

# Internal Control Document

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## Document Control Heading

### Revision History (Document Control Subtitle)

Revision Date	Summary of Changes	Version Number
7 Nov 2013	Original document	1.0
1 Aug 2015	Document updated to reflect changes in DCC operating model and organisation structure	2.0
15 Nov 2019	Document updated to reflect changes in DCC operating model and organisation structure	3.0

### Document Approval

Name	Title / Responsibility	Date
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Angus Flett	Chief Executive Officer, DCC on behalf of DCC Board	6 March 2020

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# 1 Context

The Smart Data Communications Company Ltd (DCC) was awarded the Smart Meter Communication Licence (the Licence) in September 2013. The Licence defines the conditions under which the DCC will implement and manage a data and communications service, that enables smart meters installed within UK domestic and non-domestic premises to communicate with the business systems of authorised DCC Service Users.

Condition 6 of the Licence defines the Authorised Business activities that the DCC is permitted to deliver.

Condition 7 of the Licence sets out the requirement for DCC to operate general controls for the Authorised Business. The requirements of Licence Condition 7 are summarised below:

**Part A: Corporate Governance.** The DCC must comply with the principles of the UK Corporate Governance Code as if it were a quoted company.

**Part B: Internal Controls.** The DCC must define and operate systems and procedures for internal control of activities comprising the Authorised Business, and must demonstrate:

- a) An appropriate organisational structure within which the Authorised Business Activities are planned, executed, controlled, and monitored effectively to achieve the General Objectives of the Licencee;
- b) Transparent and reliable audit trails for all processes, procedures and internal financial controls relating to the Licencee's management and operation of the Authorised Business Activities;
- c) A monitoring process that provides control procedures for all the Authorised Business Activities and ensures that those procedures are followed;
- d) A formal procedure for identifying the lack in any particular respect of an effective system of internal control and for ensuring remedial action.

**Part C: Risk Management.** The DCC must operate a Risk Management Strategy providing a robust framework for the identification, evaluation and management of risk with respect to the Authorised Business.

This document describes the DCC Internal Controls structure and approach, as required by part B.

## 2 DCC Governance arrangements and organisation structure

The DCC has established a governance structure consistent with the UK Corporate Governance Code, including Company Board and Audit and Risk Committee. The DCC governance structure is shown in figure 1 below:



Figure 1: DCC governance structure

The composition of the DCC Board is defined in the Licence. The terms of reference of the DCC Board and Audit and Risk Committee are defined in the DCC Board and Governance Manual and Audit and Risk Committee Terms of Reference respectively and are consistent with the UK Corporate Governance Code. Other sub-committees are defined and convened as required when there is a specific risk or issue that requires Board oversight. The terms of reference for each sub-committee is approved by the Board. The Board and Governance Manual and terms of reference for all Board sub-committees are reviewed and approved annually by the Chair of the Board.

### 2.1 DCC Board

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

1. Responsibility for the overall strategic direction of Smart DCC.
2. Oversight of the Company's business and operations ensuring:
  - Competent and prudent management;
  - Sound planning;
  - Adequate accounting and other records;
  - Compliance with statutory and regulatory obligations; and
  - Due consideration of any serious complaints.
3. Review of performance considering the Company's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.
4. Approval of the annual accounts.
5. Ensuring maintenance of a sound system of internal control and risk management including:
  - Receiving reports, reviews and audits, and reviewing the effectiveness of risk and control processes to support its aims and objectives; and

- Undertaking an annual assessment of these processes.
6. Undertaking an annual formal and rigorous review of its own performance, and that of individual Directors.
  7. Membership and Chairship of Board Committees, e.g. Audit and Risk Committee and Remuneration Committee.
  8. Approval of terms of reference of Board Committee.
  9. Receiving reports from Board Committees on their activities.
  10. Oversight and review of the Company's overall corporate governance arrangements.
  11. Approval of new policies.
  12. Annual effectiveness review of the Company.
  13. Annual Review of Delegation of Authority.
  14. Formal publication of the Business Plan (and related documents).
  15. Provision of annual certificates to Ofgem in relation to financial and operational resources, as well as compliance with the Licence

Membership of the Board is detailed on the DCC website.

## 2.2 Audit and Risk Committee

The DCC Audit and Risk Committee is a sub-committee of the main DCC Board. The role of the Committee is to monitor the integrity of the financial statements of the company, including its annual report and any other formal announcement relating to its financial performance, and to review any significant financial reporting issues and judgements which they contain. The Audit and Risk Committee also reviews the adequacy and effectiveness of the Company's principal risk management systems and provides support on the Viability Statement.

The Committee has the following duties:

1. Monitor the integrity of the financial statements of DCC including annual reports and review significant financial reporting judgements contained within them, including
  - Keep under review the Company's overall risk assessment processes
  - Review the Company's capability to identify and manage new risk types
  - Review reports on any material breaches of risk limits and the adequacy of proposed action
2. Review and challenge the consistency of, and any changes to, accounting policies and methods, and whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements
3. Advise the Board on whether the annual report is fair, balanced and understandable and provides sufficient information for shareholders
4. Monitor the Company's overall risk appetite, tolerance, mitigation plans and strategy, and the Company's internal control systems against the risk appetite set by the Board
5. Review and recommend the Risk Management Framework for approval by the Board
6. Monitor and review the effectiveness of the Company's internal audit function, including;

- Review and recommend the Internal Audit Framework and the Internal Audit Plan to the Board
  - Commission the internal auditor to conduct specific reviews on the Committee's behalf as and when required
7. Monitor and review the Company's policies, systems and controls for whistleblowing, fraud detection and prevention of bribery
  8. Review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function and compliance management system
  9. Keep under review the Company's compliance with its obligations under the Licence
  10. Make recommendations to the DCC Board in relation to the appointment, re-appointment and removal of the external Statutory and Regulatory Auditor and to approve the remuneration and terms of engagement of the Auditors
  11. Review and monitor the external Auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
  12. Report to the DCC Board on how it has discharged its responsibilities

The Committee is chaired by a Sufficiently Independent Director as defined in the Licence.

## 2.3 Executive Committee and Organisation Structure

The DCC Executive Committee (ExCo) is comprised of the Executive Officers of the DCC, representing all the DCC functions. The DCC organisation is structured in functions to provide clear accountability and responsibility for the delivery of the Authorised Business. The DCC function and team structure is described in figure 2 below:

Security	Technology	Programme Delivery	Operations	HR/ People	Strategy and Product Management	Finance and Commercial	Regulation	Corporate Affairs	Business Improvement and Audit
<ul style="list-style-type: none"> <li>• Governance Risk and Compliance</li> <li>• Demand and Architecture</li> <li>• Security Business Partners</li> </ul>	<ul style="list-style-type: none"> <li>• Innovation</li> <li>• Business Architecture</li> <li>• Technology Design</li> <li>• Test Architecture</li> </ul>	<ul style="list-style-type: none"> <li>• Enterprise Portfolio</li> <li>• Project Management Office</li> <li>• Project Management Practice</li> <li>• Business Analyst Practice</li> <li>• Test Assurance Practice</li> <li>• Test Governance Practice</li> <li>• Major Programme Teams (as req)</li> </ul>	<ul style="list-style-type: none"> <li>• Operations Strategy and Planning</li> <li>• Technical and Security Operations</li> <li>• Service Operations</li> <li>• Service Management</li> <li>• Service Design and Transition</li> <li>• Technology Infrastructure</li> <li>• Design and Test Services</li> </ul>	<ul style="list-style-type: none"> <li>• Organisation Development</li> <li>• Resourcing</li> <li>• HR Business Partners</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy and Business Planning</li> <li>• Business Development</li> <li>• Product Management</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial and Procurement</li> <li>• Legal</li> <li>• Commercial Finance</li> <li>• Finance Reporting and Control</li> <li>• Business Operations</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory Strategy</li> <li>• Stakeholder Engagement</li> <li>• Regulation Business Partners</li> <li>• Price Control</li> </ul>	<ul style="list-style-type: none"> <li>• Internal Communications</li> <li>• External Communications</li> <li>• Digital and Social Media</li> <li>• Stakeholder Relations</li> </ul>	<ul style="list-style-type: none"> <li>• Internal Audit, Risk and Compliance</li> <li>• Business Improvement</li> </ul>

Figure 2: DCC organisation structure

### 3 Internal Controls and compliance Framework

The DCC operates a robust internal controls framework to ensure that DCC complies with all regulatory, Licence, internal and UK Corporate Governance obligations. The DCC internal controls and compliance framework is described in figure 3 below:

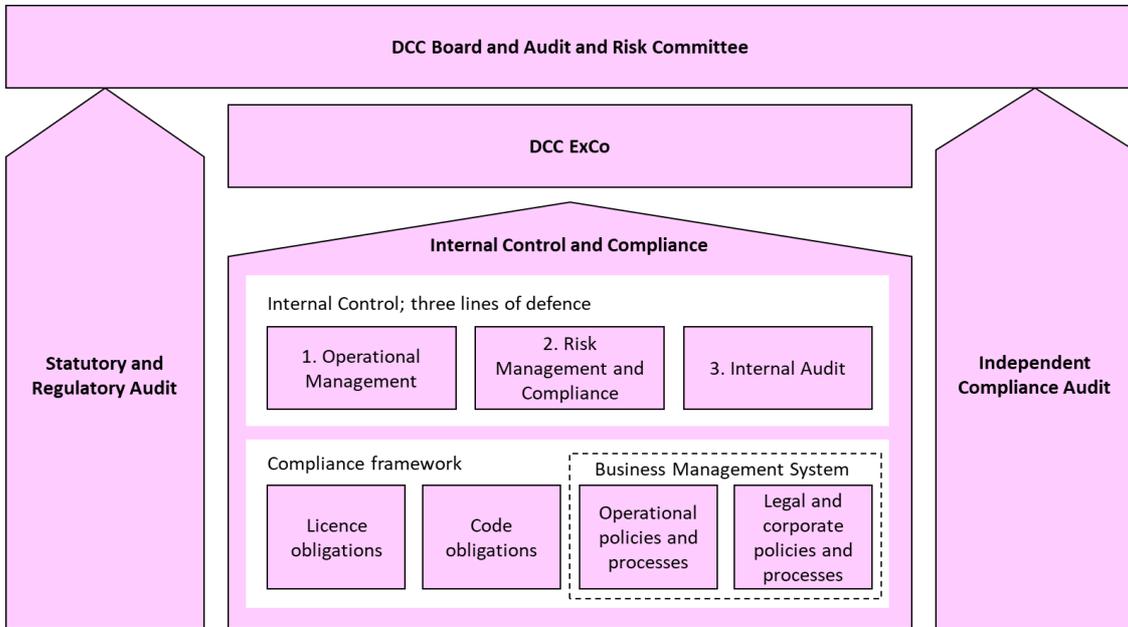


Figure 3: DCC Internal Controls and Compliance Framework

#### 3.1 Internal Control Framework

The DCC Internal control framework is based on the three lines of defence model:

<b>First line of defence: Operational management</b>	Operational management has ownership, responsibility and accountability for directly monitoring, assessing, controlling and mitigating risks and assuring compliance.
<b>Second line of defence: Internal Governance</b>	The second line of defence consists of activities covered by several components of internal governance including compliance, risk management, security, finance and regulation. The second line of defence monitors and facilitates the implementation of effective risk management practices and controls by operational management.
<b>Third line of defence: Internal Audit</b>	The Internal Audit function provides assurance to the DCC Board and ExCo. This assurance covers how effectively the organisation assesses and manages its risks and includes assurance on the effectiveness of the first and second lines of defence.

Due diligence and quality assurance of the operation of internal controls is informed by both operational performance monitoring and reporting, internal audit and compliance testing activity, and through functional and enterprise risk assessment and risk mitigation plans.

DCC operates a Business Management System consistent with the ISO 9001:2015 standard. We have adopted a continuous improvement approach including a lean six sigma training programme for DCC staff that is built on the ISO 9001:2015 principles of 'plan, do, check, act'.

The DCC Information Security Management System is audited and certified to ISO 27001:2013 standard.

## **3.2 Compliance Framework**

Each DCC function is responsible for the documentation and management of its own operational policies, processes and procedures, and to maintain transparent and reliable audit trails. DCC policies are published to staff on the DCC secure intranet.

Compliance with all internal policies and procedures is mandatory for all DCC staff. All new joiners are trained on the DCC compliance framework and on relevant operational processes as part of their induction and onboarding process. Ongoing detailed and refresher staff training is completed on a needs and risk-assessed basis.

Traceability and evidence of compliance with all Licence and Code obligations is managed through the DCC Compliance Management System. The Compliance Management System is regularly reviewed and updated to include changes to Licence or Code obligations and to reflect any changes in operational ownership or compliance status. Regular sample testing is completed to assure compliance, and any gaps or risks and remediation actions are reported to Audit and Risk Committee and tracked to resolution.

Operation of the DCC internal controls system, including compliance, is kept under regular review by the Audit and Risk Committee. Overall effectiveness is reviewed annually by the DCC Board.

## **3.3 Internal Audit, Controls Assurance and Remediation**

The Internal Audit function provides regular monitoring, testing, audit and reporting to DCC ExCo, Audit and Risk Committee and DCC Board for internal controls related activity including:

- Monitoring, testing and reporting of compliance with Licence conditions
- Monitoring, testing and reporting of compliance with Code obligations
- Testing, audit and reporting of compliance with internal policies, processes and controls
- Tracking and reporting of all audit, testing and compliance remediation actions

The Internal Audit Framework includes both policy and risk-based audits. The policy audit schedule allows for different audit frequency according to risk and ensures that all DCC policies are audited at least once in any 3-year period as a minimum. Policy audit includes quality review of the policy content and associated processes, procedures and controls, as well as policy compliance. Risk-based audits are defined and commissioned by the Audit and Risk Committee as required and informed by the ongoing risk management and review process. The outcomes of internal audits, including risk assessment, audit findings and agreed remediation actions are reviewed and approved by the Audit and Risk Committee.

The Internal Audit plan is reviewed annually by the Audit and Risk Committee and approved by DCC Board. Depending on the nature of the audit, audit work is carried out either by the Internal Audit team directly, or with support from an external audit service provider. Audit and compliance testing

outcomes and recommendations are reported regularly to DCC ExCo and DCC Audit and Risk Committee, and remediation actions are approved by the DCC Board. The status and completion of remediation actions are reported to DCC ExCo and DCC Audit and Risk Committee.

## 4 External Assurance

In addition to the Internal Control Framework, the DCC has also appointed three external assurance auditors as required by the Licence:

1. Independent Compliance Officer
2. Statutory Auditor
3. Regulatory Auditor

The external auditors report directly to the DCC Board and Audit and Risk Committee.

Details of the appointed Compliance Officer and Regulatory Auditor are provided on the DCC website.

### 4.1 Independent Compliance Officer

The DCC has appointed an Independent Compliance Officer in accordance with Licence Condition 12. The Independent Compliance Officer is responsible for:

- Providing relevant advice and information to facilitate DCC's compliance with Chapter 3 Licence conditions (Arrangements for the Licensee's Independence)
- Monitoring the effectiveness of DCC's practices, procedures, and systems to ensure compliance with Chapter 3 Licence conditions
- Investigating complaints pertaining to Chapter 3 Licence conditions and recommending remedial actions where required
- Producing 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.

The annual DCC Compliance Report is published to the Authority, and to the Smart Energy Code (SEC) Panel, and on the DCC website.

### 4.2 Statutory Auditor

Statutory audits are required by UK law for all qualifying companies. DCC is a qualifying company and the DCC Board has appointed a Statutory Auditor. The Statutory Auditor provides an independent assessment of the financial statements to ensure they are 'true and fair' as well as meeting all relevant guidelines and legal requirements.

### **4.3 Regulatory Auditor**

In accordance with Condition 7 of the Licence, the DCC Board has appointed a Regulatory Auditor. The Regulatory Auditor produces 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.

A copy of the Annual Regulatory Audit Report will be provided to Ofgem no later than 31st July in each Regulatory year and published on the DCC website. A copy of the Regulatory Accounts will also be provided free of charge to any person who requests a copy.