

DCC

Internal Control Document

Version: 2.0
Date: August 2015
DCC Public

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1 Background

On 23rd September 2013, Smart DCC Ltd (henceforth referred to as DCC) was granted the Smart Meter Communication Licence by the Secretary of State for Energy and Climate Change.¹ The Licence sets out the conditions under which DCC will implement and manage a data and communications service that enables smart meters within domestic and non-domestic premises to communicate with the business systems of authorised DCC Service Users.

1.1 General Objectives and Authorised Business

DCC is tasked within Condition 5 of the Licence (General Objectives of the Licensee) to discharge its duties to achieve the following General Objectives:²

- **Interim General Objective** – achievement of a full, timely, efficient, economical, and secure Completion of Implementation
- **General Objective 1** – development, operation and maintenance of an efficient, economical, coordinated, and secure system for the provision of Mandatory Business Services
- **General Objective 2** – deliver Mandatory Business in a manner that is most likely to facilitate:
 - a. effective competition between persons engaged in, or commercial activities connected with, the Supply of Energy
 - b. innovation in the design and operation of Energy Networks
 - c. reduction (by virtue of benefits arising from the provision of Value Added Services) of the charges payable for Mandatory Business Services.

To enable achievement of the General Objectives, Condition 6 of the Licence (Authorised Business of the Licensee) sets out the Authorised Business activities that DCC is permitted to deliver:

- **Mandatory Business** – comprising the provision of Core Communications Services, Elective Communications Services and Enabling Services (including Enrolment, Communications Hub and Other Enabling Services) for and on behalf of SEC parties
- **Permitted Business** – comprising the provision of Value Added Services and Minimal Services.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249046/smartdcclicence.pdf

² General Objectives and Authorised Business definitions have been paraphrased from the Licence

1.2 General Controls

DCC's special position requires that it implement an efficient and effective control regime that will ensure that the environment in which Authorised Business activities are conducted is, and will remain, fit for purpose. In accordance with Condition 7 of the Licence, DCC will provide assurance through the discharge of the following obligations:

- **Corporate Governance** – compliance with the UK Corporate Governance Code
- **Internal Control** – implementation of arrangements to provide for internal control of Authorised Business
- **Risk Management** – framework for the identification, evaluation and management of risk pertaining to the delivery of Authorised Business activities.

1.3 Internal Control Arrangements

To provide assurance of DCC's systems and procedures for internal control arrangements (in accordance with Condition 7 Part B of the Licence), this Internal Control Document sets out the internal control environment that will be implemented by DCC.

The Internal Control Document will be updated during the course of the Licence term in line with Condition 7 Part D of the Licence.

Changes to the Internal Control Document will be made following authorisation by Ofgem.

2 Approach to Internal Control

2.1 Internal Control Environment

To ensure that its Authorised Business activities are planned, executed, controlled and monitored effectively, DCC will implement an integrated internal control environment (Figure 1). The environment sets out the component domains of internal control that will provide assurance on the delivery of DCC's business activities. The approach taken within each domain is outlined in the subsequent sections of this document.

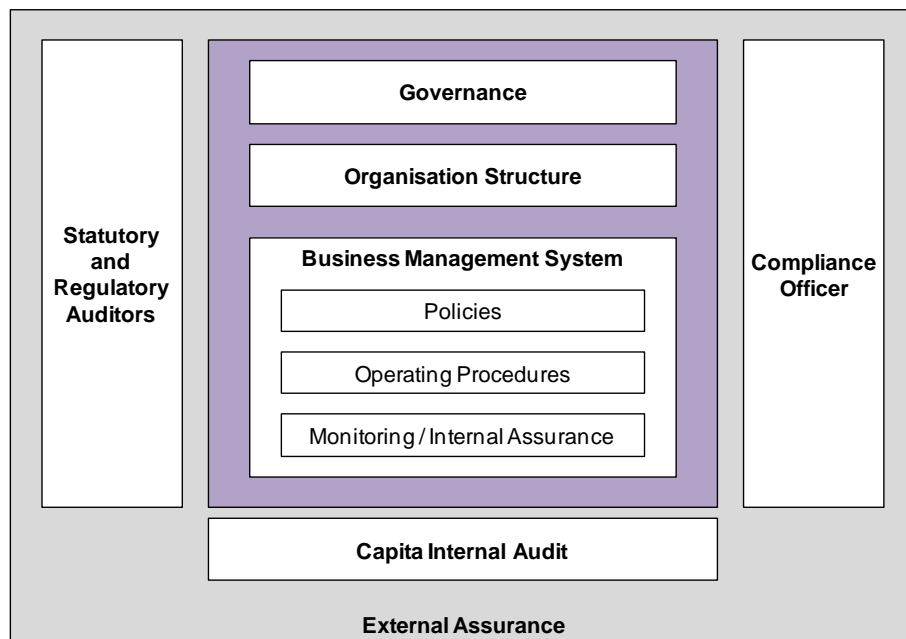


Figure 1 – DCC internal control environment

2.2 Management

Accountability for the implementation and ongoing monitoring of the DCC internal control environment sits with the DCC Managing Director.

Responsibility for co-ordination and management of the internal control environment sits with the Head of Risk and Internal Control, working through control owners.

2.3 Oversight

The DCC Board will provide oversight of the internal control environment through

- review and internal authorisation of the Internal Control Document (and subsequent revisions)
- bi-annual reviews of the performance and the maturity of the internal control environment.

3 Governance

3.1 Corporate Governance

DCC will adhere to the principles of the UK Corporate Governance Code³. This will be summarised in an annual Corporate Governance Statement which will be incorporated into DCC's Annual Statutory Report and Accounts and its Regulatory Accounts.

3.2 DCC Board

The DCC Board has overall responsibility for internal control, and discharges this responsibility through the following:

- provide leadership for DCC within a framework of prudent and effective controls which will enable risk to be assessed and managed
- set strategic aims for DCC and ensure that it has the necessary financial and human resources to meet its objectives
- review DCC's financial stability and governance arrangements
- review management performance and provide oversight of DCC's values and standards
- review DCC's Compliance Report and annual report produced by the Compliance Officer
- review and approve certificates for the Authority, ensuring that DCC is compliant with its Licence and that it has the financial and operational resources to deliver Authorised Business activities
- approve DCC's Regulatory and Statutory Accounts.

The DCC Board will sit (at a minimum) on a quarterly basis.

The composition of the DCC Board is as follows:

- Richard McCarthy (Chairman and Non-executive Director)
- Jonathan Simcock (Managing Director)
- Phil Male (Independent Non-executive Director)
- William Rickett (Independent Non-executive Director)
- Stephen Sharp (Non-executive Director)

³ P6-7 - <http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf>

The Independent Non-Executive Directors have been appointed in accordance with Condition 9 Part E of the Licence.

3.3 Audit Committee

The Audit Committee is a sub-committee of the main board with the following duties⁴:

- monitor the integrity of the financial statements of DCC (including Statutory and Regulatory Accounts) and review significant financial reporting judgements contained within them
- review DCC's financial controls, internal controls and risk management systems
- monitor and review the effectiveness of the DCC's internal assurance activities
- make recommendations to the DCC Board in relation to the appointment, re-appointment and removal of the Statutory Auditor and to approve the remuneration and terms of engagement of the Statutory Auditor
- review and monitor the statutory auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- report to the DCC Board on how it has discharged its responsibilities.

The composition of the Audit Committee is all of the Non-executive Directors, under the Chairmanship of William Rickett.

⁴ The full terms of reference are available on www.smartdcc.co.uk

4 Organisation Structure

The DCC organisation is functionally structured to provide clear lines of accountability and responsibility for the delivery of Authorised Business activities.

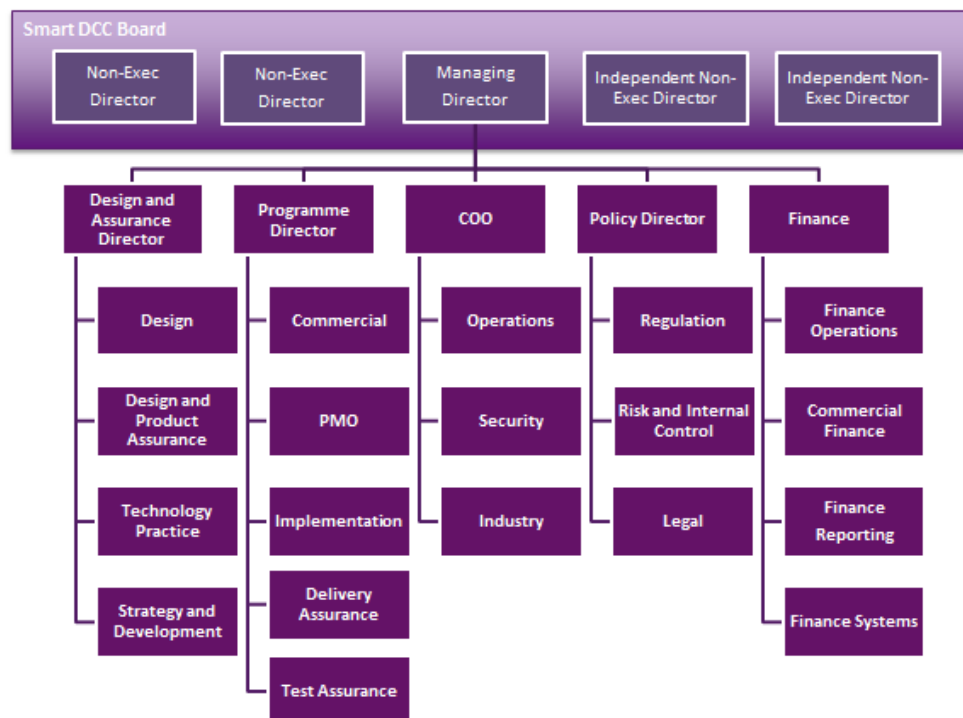


Figure 2 – DCC organisation structure

Overall responsibility for co-ordination and management of the internal control environment sits with the Head of Risk and Internal Control, sitting within the Policy area, but with a reporting line to the DCC Ltd Board. The Head of Risk and Internal Control will:

- lead implementation of the internal control environment and Business Management System
- provide support and guidance to DCC functions in the implementation and execution of policies, processes and procedures
- monitor and assure the execution of policies, processes and procedures
- drive continuous improvement in the execution of Authorised Business activities
- report on internal control environment performance to the DCC Board
- maintain and update the Internal Control Document.

Delivery of these responsibilities will require continuous engagement with the resources within each function that are tasked with the execution of Authorised Business and internal control policies, processes and procedures. The Head of Risk and Internal Control can compel action when considered appropriate.

Functional responsibility for underlying control documentation is outlined in the Business Management System.

5 DCC Business Management System

To ensure that Authorised Business activities are planned, executed, controlled and monitored consistently and effectively, DCC will operate a Business Management System (BMS) consistent with ISO 9001:2008 requirements. The scope of the BMS is outlined in Figure 3.

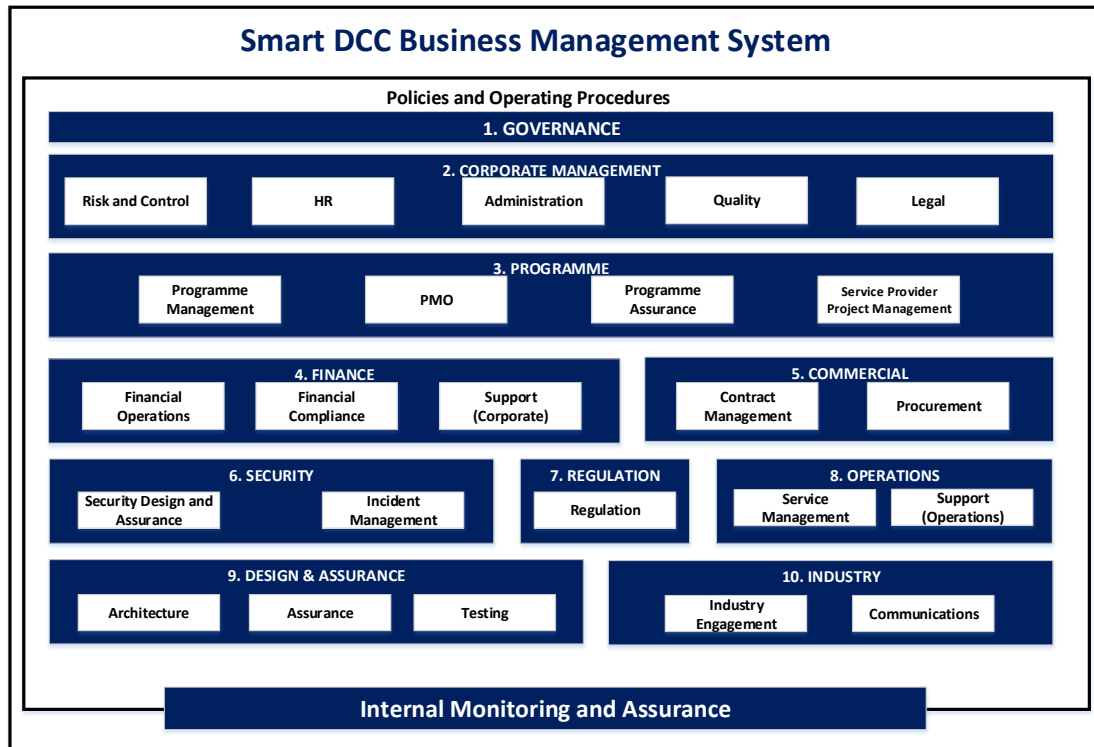


Figure 3 – DCC Business Management System

5.1 Policies

DCC policies will be aligned with Capita plc policies (where appropriate). Each policy will be assigned a Policy Owner with responsibility for ensuring that the policy and supporting processes and procedures provide an auditable framework for the controlled delivery of Authorised Business activities.

Figure 4 sets out the DCC owner for each policy covered by this document.

BMS Area	Current Policies	Owner
Corporate Management	Equality & Diversity* Independence & Autonomy* Risk Management* Administration Human Resources Legal	Managing Director
Finance	Anti-Bribery & Corruption* Fraud* Financial Management Facilities ICT	Finance Director
Security	Data Protection* Information Security*	Chief Information Security Officer
Operations	Health & Safety* Environment*	Operations Director

Figure 4 – BMS Area owners with current policies

*Copies of these policies are available on smartdcc.co.uk/about-dcc/governance/operational-policy-documents. An outline of the contents of all policies listed is included in Appendix A.

5.2 Operating Processes and Procedures

Policies will be underpinned by operating processes and procedures (where applicable) that will detail the activities and controls that will ensure that Authorised Business activities are delivered in a controlled and auditable manner. To ensure that

transparent audit trails are retained, all processes and procedures will detail the records that will be retained by DCC.

Responsibility for the implementation, monitoring and improvement of operating processes and procedures will reside with the Policy Owner, supported by the Head of Risk and Internal Control.

5.3 Internal Monitoring and Assurance

Ongoing compliance with policies, processes and procedures will be the responsibility of the Policy Owner. The Head of Risk and Internal Control will manage a process of monitoring, which contains the following elements:

5.3.1 Risk and Control Matrix

The Internal Control requirements that are required to meet the commitments of The Licence, the Smart Energy Code (SEC), and the various DCC policies will be maintained in a matrix, along with their related risks. As new risks are identified, or changes to control are required, the matrix will be updated.

It is the aim of the Internal Control environment overall and individual controls identified to mitigate the risks of non-compliance down to acceptable levels. It is not possible for an economic and efficient system of Internal Control to remove all risk at all times.

5.3.2 Risk-based quarterly Audits

On a quarterly basis a number of the controls will be reviewed to ensure that the controls continue to be effective both in terms of design, and operating effectiveness. The results of these reviews will be reported to the Senior Management Team and the DCC Ltd Board.

5.3.3 Managing Opportunities and Remedial Actions

Where any issues are identified with either:

- the design or operating effectiveness of Internal Controls; or
- the documentation that makes up the BMS,

A remediation plan will be required from the owner of the relevant process, with the progress against this plan monitored.

Opportunities and remedial actions will be managed through the DCC Continuous Improvement Plan.

5.4 Continuous Improvement

The BMS will be underpinned by a continuous improvement methodology, which will deliver assurance of DCC's internal controls, and drive the design and implementation of improvements.

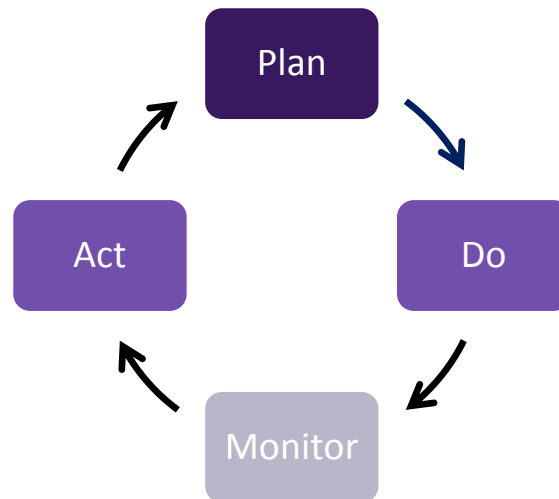


Figure 5 – Continuous Improvement Methodology

5.4.1 Plan

- Designing and publishing policies, procedure, systems and training material;
- Defining roles and responsibilities;
- Implementation plans.

5.4.2 Do

- Employee communications and awareness, including training delivery;
- Operation of processes, procedures and systems;
- Retention of records.

5.4.3 Monitor

- Continuous Process process compliance monitoring;
- Quarterly risk-based audit and reporting process;
- External assurance.

5.4.4 Act

- Design and implement improvements, and review effectiveness;
- Change control to BMS and Internal Control Document (as required).

5.5 Change Control

All internal control documentation will be maintained under change control procedures.

5.5.1 Document Owner

Documents will be assigned an owner whose authorisation will be required to implement a change e.g. for the Information Security Policy, the Chief Information Security Officer would be the owner.

5.5.2 Document Review

Internal control documentation will be reviewed in line with the monitoring and assurance process. Reviews will be led by the document owner taking inputs from relevant subject matter experts and the Risk and Internal Control Manager.

5.5.3 Managing Changes

Where a change is authorised by the document owner (either through document review or through a change to a policy, process or procedure), an updated version of the document will be issued detailing:

- version number
- change and justification
- authorisation by the document owner
- distribution list to be made aware of the change.

All internal control documentation will be maintained on the DCC SharePoint site. This will ensure that changes to documentation are traceable and auditable.

5.6 Audit Trails

DCC will maintain appropriate audit trails that demonstrate controls have been operating, either electronically, or through paper copies where required.

6 External Assurance

6.1 Compliance Officer

In accordance with Condition 12 of the Licence, the DCC Board has appointed Deloitte LLP to the position of the Compliance Officer. The Compliance Officer will:

- provide relevant advice and information to facilitate DCC's compliance with Chapter 3 Licence conditions⁵
- monitor the effectiveness of DCC's practices, procedures, and systems to ensure compliance with Chapter 3 Licence conditions
- investigate complaints pertaining to Chapter 3 Licence conditions and recommend remedial actions where required
- produce an annual report that will be issued to the DCC Board setting out an opinion on the Licensee's compliance for the year and summarising the Compliance Officer's activities during the period.

6.2 Statutory Auditor

In accordance with Condition 7 of the Licence, the DCC Board has appointed KPMG LLP as DCC's Statutory Auditor. The Statutory Auditor will produce a report for the Audit Committee detailing whether they have identified any material matters to indicate that DCC has not kept a proper set of books and records or has not operated an adequate system of internal financial control.

A copy of the Annual Statutory Audit Report will be provided to Ofgem no later than 31st July in each Regulatory Year.

6.3 Regulatory Auditor

The DCC Board has appointed KPMG LLP as DCC's Regulatory Auditor. The Regulatory Auditor will produce an Annual Regulatory Audit Report stating whether in its opinion DCC's regulatory accounts fairly present the financial position, financial performance, and cash flows of, or that are reasonably attributed to, each of the Authorised Business activities.

The Regulatory Auditor will also review DCC's compliance with the requirements of Condition 11 with respect to the prohibition of cross-subsidy and discrimination.

⁵ Chapter 3 Licence Conditions – Condition 9: Independence and autonomy of the Licensee, Condition 10: Protection of Confidential Information, Condition 11: Duties arising from the Licensee's special position.

A copy of the annual regulatory audit report and review of Condition 11 with respect to the prohibition of cross-subsidy and discrimination will be provided to Ofgem no later than 31st July in each Regulatory Year.

6.4 Internal Audit

As a wholly-owned Capita plc subsidiary, DCC will be subject to a regime of monitoring and assurance by Capita Group Internal Audit to assess the adequacy and effectiveness of DCC's systems of internal control. Findings will be reported to DCC management and made available to the Audit Committee.

Appendix A – DCC Policy Outline Contents

Unless otherwise indicated, the policies are applicable to all members of staff, contractors and directors of DCC.

Policy	Outline Contents
Administration	Statement of Policy – DCC will provide an economic and efficient administration function
	Definitions of terms used – None
	Specific Commitments – <ul style="list-style-type: none"> • retention of outputs and records relating to the delivery of Authorised Business activities • Maintain up-to-date corporate documents • Delivery of Information Security and Information Management Policies
	Commitments to compliance with Legislation or Licence – None
Anti-bribery and Corruption	Statement of Policy – DCC has a zero-tolerance of bribery and corruption
	Definitions of terms used – Bribery and Corruption
	Specific Commitments – Business risk will be assessed with appropriate procedures implemented based on this
	Commitments to compliance with Legislation or Licence – UK Bribery Act 2010
Data Protection	Statement of Policy - DCC is committed to compliance with the lawful protection of personal information as a fundamental obligation
	Definitions of terms used – None

Policy	Outline Contents
	<p>Specific Commitments</p> <ul style="list-style-type: none"> • Providing appropriate training • The eight Principles of the Data Protection Act <p>Commitments to compliance with Legislation or Licence - Data Protection Act 1998</p>
Environment	<p>Statement of Policy - DCC aims to minimise any harmful impacts wherever and whenever practicable</p>
	<p>Definition of Terms Used - None</p>
	<p>Specific Commitments –</p> <ul style="list-style-type: none"> • Commitment to the prevention of pollution, and compliance with environmental legislation • Outline of main areas where the impact of our operations will be minimised through a continuous improvement program.
Equality & Diversity	<p>Statement of Policy - The Policy of DCC is to prevent discrimination on any of the following bases:</p> <ul style="list-style-type: none"> ○ Age ○ Sex ○ Disability ○ Gender re-assignment ○ Marriage and civil partnership ○ Pregnancy and maternity/paternity ○ Race ○ Caste ○ Religion and belief ○ Sexual orientation
	<p>Definitions of Terms Used - None</p>
	<p>Specific Commitments</p> <ul style="list-style-type: none"> • These principles apply to recruitment selection, ongoing career development and all terms and conditions of employment

Policy	Outline Contents
	Commitments to compliance with Legislation or Licence - None
Facilities	Statement of Policy DCC will provide an economic and efficient facilities
	Definitions of Terms Used - None
	Specific Commitments – DCC will implent and operate the following capabilities: <ul style="list-style-type: none"> • Health and Safety – implementation of Health and Safety Policy • Building management • Access control and physical security in accordance with Information Security Policy • Cleaning in accordance with Capita Group’s policies and guidelines • Services procured from Capita Group are underpinned by an intercompany agreement that defines service standards and levels
	Commitments to compliance with Legislation or Licence - None
Financial Management	Statement of Policy DCC will provide an economic and efficient financial function
	Definitions of Terms Used - None

Policy	Outline Contents
	<p>Specific Commitments – DCC will implement and operate the following capabilities:</p> <ul style="list-style-type: none"> • Budgeting – Robust budgeting process will ensure accuracy and accountability is devolved and monitored at all times • Financial reporting – Timely, relevant and consistent financial information will be produced within prescribed formats • Accounting – In accordance with UK GAAP • Income accounting – charging statements and invoices will be prepared and published in accordance with SEC deadlines • Payment accounting – Service Provider invoices and payments will be processed in accordance with SEC deadlines • Internal cost reporting – Internal costs will be tracked, reported and scrutinised • Payroll and pensions – provided via Capita Group’s payroll function with auto-enrollment into Capita’s pension scheme <p>Commitments to compliance with Legislation or Licence - None</p>
Fraud Prevention	<p>Statement of Policy</p> <p>DCC will act with the highest standards of integrity and honesty, with a zero tolerance to fraud</p>
	<p>Definitions of Terms Used - Fraud</p>
	<p>Specific Commitments - Outline of the measures that DCC uses to limit the exposure to fraud</p>
	<p>Commitments to compliance with Legislation or Licence - Compliance with the Proceeds of Crime Act 2002</p>

Policy	Outline Contents
Health & Safety	Statement of Policy <ul style="list-style-type: none"> • DCC will treat the health, safety and wellbeing of its employees with paramount importance • Recognition that health and safety is an integral part of business performance • Outline of commitments of how DCC intends to implement its objectives • DCC's expectations towards employees in regards to compliance with the policy • Commitment to developing a culture that supports the management of health and safety
	Definitions of Terms Used - None
	Specific Commitments <ul style="list-style-type: none"> • Safe systems of work • Use, storage and transport of articles and substances • Provision of training and emergency arrangements • Continuous Improvement
	Commitments to compliance with Legislation or Licence - None
Human Resources	Statement of Policy <p>DCC will, in accordance with Capita Group policies, comply with all relevant UK employment legislation.</p>
	Definitions of Terms Used - None
	Specific Commitments <ul style="list-style-type: none"> • Deliver an economic and efficient HR function by accessing Capita Group's HR processes, systems and capabilities • Workforce and succession planning, and reward and compensation design with be directly delivered by DCC
	Commitments to compliance with Legislation or Licence – UK employment legislation

Policy	Outline Contents
Information, Communication, Technology (ICT)	Statement of Policy DCC will deliver and economic and efficient ICT capability
	Definitions of Terms Used – Defines the services to be provided
	Specific Commitments <ul style="list-style-type: none"> • Capita Group will provide systems and services (or specialist third parties where appropriate). Systems and services procured from Capita Group are underpinned by an intercompany agreement that defines service standards and levels
	Commitments to compliance with Legislation or Licence – None
Independence & Autonomy	Statement of Policy DCC must always act in a manner that is consistent with its special position as holder of the Licence.
	Definitions of Terms Used - None
	Specific Commitments <ul style="list-style-type: none"> • Requirement for all employees and contractors to be aware of requirements on undue preference and discrimination • Position on procuring services, including when procured from Capita affiliates • Position should Capita become a Key Sub-contractor of a Service Provider • Dealing with recommendations of the Compliance Officer
	Commitments to compliance with Legislation or Licence Licence Condition 11.7

Policy	Outline Contents
Information Security	Statement of Policy DCC appropriately and effectively secures its information assets, and those we are responsible for through adoption, implementation and enforcement of applicable law and relevant and commonly acknowledged Information Security best practices
	Definitions of Terms Used – Information security, with the areas covered
	Specific Commitments <ul style="list-style-type: none"> • Commitment to review, measure and monitor the Information Security framework on an ongoing basis
	Commitments to compliance with Legislation or Licence ISO27001 compliance required by Licence
Legal	Statement of Policy DCC will ensure that effective arrangements are in place to enable it to comply with all its legal and regulatory responsibilities and obligations
	Definitions of Terms Used - None
	Specific Commitments <ul style="list-style-type: none"> • DCC’s legal function will focus on ensuring compliance with Licence requirements, the Smart Energy Code, obligations contained in the Service Provider contracts and relevant UK legislation that places obligations upon DCC
	Commitments to compliance with Legislation or Licence - None

Policy	Outline Contents
Risk Management	Statement of Policy DCC recognises the benefits of managing risk proactively, to take full advantage of opportunities, and better manage the resources available in the delivery of Authorised Business.
	Definitions of Terms Used - None
	Specific Commitments Outline of the key requirements of effective risk management <ul style="list-style-type: none"> • Compatible with Risk Management Strategy • Evaluation of risk according to risk matrix • Maintenance of dedicated risk registers • Reporting of strategic risks to the Board Ongoing management evaluation of the effectiveness of risk management
	Commitments to compliance with Legislation or Licence - None