

Smart DCC Limited (the “Company”) Audit and Risk Committee Terms of Reference

Definitions:

- Reference to the “**Committee**” shall mean the Audit and Risk Committee.
- Reference to the “**Board**” shall mean the Board of Directors of the Company.
- Reference to the “**Senior Management**” shall mean the Chief Executive Officer, the Chief Financial Officer, and their direct reports
- Reference to the “**Code**” shall mean the UK Corporate Governance Code 2018
- Reference to the “**Licence**” shall mean the Smart Meter Communication Licence granted pursuant to: sections 7AB(2) and (4) of the Gas Act 1986 and section 6(1A) and (1C) of the Electricity Act 1989 with a commencement date of 23 September 2013 granted by The Secretary of State and overseen by the Department for Energy and Climate Change and authorised by the Office of Gas and Electricity Markets (‘Ofgem’).

A. Purpose

- 1.1 The purpose of the Committee is to assist the Board in its oversight of the integrity of the Company’s financial reporting and support the implementation of effective risk management and internal control principles. The Committee will also maintain an appropriate relationship with the Company’s auditors, monitoring and assessing their performance, effectiveness, and objectivity.

B. Authority

- 2.1 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 2.2 The Committee is authorised by the Board of Directors to examine any activity within its terms of reference and is authorised to have unrestricted access to the Company’s external auditors and to obtain, at the Company’s expense, independent professional advice on any matter within its terms of reference
- 2.3 The Committee is authorised to seek any information it requires from any employee or director, and all such employees or directors will be directed to co-operate with any request made by the Committee.
- 2.4 If the Committee has appointed an independent professional advisor(s) during the year this shall be identified in the annual report alongside a statement about any other connection it has with the Company or individual directors.

C. Membership

- 3.1 The Committee must have at least 2 (two) members. The members of the Committee shall be appointed by the Board of Directors in consultation with the Nomination Committee and the Committee Chair. The Chair of the Board shall not be a member of the Committee.
- 3.2 The Committee shall comprise solely of Non-Executive Board Members unless there are no members who have recent and relevant financial experience, in which case an external advisor as agreed by the Board shall be appointed. At least two members shall be Sufficiently Independent, as defined in the Company’s Licence.
- 3.3 At least one member of the Committee should have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies. The Committee as a whole shall have competence relevant to the sector in which the Company operates.

- 3.4 Only members of the Committee have the right to attend Committee meetings and vote, but the Committee may invite others to attend all or part of any meeting as an when appropriate and necessary. Typically, this can include the Chair of the Board, the Chief Financial Officer and the Director of Risk and Assurance. The Company's external auditors will be invited to attend Committee meetings on a regular basis and must meet the Committee members without the Executive Directors present to discuss the auditor's remit and any issues arising from the audit at least once per annum.
- 3.5 The Board appoints the Committee Chair, who, in order to comply with the Code, should be an independent non-executive director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present may elect one of their number to chair the meeting.

D. Secretary

- 4.1 The Company Secretary or their nominee shall be the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to all issues.

E. Quorum

- 5.1 A quorum shall be any 2 (two) members of the Committee.
- 5.2 Appointments to the Committee shall be for a period of up to 3(three) years, which may be extended by no more than 2 (two) additional periods of up to 3 (three) years, provided that members continue to remain independent.

F. Voting Arrangements

- 6.1 Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting (whether in person or by audio or video conference).
- 6.2 Any decision of the Committee must be a majority decision at a meeting unless it is a decision taken in accordance with paragraph 6.3.
- 6.3 A decision of the Committee is taken in accordance with this paragraph 6.3 when all eligible members of the Committee indicate to each other by any means that they share a common view on a matter. Such decision may take the form of a resolution in writing, where each eligible member of the Committee has signed one of more copies of it, or to which each eligible member of the Committee has otherwise indicated agreement in writing.
- 6.4 A decision may not be taken in accordance with paragraph 6.3 if the eligible members of the Committee would not have formed a quorum had the matter been proposed as a resolution at a Committee meeting.
- 6.5 If a member of the Committee has a direct or indirect interest in a matter that is considered by the Committee, that member shall be permitted to vote on the matter and count in the quorum provided the interest has been disclosed in accordance with the Companies Act 2006.
- 6.6 Save where they have a personal interest, the Chairman of the Committee will have a casting vote and may refer any matter they deem appropriate to the Board for decision.

G. Frequency of Meetings

- 7.1 The Committee will meet at least 2 (two) times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.

7.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Chair, Chief Executive, CFO and the external audit lead partner.

7.3 Meetings may be conducted in person, via telephone conferencing or a hybrid of the two.

H. Notice of Meetings

8.1 Meetings of the Committee shall be called by the secretary of the Committee or their nominee at the request of any of its members or the Chief Financial Officer or at the request of the external audit lead if they consider it necessary.

8.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of the matters to be discussed at the meeting and any supporting papers shall be forwarded to each member and any other person required to attend no later than 5 (five) working days before the date of the meeting.

8.3 The Committee may send notices, agendas and supporting papers in electronic form where the recipient has agreed to receive documents in such a way.

I. Minutes of Meetings

9.1 The proceedings and resolutions of meetings of the Committee, including the names of those present and in attendance, shall be minuted. Draft minutes of Committee meetings shall be agreed with the Committee chair and then circulated promptly to all members of the Committee. Once approved, the minutes of each meeting will be circulated to all other members of the Board of directors and the Company Secretary (Capita Secretariat), unless it would be inappropriate to do so in the opinion of the Committee Chair.

J. Duties

The Committee shall (unless required otherwise by regulation) carry out the following duties for the Company:

10.1 Financial Reporting

- (a) monitor the integrity of the financial and narrative statements of the Company, including:
 - i. annual reports; and
 - ii. any other formal announcements or reporting relating to its financial performance, reviewing significant financial reporting issues and judgements contained in them.
- (b) review and challenge where necessary:
 - i. the application and appropriateness, and any changes to, accounting policies both on a year-on-year basis and across the Company;
 - ii. the methods used to account for significant or unusual transactions where different approaches are possible;
 - iii. whether the Company has made appropriate estimates and judgements, taking into account the views of the external auditor;
 - iv. significant adjustments resulting from the external audit;
 - v. the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Company looking forward over an appropriate and justified period);

- vi. monitor compliance with financial reporting standards and any recognised investment exchange and other financial and governance reporting requirements
- vii. the clarity and completeness of disclosures in the Company's financial and narrative statements and the context in which statements are made; and
- viii. all material information presented with the financial statements, such as the strategic report, business review/operating and financial review and any corporate governance statements.

10.2 Narrative Reporting

- (a) If the Committee is not satisfied with any aspect of the proposed financial reporting or narrative statements by the Company, it shall report its views to the Board; and
- (b) where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

10.3 Internal Controls and Risk Management Systems

The Committee shall:

- (a) on behalf of the Board monitor the Company's overall risk appetite, tolerance, mitigation plans and strategy, and the internal controls systems against the risk appetite set by the Board;
- (b) oversee and advise the Board on the current risk exposures of the Company and future risk strategy and on the operation the internal control systems;
- (c) keep under review the Company's overall risk assessment processes that help inform the Boards decision making;
- (d) review the Company's capability to identify and manage new and emerging risks;
- (e) review reports on any material breaches of risk limits and the adequacy of proposed action;
- (f) consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to the information to enable it to perform its function effectively;
- (g) review the financial statements, recommending them to the Board for approval or advising of any areas of concern;
- (h) review and recommend the Risk Management Framework for approval by the Board;
- (i) regularly review the Risk Register to ensure it reflects the key emerging and principal risks of the business, advising the Board of any significant changes or deviations from the Risk Appetite;
- (j) keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems, including the process for identifying emerging risks;
- (k) review and approve the statements to be included in the annual report concerning internal controls and principal risk management; and

- (l) monitor and review the effectiveness of the Company's internal audit function on an ongoing basis.

10.4 **Compliance, Whistleblowing and Fraud**

The Committee shall:

- (a) review the adequacy and security of the Company's policies and procedures for its employees and contractors to raise concerns, in confidence, about any possible wrongdoing. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (b) review the Company's procedures for detecting fraud;
- (c) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- (d) review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function;
- (e) oversee the relationship with the external compliance officer; and
- (f) keep under review the Company's compliance with its obligations pursuant to the Licence.

10.5 **Internal Audit**

The Committee shall:

- (a) review and recommend the Internal Audit Framework for approval to the Board, and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- (b) meet with the Director of Risk and Assurance at least once a year without the presence of other management. It should also ensure the Director of Risk and Assurance has direct access to the Chair of the Board and to the Committee Chair, and is accountable to the Committee;
- (c) review and recommend to the Board the Internal Audit Plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- (d) note the Internal Auditor's Annual Report on the adequacy and effectiveness of the Company's system of risk management and internal control;
- (e) note the results of the internal auditor's work on a periodic basis and review and monitor management's responses to findings and recommendations ensuring corrective action is taken if issues are not addressed promptly. In the event of any critical weaknesses being identified as part of an audit the Committee Chair shall be notified as soon as possible;
- (f) review, on behalf of the Board, the effectiveness of the Company's internal audit function in the context of Smart DCC's overall risk management system and make recommendations for improvement, if required; and
- (g) commission the internal auditors to conduct specific reviews on the Committee's behalf as and when required.

10.6 External Audit

The Committee shall:

- (a) conduct the tender process and, in relation to appointments, make recommendations to the Board on re-appointment or removal of the Company's external auditor. If an external auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and The Committee will also oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- (c) oversee the relationship with the external auditor including (but not limited to):
 - i. recommendations on their remuneration, including fees for audit or non-audit services and the level of fees, which should be appropriate to enable an effective and high-quality audit to be conducted;
 - ii. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - iii. assessing annually their independence, as well as their objectivity and the effectiveness of the external audit process, taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - iv. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 - v. agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
 - vi. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
 - vii. assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
 - viii. evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market on that evaluation; and
 - ix. seeking to ensure coordination with the activities of Internal Audit function, where relevant.
- (d) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage and in accordance with clause 3.4.
- (e) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- (f) The Committee shall review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - i. a discussion of any major issues which arose during the audit;
 - ii. any accounting and audit judgements;
 - iii. levels of errors or misstatements identified during the audit; and
 - iv. the effectiveness of the audit

- (g) review any representation letter(s) requested by the external auditor before they are signed by management.
- (h) review the management letter and management's response to the auditor's findings and recommendations.
- (i) review and recommend to the Board the policy on the supply of non-audit services by the external auditor. The Committee shall ensure that there is prior approval of non-audit services, and that consideration is given to the potential impact that the provision of non-audit services might have on auditor objectivity and independence, taking into account any relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required.

10.7 Reporting Responsibilities

10.7.1 The Committee Chair shall report formally to the Board on its proceedings on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities at the Board meeting that follows the Committee meeting.

10.7.2 The Committee shall:

- (a) make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is required.
- (b) compile a report on its activities to be included in the Company's annual report. The report shall include:
 - i. an explanation of how the Committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm and when a tender was last conducted and advance notice of any retendering plans;
 - ii. the significant issues that the Committee considered in relation to the financial and narrative statements and how these issues were addressed;
 - iii. in circumstances when the Board does not accept the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment); and

10.8 Other Matters

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company Secretary or their nominee for assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- (c) give due consideration to applicable laws and regulations and the requirements outlined in the Licence;
- (d) oversee any investigation of activities which are within its terms of reference;
- (e) arrange for periodic review of its own performance as part of the annual Board evaluation and, at least once a year, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval; and

- (f) consider such other matters as may be requested by the Board of Directors from time to time.

11 General Matters

- 11.1 The Chair of the Committee should make themselves available at each Annual General Meeting (if applicable) of the Company to answer questions concerning the Committee's work.
- 11.2 Where appropriate, the recommendations of the Committee must be approved by the Board of Directors before they can be implemented.

Terms of Reference – Version control table		
Version Number	Committee Review Date	Board approval date
V10	21.11.2023	12.12.23
V9	14.11.2022	06.12.22
V8	29.06.2021	
V7	30.06.2020	
V6	26.11.2019	
V5	28.03.2019	
V4	29.11.2017	
V3	13.12.2016	
V2	23.12.2015	
V1	The Committee was constituted at a meeting of the Board of Directors held on 1 July 2014 in accordance with the articles of association of the Company.	