2022 across the entire North West region, then began to rise very rapidly resulting in the demand from water rising to 20 per cent above the norm through burst pipes. The speed of temperature rise combined with the geographical spread were key distinguishing features compared to previous freeze thaw incidents resulting in high levels of bursts across multiple drainage areas within a similar time frame. This was to an unprecedented scale, putting significant strain on our resource, however we remained resilient throughout, with lessons learnt from the 2018 and 2010/11 freeze thaw being a contributing factor. On the back of this incident we have now further strengthened incident management capability by increased the number of incident support officers from across the business, providing them with sufficient training to join and support the incident management. We have also increased our response capability with increased bottled water provision and use of technology for improved internal response communication.

3.4.3 The incident process is also designed to manage wider challenges beyond our normal operations. For example:

- **COVID-19:** The incident process was invoked for COVID-19 to ensure we maintained our service levels whilst keeping our people and the public safe. Whilst we were able to draw upon a pre-determined Disease Pandemic Business Continuity plan, the unique circumstances of the pandemic were a challenge especially due to the social distancing. The COVID-19 Incident response focused on customers (especially the most vulnerable), employees, suppliers and communities. In a very short period we mobilised home working and protected the health and wellbeing of those on operational and office sites, increasing our communication so all stakeholders were kept informed.
- **Conflict in Ukraine:** The incident process was also invoked for the conflict in Ukraine relative to supply chain implications. Although a contingency was already in place for the supply of products and services necessary for our core service provision, the incident team considered those which were either fully sourced or contained components from Russia and Belarus that would be subject to sanctions. Through the established alternative supply agreement and category management procedures we have in place we were able to and continue to cope with the disruption.

3.4.4 There are five levels of incident, classified based on the potential severity of consequences, disruption and the resources required to manage the impact. Each require different levels of escalation, resource, communication arrangements and leadership with each incident undertaking a post incident review to ensure lessons learnt for future events. A key element of the incident management plan is that we have plans in place and ownership of communications to key stakeholders such as regulators and the Local Resilience Forum.

## 3.5 Accountability through the Risk and Resilience Framework

3.5.1 In Chapter 7 we highlight the United Utilities Corporate Risk and Resilience Framework.

3.5.2 This framework is the overarching framework for the company, and follows an enterprise-wide approach, defined as holistic, integrated and forward looking.

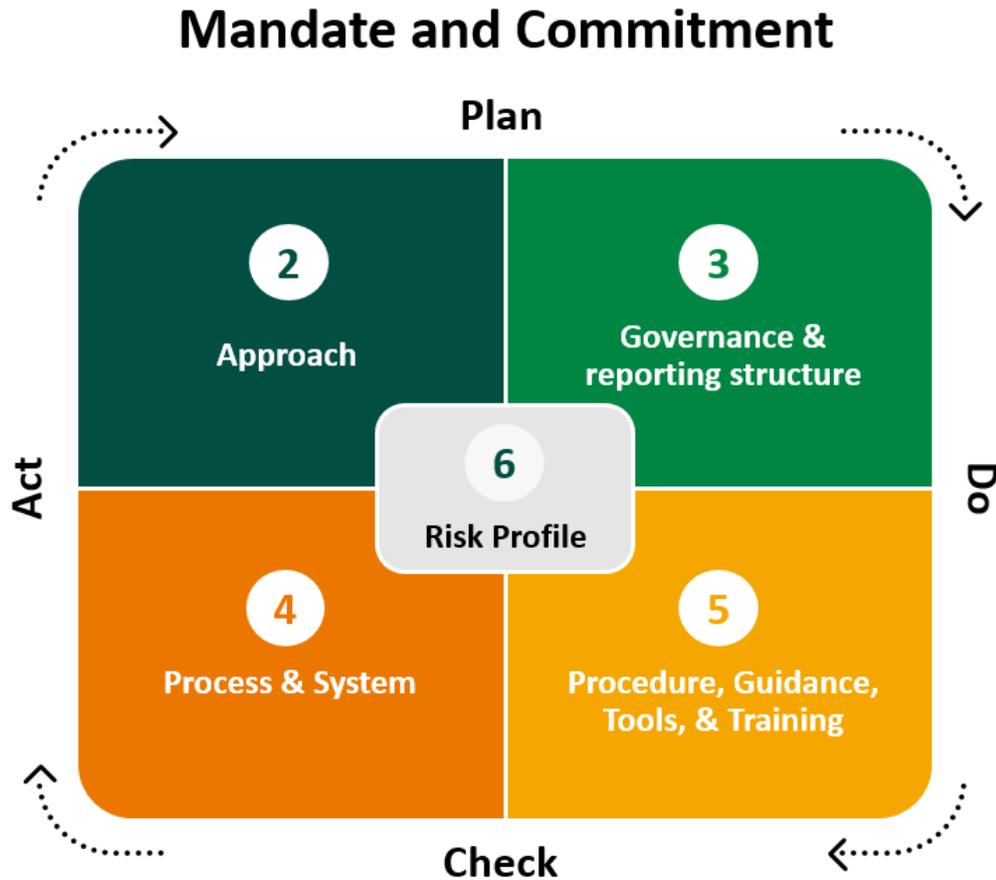
3.5.3 The Risk and Resilience framework is primarily based on BSI: ISO 31000:2018

3.5.4 In addition to ISO:31000, other influences include:

- COSO Enterprise Risk Management—Integrated Framework.
- The Orange Book - Management of Risk - Principles and Concepts.
- The UK Government Resilience Framework.

3.5.5 The Risk and Resilience Framework is made up of six components as shown in Figure 4 overleaf.

Figure 4: The Risk and Resilience Framework

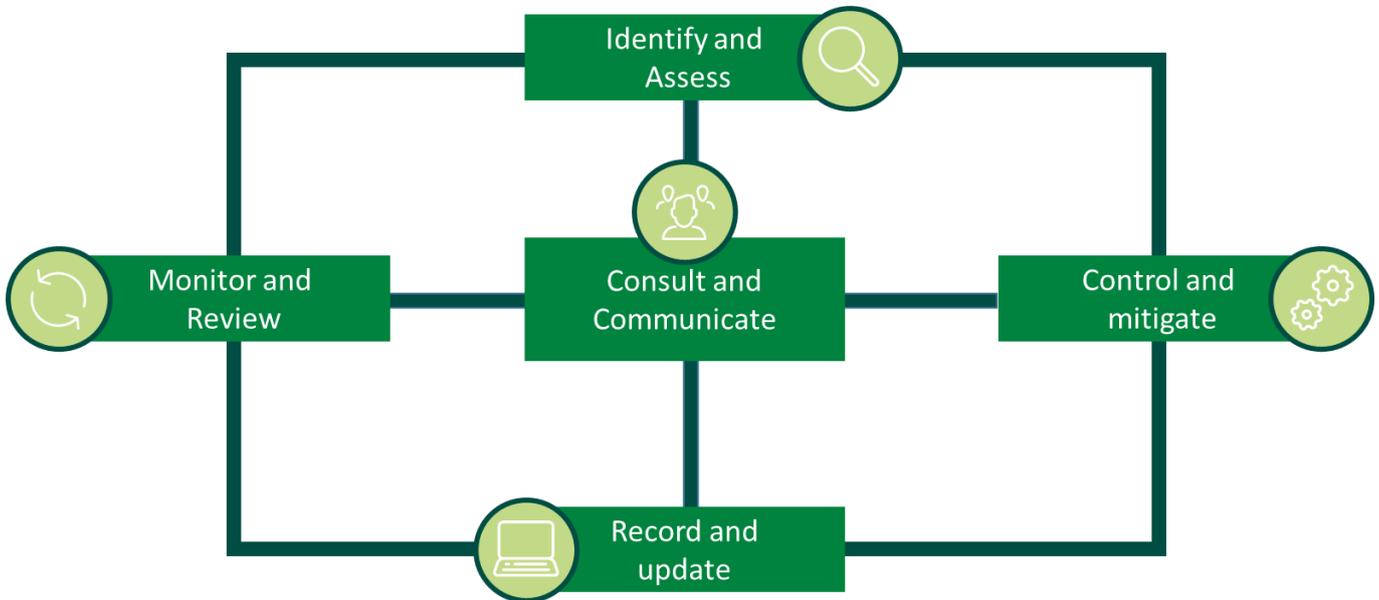


- Mandate and Commitment** - This reflects the mandate to meet our risk and resilience obligations as defined by: the Water Act, Ofwat’s Leadership, Transparency and Governance principles; and the UK Corporate Governance Code. It also sets out our commitment through the Risk and Resilience Policy, the Risk and Resilience Framework itself and the dedicated resource to develop and Risk and Resilience capability throughout the organisation including the Corporate Risk Team and the Emergency Planning and Response teams.
- Approach** - This reflects the Enterprise wide approach previously mentioned with emphasis on being holistic, integrated and forward looking. It also emphasises preventative as well responsive capability and establishes the different levels of risk throughout the organisation including Project, Operational, Tactical and Strategic Risk Management with the escalation and a direct line of sight across the different levels.
- Governance and reporting structure** - This reflects the roles and responsibilities of the Group Board, Executive and the network of risk leads, coordinators and sponsors. It also reflects structure of Full and Half year risk reviews by the business, escalations through the Group Audit and Risk Board and Executive prior to the reporting to the Group Board, and the assurance of risk and resilience process by the Audit Committee on behalf of the Group Board.
- Process and system** - This reflects the risk and resilience process as detailed later in this supplementary and illustrated in Figure 6. It also relates to the recording of risk and control in a central database.
- Procedure, Guidance, Tools and Training** - This reflects the suite of documents and power point slides which can be referenced by the network of risk leads, coordinators and sponsors to support their application of the Risk and Resilience framework. These are also used by the Corporate Risk Team to train employees in Risk and Resilience management. All of these documents are accessible to the entire business via the intranet site.

- **Profile** - This represents the c 100 Strategic and Tactical level risks with the associated controls. It emphasises nature and extent of risk through multiple lenses enabling analysis of common themes or specific individual risks. These components include Causal factors, Inherent events, Consequences and Controls as illustrated in Figure 7 on page 23.

3.5.6 A key element of the Framework is the Risk Management process. Figure 5 below defines key elements of the risk management process which have been adapted from ISO 31000:2018.

*Figure 5: The Risk Management Process*



- **Identify and Assess** relates to the Risk Assessment element of the ISO standard which involves three sub elements of Identification, Analysis and Evaluation. Later in this supplementary we describe the mechanisms of how we identify risk, analyse the likelihood, impact and control effectiveness and then evaluate the outcome against set parameters such as the general appetite boundaries, the rank of other risks in the profile and external risks registers such as the National Security Risk Assessment (NSRA) and National Risk Register (NRR).
- **Control and Mitigation** relates to the Risk Treatment element of the ISO standard. Later in this supplementary we describe the multi layered and cross business controls we review for effectiveness and adopt as further mitigation to modify the risk. We highlight four types of control which affect the likelihood or the impact and how the four components of resilience are incorporated into these.
- **Record and Update** relates to the recording and reporting element of the ISO standard. Later in this report we highlight how we undertake the risk assessment process twice a year in line with the Full and Half year reporting cycle and the scope of that reporting to the Group Board.
- **Monitor and Review** relates to the corresponding Monitoring and reviewing element of the ISO standard. Later in this document we describe how we monitor the internal and external business environment for new and emerging circumstances that could be a threat to us achieving our purpose or increase the vulnerability of our control capability. We also describe how we monitor and review the effectiveness of the risk management framework and its application through a combination of strategic reviews, a maturity assessment, and independent audits.
- **Consult and communication** relates the corresponding element of the ISO standard and reflects the need for inclusion and integration in risk assessment rather than being siloed. Later in the document we describe how risk sponsors consult with Subject Matter Experts and also control and action owners. Over recent years we have increased the number of cross business risk forums such as the Security Steering Group and group wide risk assessment such the Fraud risk assessment requiring

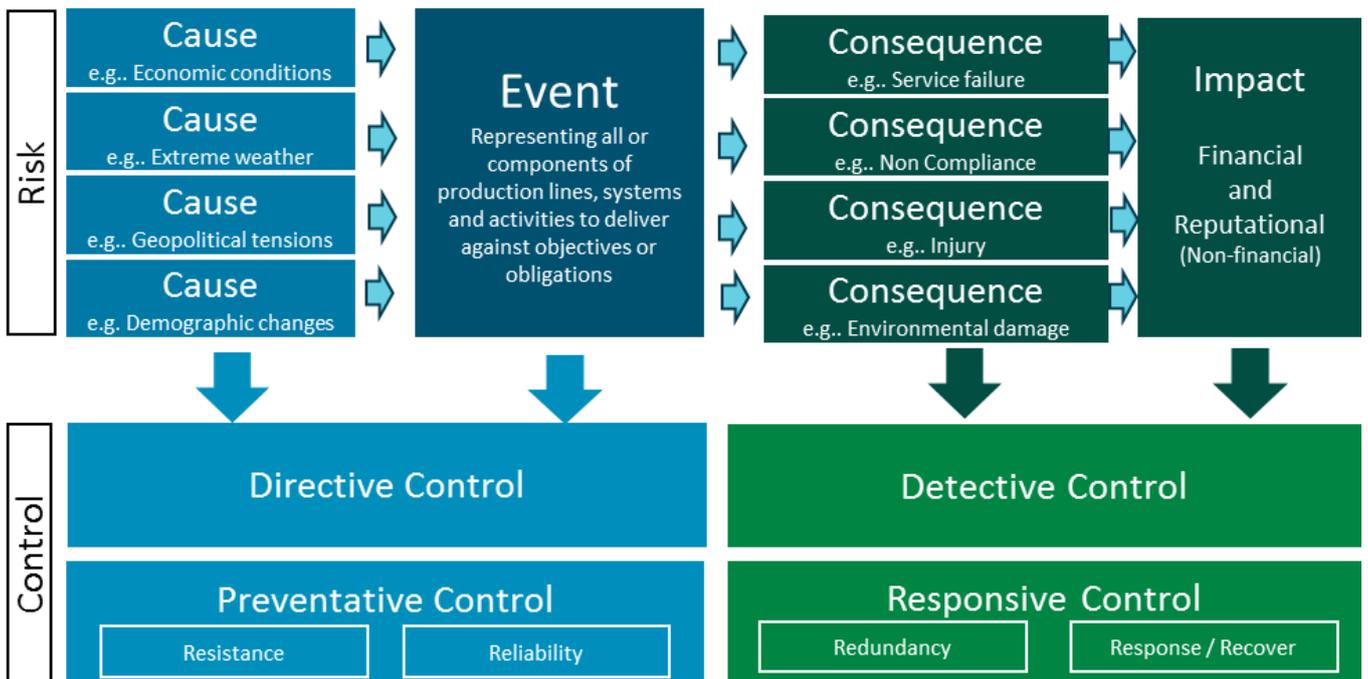
targeted communication. We have also improved the feedback loop of risk information so that the outcome and sentiment from the Group board is disseminated back to risk sponsors.

- 3.5.7 As an enterprise-wide risk system, the corporate risk profile consists of inherent event-based risks, which reflect the end-to-end water and wastewater (including bioresources) production cycles and supporting systems such as technology services, customer services and people management.
- 3.5.8 The assessment of inherent event-based risk focuses on new and emerging circumstances relating to:
- A broad range of hazards, which drive and influence risk (causal factors);
  - A series of outcomes (consequences) including those which are 'knock on' and 'cascading'; and,
  - The strengths, weaknesses and gaps in the control environment (control effectiveness).
- 3.5.9 The advantage of using inherent event-based risk as opposed to a reactive issue led approach is that the headline subject, e.g. an element of the water or wastewater production cycle, remains constant enabling us to:
- Systematically review that element for new and emerging circumstances / uncertainty across a broad range of hazards;
  - Consider and understand the range of possible stresses and shocks;
  - Take a long-term view to deliver reliable services for customers and the environment; and,
  - Adapt to future challenges.
- 3.5.10 Each risk is sponsored by the most relevant senior manager and is systematically assessed twice a year or in the event of a significant business change. Risk sponsors consult and communicate with subject matter experts from across the business to ensure information is up to date and relevant. Risk sponsors are supported by a network of Risk Leads and Coordinators who are trained by the corporate risk team of how to apply the risk management framework.
- 3.5.11 The outcome of the assessment is reported to the group board at the full and half-year reporting cycle via a mature governance and reporting structure.
- 3.5.12 The Group Board is given visibility of the entire profile of inherent event-based risk relative to the inherent risk areas (principal risk). The report emphasis key messages, typically relating to causal factors and the most significant risks facing the company. The most significant risks fall into three categories:
- The ten highest ranking group risks (covering all types of risk including operational risks), by likelihood and impact (i.e. exposure);
  - The ten highest ranking operational risks relating to water, wastewater and bioresources assets / processes by likelihood and impact; and,
  - High impact, but low probability risks.
- 3.5.13 Each risk is compared against the financial parameters (General appetite) to evaluate the level of financial materiality and its proximity to the financial tolerance line in the most likely and maximum worst case scenario, with those which either breach or are about to breach reported to the Group Board accordingly.
- 3.5.14 Several mechanisms are used to prompt the identification of risk and horizon scan for new and emerging circumstance:
- Twice a year at the Full and half year reporting cycle we hold Business Unit Risk Assessments at which Directors review risks sponsored by their department for new and emerging circumstance including changes in external environment and internal vulnerabilities;
  - In separate preceding risk review meetings or workshops various tools are employed to prompt risk identification. These include the water cycle, key resources, external drivers and stakeholders, PESTEL and SWOT analysis;

- More centrally we compare our risk profile with the National Risk Register(NRR), consult with external consultants and bodies (i.e. Centre for the Protection of National Infrastructure) and liaise with the Water UK risk forum to ensure we have the covered the right areas to remain adaptable;
- We have a number of internal subject matter experts, including environmentalists, scientists, geologists, lawyers and engineers who escalate new and emerging risks and issues through a combination of the risk assessment process and line management; and,
- We also hold various cross business forums including the new and emerging risk forum (biannual) and the compliance working group (annual).

3.5.15 Each of the event-based risks has multiple causes and consequences, and we typically use the bow tie diagram to map out the key components including the relationship with control / mitigation (See the extended bow tie diagram below - Figure 6).

Figure 6: Extended Bow Tie - The components of risk and resilience



Source: UU risk framework

- The Event is the primary component of the risk. This is typically inherent, representing all or part of the production line, system or activity that is being analysed, however it can also relate to a new emerging factor that is not inherent, but has a potential material effect to the group. As previously mentioned the inherent nature of the event enables the systematic review of that element for new and emerging circumstances / uncertainty across.
- The Event is driven, triggered or influenced by a wide range of causes (or hazards) which can be external or internal factors and require managing in order to be as resilient as possible.
- If the Event occurs there will be the potential for multiple consequences (or outcomes), which also require managing to be as resilient as possible.
- Each consequence, such as service failure, non-compliance, injury or environmental damage, will in turn lead to financial and/or reputational (non-financial) impact,
- Whilst there are over 250 different causes and consequences identified, analysis has identified common themes. The common themes are listed below, helping us to focus on our resilience across these areas more holistically.

**Table 7: Common causes and consequences**

Common causes	Common consequences with stakeholder focus
Extreme weather / Climate change	Colleagues (e.g. Injury)
Demographic changes	Customers (e.g. Poor service)
Economic change	Environment (e.g. Pollution)
Legislative / regulatory change	Investors (e.g. Reduce profits)
Asset health	Suppliers (e.g. Delivery failure)
Culture	
Technology	

- 3.5.16 New and emerging circumstances in respect of causes, consequences and controls make the profile multifaceted and dynamic.
- 3.5.17 The assessment of risk is forward looking, based on current knowledge and understanding.
- Likelihood analysis represents the likelihood of the event occurring in any one year based on the causal factors over the medium-term, therefore reflecting estimated increases or reductions.
  - Impact reflects both financial and reputational (non-financial) implications.
    - Financial Impact is recorded and presented as a financial value which represents the loss of or additional cost in cash terms from one or more of the following criteria: revenue, opex, capex, compensation, fines, penalties, and tax or finance costs.
    - Reputational Impact is the perception of stakeholders with our analysis aligning directly to the six capitals and the nine stakeholder groups.
  - Control / mitigation is a key element of the overarching corporate risk and resilience framework and emphasises the clear line of sight to resilience
- 3.5.18 The control framework requires risk sponsors to consider multi-layered controls to prevent (avoid) or limit shocks and stresses, and to minimise the impact (cope and recover) if they occur. There are four types of controls to facilitate this assessment:
- Directive;
  - Preventative;
  - Detective; and,
  - Responsive (including recovery).
- 3.5.19 This multi-layer control assessment includes cross-business controls associated with the risk to the group, not simply the department of the sponsor.
- 3.5.20 Each control, regardless of type is allocated an owner and is assessed for its design and operating effectiveness by the risk sponsor in the context of the risk. This enables us to understand the strength weakness and gaps in the control environment, enabling us to improve resilience by focusing our attention on the specific need. The cross business review of controls also enables us to consider the strengths and weaknesses of interdependencies and interrelationships for a more integrated approach.
- 3.5.21 The outcome of the control assessment contributes to the quantification of likelihood or impact, but fundamentally for improving resilience, determines further mitigating action required to achieve the desired risk exposure (target state) relative to risk appetite and tolerance.
- 3.5.22 The relevant controls relating to each risk are considered by the risk sponsor to understand the interdependency and interrelationships across the business together with the effectiveness of each control relative to its design and its implementation / operation.
- 3.5.23 The type of control influences the effect on risk exposure:

- Directive and preventative control are applied to reduce the likelihood of the event occurring; and,
  - Detective and responsive controls limit the impact if the event were to materialise.
- 3.5.24 As illustrated in Figure 6 above, the four components of resilience (resistance; reliability; redundancy; and response / recovery) as defined by the Cabinet Office, align and have been incorporated into the four control types increasing the dynamics and scope of our risk management / resilience strategies.
- 3.5.25 The analysis for both financial and reputational (non-financial) impact is undertaken for immediate / short term and the long-term full life impact (using net present value calculations) based on the current assumptions.
- 3.5.26 We also consider a broad range of shocks and stresses for each risk by analysing the minimum, maximum and most likely scenarios for both financial and reputational (non-financial) impact allowing us to understand the remote, but plausible impacts as well as more probable impacts and the strength and/or weakness of our control across this range.
- 3.5.27 Using common cause and consequence themes, we have enhanced this view by including projected changes. For example, for climate change we analysed inherent risk based on the Met Office climate projections using the most likely global emissions scenario as at 2050 and 2100 across the most sensitive risks to climate change, the results of which we publish in our Integrated Annual Report. Similar medium to long-term analysis has also taken place for Asset health and Demographic change.
- 3.5.28 Continuous improvement is a key feature of the framework; following the widely recognised best practice four step method of plan, do, check, act (refer to figure 5). Each year the Corporate Risk Team undertake a review of the effectiveness of the overall approach, considering people, technology and process. Supporting this annual review is a Maturity assessment which has been undertaken since 2015 and recently updated in 2020.
- Based on the elements the ISO: 31000:2018 the capabilities for assessment include: Risk identification, Risk Analysis, Risk Evaluation, Risk Treatment, Governance and Engagement. Each capability is assessed relative to five levels of maturity (Developing, Formalised, Established, Proactive and Integrated) for aspects to improve either relating to the Framework itself or its application.
  - In 2020 we identified a number of areas for improvement and developed a road map of actions, progress against which is reported to the Group Audit and Risk board annually. These areas for improvement typically address areas on inconsistent application. With a target date of the first year of AMP8 and target levels for each capability we have made good progress in improving maturity in identification, governance and engagement and are now starting to switch our attention to improving integrated control activity.
- 3.5.29 Third-line assurance of risk management is part of Corporate Audit's cyclical audit framework. In 2023, they audited the Corporate Risk and Resilience Framework, which included the maturity assessment, the roadmap and progress of actions. The outcome of the audit was positive and a green report, confirming compliance with the UK Corporate Governance Code.
- 3.5.30 Audit findings stated the United Utilities has an established and embedded enterprise-wide risk management framework, which allows the organisation to identify, assess and report their risks through a structured top-down, bottom-up process. The Audit acknowledged the self-assessed areas for improvement as part of the Maturity model and presented further opportunities to improve the usefulness of the risk management framework, however, there were no material negative findings. These included improving guidelines to the Executive, considering simplification and streamlining of reporting and considering an upgrade to the database for recording.

## 4. Assurance

4.1.1 In this section, we summarise how we maintain and improve our capability to anticipate, avoid, cope and recover from disruption of all types through monitoring and validating of effectiveness over

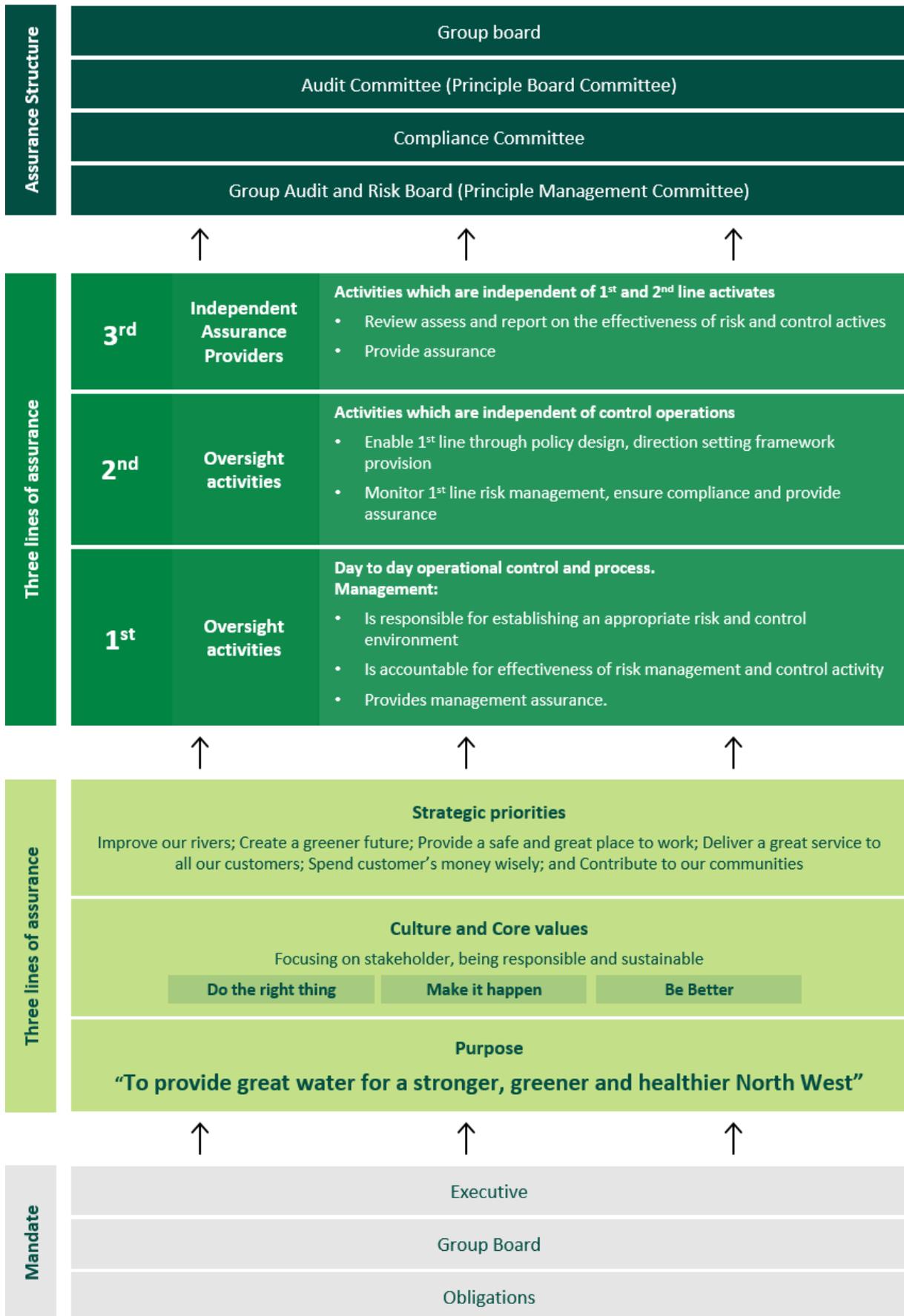
- Governance;
- Risk and controls;
- Operations; and,
- Accuracy of information.

4.1.2 We do this by highlighting the overarching Assurance framework and the specific framework for Whistleblowing respectively:

### 4.2 Assurance Framework

4.2.1 Figure 7 below provides an overview of how the assurance framework is structured. More detail is provided for each of these elements in the sections below.

Figure 7: Assurance Framework



4.2.2 The Group Board is ultimately responsible for the success of the company and is required under Ofwat’s Leadership, transparency and governance principles and the UK Corporate Governance Code to monitor the effectiveness of:

- Operations;
- Culture in relation to delivering against the purpose;
- Financial performance;
- Risk management and internal control; and,
- The accuracy of information.

### 4.3 The Board delegate responsibility for assurance activity to the Audit Committee (Principal Board Committee).

- 4.3.1 The Audit committee, meet four times a year to review and assure governance, risk and compliance matters on behalf of the group board. The core activity includes:
- Consideration of the financial position being presented by management,
  - Appoint statutory Auditors and in accordance with the Combined Code, monitor the effectiveness and independence of the statutory audits.
  - Review the outcome of completed internal audits at each meeting together with the progress and completion of audit actions;
  - Review the Assurance map (annually), which summarises the key external advice and assurance, internal audit activities and second line assurance activities for each of the significant group and operational event-based risks to ensure that there is sufficient assurance activities for each of the significant risks;
  - Review the mapping (annual) of the most significant risks facing the company against board and board committee agenda items to ensure alignment and relevance;
  - Audit plan for the year ahead;
  - Effectiveness of the whistleblowing and fraud processes and related policies; and,
  - Effectiveness and continual improvement of the corporate risk management framework.
- 4.3.2 The Compliance Committee which is held at least twice a year is to provide initial oversight, and challenge for regulatory assurance matters. The core activities include:
- Review key UUW regulatory submissions to ensure compliance with the relevant regulatory reporting requirements prior to submission to the Board with a recommendation as to their approval.
  - Review the underlying governance processes for key UUW regulatory submissions prior to submission to the Board with a recommendation as to their approval.
  - Review compliance (and any applicable supporting assurance) with such areas of legislation or regulation as the committee sees fit, to which the group and/or any individual company within the group must comply and be kept abreast of any changing requirements of any applicable legislation or regulation.
  - Be kept apprised of changes to UUW regulatory requirements, targets or relevant consultations being proposed or implemented by any of the group's regulators.
  - Oversee the structures and processes of UUW regulatory interactions to ensure they are conducted by authorised individuals within the business and ensure records of such regulatory interactions are maintained and reviewed from time to time by corporate audit.
- 4.3.3 The Group Audit and Risk Board (GARB) is a principal management committee. Its purpose is to provide an Executive review of governance processes, risk management and internal control; their adequacy,

effectiveness and performance and to enable monitoring of compliance as part of the governance framework and the identification of emerging themes and trends. This enables the Executive to

- Ensure corrective action is taken
- Provide opportunity for discussion of materials in advance of relevant Audit Committee and Board reporting.
- Identify and respond to trends and themes within and across business areas.

4.3.4 The Group Audit and Risk Board (GARB) regular review of issues and summary level reporting (typically by exception) arising in relation to:

- Corporate Audit activities;
- Management control self-assessment activities
- Risk Management framework, process and reporting, and effectiveness thereof;
- Fraud and Whistleblowing framework, process and incident reporting, and effectiveness thereof;
- Data Protection, Competition, Environmental Information Regulations and Bribery Act compliance;
- Security , including IT, Cyber and operational security
- Overall resilience including asset resilience; and,
- Operational compliance and assurance activities.

4.3.5 Our internal audit function provides objective assurance, advice and insight on governance, risk management, internal control and company disclosures to the audit committee, the board and to senior management:

- A five-year strategic audit planning approach is applied to facilitate the efficient deployment of internal audit resource with the audit plan, which focuses on material issues and key business risks;
- The nature, timing and extent of assurance activities is determined based on the materiality and risk associated with the company disclosures;
- An audit universe of auditable areas and processes is maintained with a risk assessment applied to drive the frequency of cyclical audit activities. In addition to the cyclical audits, internal audit undertakes targeted reviews to assess the control and mitigation of emerging risks, issues and business / regulatory change; and,
- Assurance by specialist external auditors is obtained where there is a requirement for: technical capability; additional internal resource; independence; or addressing conflicts of interest (notably risk management).

## 4.4 Three lines of Assurance

4.4.1 In Chapter 7 we highlight that we have a well-established 'three lines of assurance' framework that is applied at United Utilities. Developed by the Internal Audit Function in conjunction with the Strategy, Policy and Regulation team the framework is as follows:

- **First line of assurance** – business operations: day-to-day operational control and processes. Management establishes an appropriate risk and control environment, is accountable for effective risk management and control activity, and provides management assurance;
- **Second line of assurance** – oversight activities: independent of control operators. Second line functions provide policy, direction and frameworks as well monitoring of the first line activities to assure compliance; and,
- **Third line of assurance** – independent audit and assurance providers. Our internal audit team and specialist external auditors review the effectiveness of risk and control activities as well as providing

assurance in respect of company disclosures. In the case of regulatory reporting our internal audit team become second line with external statutory auditors becoming the third line.

### First Line Assurance

- 4.4.2 The internal control manual (ICM), facilitates first line capability and enables second and third line assurance. The ICM details the corporate governance framework and financial controls for United Utilities, is published on the intranet, and supports the achievement of the objectives and obligations giving assurance to the board of directors. The ICM provides the following:
- Assistance to managers in developing and maintaining an adequate system of financial management and control;
  - Facilitates effective, efficient operation of everyday activities within United Utilities;
  - Helps safeguard assets from loss, fraud or inappropriate use and ensuring liabilities are identified and managed;
  - Provides assurance over the quality of internal and external reporting; and,
  - Ensures compliance with laws, regulations and internal policies.
- 4.4.3 On an annual basis, senior management complete a self-assessment questionnaire to confirm their compliance with a range of key internal policies, processes and controls over the financial year.
- 4.4.4 The self-assessment is underpinned by the fraud and bribery returns, which every department completes twice a year.

### Second line assurance

- 4.4.5 There are various second line assurance functions which oversee the management activities to ensure compliance with policies, regulations and control frameworks, including: an Assurance Team which focus on operational compliance; a Health, Safety & Wellbeing team; Scientific Service team who perform testing of water quality; and a Corporate Risk team who monitor and assure against risk management.
- 4.4.6 Key performance indicators for operational, financial and compliance activity have been developed and are monitored through the monthly executive meetings.
- 4.4.7 We have a well-established assurance framework that we apply to our regulatory reporting submissions. Using the methodology, performance and compliance statements, we adopt a targeted risk-based assessment process which determines the nature of the governance and the level of the assurance required to evidence the reported performance and the control checks that have been applied. This assurance of data and information, supports the Annual Performance Report.
- 4.4.8 We undertake an assessment of, and report our going concern and long-term viability statements, detailing the basis of assessment, the resilience of the group relative to the principal risks facing the business, key mitigating factors and associated governance activities.
- 4.4.9 We also undertake maturity assessments against various processes and systems to understand, learn and develop road maps for improvement against target maturity levels. Examples include risk management maturity assessment and systems thinking maturity assessment.

### Third line Assurance

- 4.4.10 Internal audit operate independently from business units with a direct line to Group Board via the Non-executive Chair of the Audit Committee. The team undertake audits primarily based on a predefined plan which focuses on material issues and key business risks, but also adhoc targeted audits as matters arise.
- 4.4.11 Co-source partners, other specialist or technical auditors are employed to undertake independent audits where internal resource does not have expertise or capacity to undertake the audit objectively or where there is a conflict of interest

- 4.4.12 We are accredited to a number of management standards to which we maintain certification through independent audits. Accreditation relates to Quality standards (ISO 9001), Environmental management (ISO 14001), Asset management (ISO 55001), Health and Safety (ISO 45001), and Customer vulnerability services (BS ISO 22458).

**Figure 8: Accreditation**



- 4.4.13 Statutory auditors are appointed by the audit committee to determine:

- Whether there has been a fair and accurate representation of financial and regulatory reporting and accounts;
- That financial statements have been prepared in accordance with relevant reporting and accounting standards (such as IFRS) and whether adequate accounting records have been kept; and,
- Whether there are any material inconsistencies between the other information presented in the annual report and the financial statements

## 4.5 Assurance through the Whistleblowing framework

- 4.5.1 Our whistleblowing framework is an important element of our assurance as it provides a safe route for the escalation of concerns or issues relating to improper practices in the workplace without reprisal.
- 4.5.2 The subject of these concerns or issue could affect efficiency, profitability, legal / regulatory compliance and / or the reputation of the company. They can relate to multiple factors including health and safety risks, potential environmental problems, fraud, corruption, cover-ups, and many other problems.
- 4.5.3 The framework helps us to:
- Anticipate an impending issue or further occurrences,
  - Avoid incidents by termination of an activity or improving controls
  - Cope with incidents by proactive awareness of scenarios potential issues and preparation, and,
  - Recover from incidents by knowing about concerns/issues at the earliest opportunity and deploying contingency.
- 4.5.4 The company operates an independently provided confidential reporting telephone helpline and web portal for colleagues to raise matters of concern in relation to misconduct by the company or individuals, fraud, dishonesty, corruption, theft, security, bribery or any other matter of concern. The independent service is provided by Safecall. Furthermore, colleagues are encouraged to raise any matters relating to health and safety and any activities of the business which have caused or may cause damage to the environment. Alternatively, any matters of concern can also be raised with their manager, their people business partner or another senior manager.
- 4.5.5 Whistleblowers can remain anonymous if they wish, with the use of Safecall ensuring anonymity. All concerns are investigated fully, whether they are raised with a manager, or via the confidential helpline/web portal and whistleblowers are provided with information on the progress and outcome of reported matters. We are committed to protecting the anonymity of all whistleblowers and will protect them from any reprisals.
- 4.5.6 Reports are investigated on behalf of Whistleblowing Committee by the Independent Internal Audit and / or Legal teams. Appropriate actions are taken, and reported to Group Audit and Risk Board (GARB), Audit Committee and UU Group Board.

**United Utilities Water Limited**  
Haweswater House  
Lingley Mere Business Park  
Lingley Green Avenue  
Great Sankey  
Warrington  
WA5 3LP  
[unitedutilities.com](http://unitedutilities.com)



**Water for the North West**