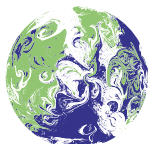


# 2020 Annual Activity Report

Scottish Power Limited  
Audit & Compliance Committee



12 February 2021



PRINCIPAL PARTNER  
**UN CLIMATE  
CHANGE  
CONFERENCE  
UK 2021**

IN PARTNERSHIP WITH ITALY

# 2020 Annual Activity Report

Report for the fiscal year 2020 presented at the Scottish Power Limited Audit & Compliance Committee ('the 'Committee') meeting of 12 February 2021 for noting by the Committee and thereafter submitted to the Board of Directors of Scottish Power Limited ('the 'Board') on 16 February 2021 for approval, pursuant to article 5 of the Terms of Reference of the Committee.

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# I. Introduction

In accordance with the provisions of the Articles of Association of Scottish Power Limited, the Board established the Committee on 27 February 2009. The Committee is a permanent internal body and has an informative and consultative role. The Committee does not have an executive function. It has powers to gather information, carry out assessments and present proposals to the Board within the scope of its activities.

The Committee provides an additional assurance that the Board supervises the significant risks of the Business with the utmost transparency, self-discipline and rigour. In assessing the effectiveness of the Internal Control System, the Committee contributes to the attainment of the strategic objectives of ScottishPower. While an effective Internal Control System does not, in and of itself, guarantee the achievement of such goals, it does provide an assurance that the Management of ScottishPower makes its decisions within the framework of the guidelines and standards issued by the Board.

The Committee is governed by its regulations ("the Terms of Reference") (which can be located at [https://www.ScottishPower.com/userfiles/file/Terms\\_of\\_Reference\\_of\\_the\\_Scottish\\_Power\\_Limited\\_Audit\\_and\\_Compliance\\_Committee.pdf](https://www.ScottishPower.com/userfiles/file/Terms_of_Reference_of_the_Scottish_Power_Limited_Audit_and_Compliance_Committee.pdf)) which set out the authority and responsibilities of the Committee together with its method of operation. The Terms of Reference take into account the fact that the ultimate parent company of Scottish Power Limited, Iberdrola, S.A., which is a listed company in Spain and which is the parent company of the Iberdrola Group, has an Audit and Risk Supervision Committee within its governance structure.

The Scottish Power Energy Networks Holdings Limited Audit & Compliance Committee ("the 'SPENH Committee'") undertakes the role and function of the Committee as they relate to the regulated business within ScottishPower. The relationship between the Committee and the SPENH Committee is set out in Article 6 of the Terms of Reference of the Committee.

The Committee adheres to the Iberdrola group's framework for collaborating with and reporting on the development of its functions with the Iberdrola Audit and Risk Supervision Committee and the Internal Audit function as defined in the Regulations of the Audit and Risk Supervision Committee of Iberdrola, S.A., which is without prejudice to the functions of the Committee which it exercises with full autonomy.

## II. Composition, meetings and attendance

The Committee consists of the following members:

Member	Title	Position
Professor Sir James McDonald	Non Executive Member (Chairman)	Independent Non-Executive Director of Scottish Power Limited
Íñigo Fernández de Mesa Vargas	Non Executive Member	Independent Non Executive Director of Scottish Power Limited
Daniel Alcain Lopez	Non Executive Member	Non-Independent, Non-Executive Head of Control and Administration, Iberdrola, S.A.

The composition of the Committee changed during 2020 with Dame Nicola Brewer, Juan Carlos Rebollo and José Sainz Armada ceasing to be members of the Committee and Daniel Alcain Lopez being appointed as a member. The position of secretary of the Committee was held throughout 2020 by Michael Davies, Legal Director – Corporate Services.

All members of the Committee have relevant experience in accounting, financial and/or risk management as per their CVs (which can be located at [https://www.ScottishPower.com/pages/audit\\_and\\_compliance\\_committee.aspx](https://www.ScottishPower.com/pages/audit_and_compliance_committee.aspx)).

In 2020, the Committee met on 5 occasions and, pursuant to the Committee's procedures under article 14(6) of the Terms of Reference of the Committee, also adopted 7 written resolutions. After the call of each of the meetings, or any procedure to adopt written resolutions, the members of the Committee were provided with all information required to properly prepare for the topics submitted for their consideration.

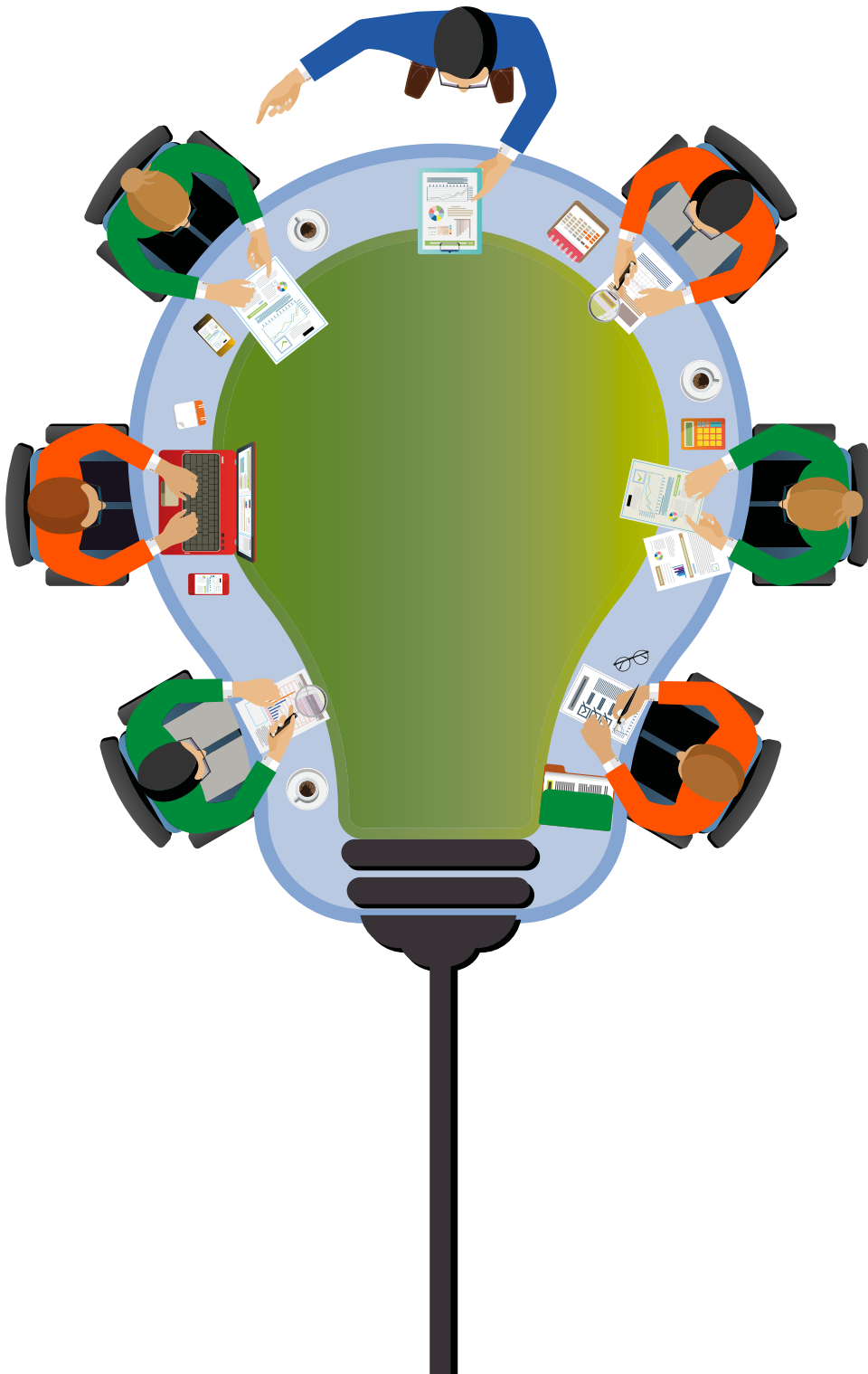
The meetings of the Committee in 2020 are set out below:

Date	Place where the meeting was held
18 February 2020	Glasgow
7 May 2020	By teleconference
13 July 2020	By videoconference
5 October 2020	By videoconference
4 December 2020	By videoconference

The meetings of the Committee in 2020 are set out below:

Member	Meetings attended
Professor Sir James McDonald	Full attendance
Dame Nicola Brewer	Attended 18 February 2020 meeting and ceased to be a member thereafter
José Sainz Armada	Attended 18 February 2020 meeting and ceased to be a member thereafter
Íñigo Fernández de Mesa Vargas	Full attendance
Daniel Alcain Lopez	Attended three out of four meetings and was not a member when 18 February 2020 meeting was held

# III. Committee Highlights 2020



5

Number of meetings

7

Number of written resolutions

30

Reports, Proposals and Updates to the Scottish Power Limited Board of Directors

89

Papers presented to the Committee by Senior Management

(of which updates from the SPENH Committee) **(21)**

4

Presentations from the External Auditor



## IV. MAIN ACTIVITIES

In 2020, the Committee carried out a number of activities in order to effectively discharge the duties entrusted to it by the Board. These functions extend to Scottish Power Limited and all of its subsidiaries ('ScottishPower') (with the exception of those functions carried out by the SPENH Committee for Scottish Power Energy Networks Holdings Limited and its subsidiaries).

The main duties and 2020 activities of the Committee are as set out below.



### a) Internal Audit

- Overseeing the independence and efficiency of the Internal Audit Department.
- Approving the guidelines and annual action plans (including objectives) established by the head of the Internal Audit Department.
- Proposing the budget of the Internal Audit Department for its approval by the Board.
- Preparing reports to the Board regarding the appointment, re-election or removal of the head of the Internal Audit Department.
- Overseeing the head of the Internal Audit Department.
- Receiving regular information on the activities carried out by the Internal Audit Department.
- Ensuring that the managers of ScottishPower take into account the conclusions and recommendations in the reports of the Internal Audit Department.

The Head of Internal Audit presented a report to the Committee at its meeting on 18 February 2020, summarising the main activities and achievements of the Internal Audit department in 2019.

At every meeting in 2020 the Head of Internal Audit presented an update to the Committee on Internal Audit activities, including the current status of management actions.

The Committee approved changes to the 2020 Internal Audit Annual Activities plan on 18 February 2020, 7 May 2020, 13 July 2020, 5 October 2020 and 4 December 2020.

On 4 December 2020, the Committee approved the 2021 Internal Audit Annual Plan, Head of Internal Audit 2021 Objectives and proposed the 2021 Internal Audit Annual Budget for approval by the Board. The annual budget includes the required level of resources to deliver the annual plan, as determined by the Head of Internal Audit. The 2021 Internal Audit Annual Plan was derived in accordance with the guidelines and general plans established by the Director of the

Iberdrola Internal Audit Area and ensures that activities are focused on ScottishPower's risks.



### b) Internal Monitoring and Risk Management Systems

- Reviewing ScottishPower's internal financial information process and internal risk monitoring and management systems.
- Ensuring that the main risks of ScottishPower are identified, managed and adequately reported.
- Ensuring the establishment of measures necessary to mitigate the impact of any risks identified and introducing information and internal monitoring systems which monitor and manage such risks, including contingent liabilities or off balance-sheet risks.
- Analysing the relevant weaknesses of any internal control system that may have been detected in the course of the audit of ScottishPower.
- Maintaining appropriate relationships with ScottishPower's Risk and Compliance Divisions.
- Promoting a strategy in which risk is a key factor to be taken into account in all decisions and at all levels within ScottishPower.
- Making, at least every six months, a report of the risks of ScottishPower for the Board.
- Informing the Board on the main litigation matters relating to ScottishPower and its subsidiaries, in order to identify the direct or indirect risks and contingent liabilities arising from existing claims and procedures.

The UK Risk Director presented papers to the Committee on 18 February 2020 and 13 July 2020 providing an update on the performance against defined key limits and indicators, and the main risks facing ScottishPower.

On 7 May 2020, the ScottishPower Risk Policy Guidelines were presented by the UK Risk Director to the Committee together with a further Risk Policy update to the Committee on 4 December 2020.



### c) Audited Accounts

- Proposing to the Board the appointment and the terms of engagement of Scottish Power Limited's auditors, in accordance with the policy as established by the parent company of the Iberdrola group.
- Ensuring the independence of Scottish Power Limited's auditors.
- Receiving information regularly from ScottishPower's auditors



on any issues which may be provided for in applicable legislation and/or the relevant audit practices in force from time to time.

- Receiving from ScottishPower's auditors, on an annual basis, a written confirmation of their independence.
- Issuing on an annual basis and prior to the issuance of Scottish Power Limited's auditors' report, a report setting forth an opinion on the independence of the auditors.
- Receiving information about any kind of additional services other than audit services provided to ScottishPower and issue a report on the same to the Board.
- Reviewing the contents of the auditors' reports before they are issued, in order to avoid qualifications in their preparation and assess the results of each audit, overseeing the reply of the management of the Company to their recommendations.
- Serving as a communication channel between the Board and the auditor.

On 18 February 2020, the Head of Internal Audit presented a report to the Committee on the independence of the appointed external auditor (KPMG). The Committee noted that the external auditor had confirmed its independence in the letter sent to the Committee on 18 February 2020 and that during 2019 it had not reported any situation or risk that could affect its independence.

On 7 May 2020, the Head of Internal Audit presented the Update Report on ScottishPower's External Audit Fees 2019. The Committee noted the report approved it and agreed for a presentation of them to the Board.

The Committee approved the Proposal on the Terms of Engagement of the 2020 Statutory Audit by way of written resolution of the members of the Committee on 29 May 2020 and agreed for a presentation of them to the Board.

On 4 December 2020, the Committee considered and approved certain audit related assurance services to be carried out by the external auditor.

As part of the supervision of the auditing of the financial statements by the Committee representatives from the external auditor appeared before the Committee on 18 February 2020 to present the document detailing the results of the external auditor's procedures over the consolidated financial statements of Scottish Power Limited to year end 31 December 2019. Further, representatives from the external auditor appeared before the Committee on 13 July 2020 to present the external auditor's interim review memorandum in respect of the interim financial statements of Scottish Power Limited for the six-month period ended 30 June 2020.

Representatives from the external auditor appeared before the Committee on 5 October 2020 to present the Audit Plan and Strategy for the year ending 31 December 2020 and on 4 December 2020 to present the Hard Close Audit Highlights Memorandum (for

the 9 month period ended 30 September 2020).

On 29 April 2020 and 23 June 2020, the Committee passed a directors' written resolution which noted that the audit report and corporate governance report for certain Scottish Power Limited subsidiaries' statutory accounts for the financial year ended 31 December 2019 required to be extended in connection with the statutory audit of public interest entities.



#### d) Economic and Financial Information

- Overseeing the preparation, presentation, clarity and accuracy of the financial economic information of ScottishPower.
- Evaluate any proposal regarding any changes within the general accounting practices, policies and procedures of the Iberdrola Group as they relate to ScottishPower and submit proposals or recommendations to the Board.
- Elaborating a report for the Board on the annual, interim semi-annual and quarterly financial statements.
- Gathering information on any adjustments to financial statements identified by the external auditor or resulting from the reviews carried out by the Internal Audit Department, and ScottishPower's position on such adjustments.
- Overseeing compliance with the legal requirements and the correct application of the national and international accounting and financial information principles and practices.
- Informing the Board of the principles which the transactions carried out between any ScottishPower companies and between any such companies and any of the other companies forming part of the Iberdrola group must respect in order to protect the interests of ScottishPower.

One of the most significant activities of the Committee is the periodic submission to the Board of its reports on the approval of the year end and interim economic and financial information of ScottishPower. The Committee approved four reports for the Board, specifically: -

- Report approved on 18 February 2020 in relation to Year End 2019 Financial Information;
- Report approved on 21 April 2020 in relation to Q1 2020 Financial Information;
- Report approved on 13 July 2020 in relation to H1 2020 Financial Information; and
- Report approved on 5 October 2020 in relation to Q3 2020 Financial Information.

These four above reports of the Committee provided the Board with an opinion on the following: changes to the accounting policies and practices from those adopted in the 2019 consolidated annual accounts of the Iberdrola Group; and potential risks and sources of uncertainty in the accounting policies and practices adopted with potentially significant impact in the 2020 consolidated annual accounts.

At the Committee meetings held on 18 February 2020 and 13 July 2020, the Head of Internal Audit also provided assurance on the processes relating to the preparation of the financial information for the 2019 year end and the first half of 2020 in ensuring that all required reviews, guarantees and certification had been completed.

On 21 April 2020, the Committee passed a directors' written resolution which approved and noted various matters in relation to the financial information for Q1 2020.

During 2020, the Control and Administration Director presented to the Committee a quarterly update about financial performance. In addition, the external auditors presented its conclusions of the 2019 statutory audit. The external auditors also presented conclusions of 1H 2020 review, audit plan and strategy for the year end audit and the hard close audit highlights over audit work performed for the nine month period to 30 September 2020.

On 5 October 2020, the CEO SP Retail provided an update on Retail Debt and COVID-19 impact.



#### **e) Compliance, Good Governance and Prevention and Correction of Fraudulent and Illegal Behaviours**

- Receiving information from the Compliance Division in connection with any matter relating to regulatory compliance and the prevention and correction of illegal or fraudulent conduct.
- Reviewing, through the Compliance Division, the internal policies and procedures of ScottishPower to verify the effectiveness thereof to prevent inappropriate conduct and identify any policies or procedures that might be more effective at promoting the highest ethical standards.
- Reporting to the Board on the amendments of the Compliance Division Regulations.
- Reviewing and ratifying the annual operating budget of the Compliance Division for submission to the Board and ensuring that the independence and effectiveness of the unit and that it has the necessary human and material resources to perform its duties.
- Approving the annual activity plan (including objectives) for the Compliance Division.
- Reporting the proposal(s) of the appointment(s) for the Compliance Director.
- Reviewing the status of compliance with laws, regulations and internal procedures and the scope and status of systems designed to promote ScottishPower's compliance with laws, regulations and internal procedures.
- Receiving information from the Compliance Division on matters relating to the effectiveness of the Companies compliance system.
- Producing reports for the Board on the level of compliance with the Iberdrola Corporate Tax Policy and the tax criteria used throughout the relevant financial

year and after the submission of tax returns.

On 18 February 2020, 7 May 2020, 13 July 2020 and 5 October 2020, the Compliance Director presented a report to the Committee to update on the Compliance Unit activities for Q4 2019, Q1 2020, Q2 2020 and Q3 2020 respectively. On 4 December 2020, the Compliance Director presented the 2021 Compliance Division Activity Plan and the Compliance Division 2021 Annual Budget. The Committee approved the plan and proposed the budget for approval by the Board.

On 18 February 2020, the UK Group Tax Director presented a report on the Degree of Compliance with the Corporate Tax Policy which was approved by the Committee.

On 18 February 2020, the Compliance Director presented a report on the effectiveness of the SP Compliance System to the Committee.

On 18 February 2020, the Audit and Compliance Committee Secretary presented the PWC Governance System Evaluation Report evaluating the governing bodies of the subsidiary companies of Iberdrola, S.A. for 2019. The Committee approved the relevant areas of the report and agreed that a copy of the report would be sent to the Scottish Power Limited Board secretary.

On 7 May 2020, the Compliance Director presented an update on the effectiveness of the 2019 Crime Risk Mitigation Programme.

On 5 October 2020, the UK Security Director provided an update on ScottishPower's AENOR Certification in connection with COVID-19.

On 5 October 2020, the Compliance Director presented the results of the 2020 Fraud, Bribery and Corruption Risk Assessment and a review of Compliance Policies.

On 5 October 2020, the UK Group Tax Director presented a Tax Strategy Paper setting out, among other things, the approach to risk management and governance arrangements for UK taxation. The Committee approved the paper and agreed that it would be presented to the Board.

On 5 October 2020, the Data Protection Officer presented her report regarding data protection compliance which was also presented to the Board.

On 4 December 2020, the Committee approved the 2021 Compliance Division Activity Plan, Compliance Director 2021 Objectives and proposed the Compliance Division 2021 Annual Budget for approval by the Board. The annual budget includes the required level of resources to deliver the annual plan, as determined by the Compliance Director.



#### f) Irregular and Improper Financial Conduct

- Establishing and supervising, in coordination with the mechanisms established by the parent company of the Iberdrola group, the channels which permit employees of ScottishPower to communicate confidentially and, if it is deemed appropriate, anonymously, any potentially significant irregularities, especially those which are financial or accounting in nature which they may have witnessed at ScottishPower.
- Undertaking the necessary investigations regarding claims by third parties against ScottishPower or regarding irregular or anomalous conduct.

On 5 October 2020, the ScottishPower General Counsel and Secretary to the Board provided a report for the Committee on Legal Claims and Regulatory Investigations. The aim of this report is to provide the Committee with an update on the status of major legal claims and regulatory investigations and potential legal risks affecting ScottishPower.



#### g) Special Purpose Vehicles and Tax Haven Companies

- Informing the Board prior to adoption of any decision on the creation or acquisition of holdings in special purpose vehicles or in entities domiciled in countries or territories which are considered tax havens.
- Producing for the Board a report on the monitoring of special purpose vehicles and entities domiciled in countries or territories which are considered tax havens.
- Informing the Board of any other transactions or operations of a similar nature which, due to their complexity, could undermine the transparency of the Iberdrola group.

On 13 July 2020, the ScottishPower General Counsel and Secretary to the Board presented a report for the Committee on Liquidations and Special Purpose Vehicles ("SPVs") which detailed recent changes since July 2019 with respect to ScottishPower SPVs and Iberdrola SPVs in the UK and provided an update on the programme of SPV liquidations. The ScottishPower General Counsel and Secretary to the Board further presented a monitoring report on SPVs or entities domiciled in tax havens. The ScottishPower General Counsel and Secretary to the Board noted that there were no SPVs registered in tax havens within ScottishPower and that all non-essential SPVs have either been successfully liquidated or sold.



#### h) Business Separation of Activities Compliance

- Giving its opinion and noting on an annual basis the Compliance Director Report on Business Separation which provides an update on compliance with the separation of activities focusing on the effectiveness of the practices, procedures, and systems adopted in accordance with applicable regulatory requirements of ScottishPower.

- Overseeing any regulated activities business separation report of ScottishPower.
- Informing the Board in advance of any changes to the business separation regulatory requirements applicable to ScottishPower.
- Considering the suitability and informing the Board in advance about all proposed directors appointments and removals to all regulated business subsidiaries of Scottish Power Limited in order to protect the effective management independence of the regulated companies.

The Distribution and Transmission licence conditions include a number of requirements relating to separation between electricity network businesses and competitive energy activities. They also require the appointment of a Compliance Officer with specific tasks and duties including the preparation and submission of an Annual Report to the Licensee.

On 26 June 2020, 30 September 2020 and 9 October 2020, the Committee passed directors' written resolutions which considered the suitability of proposed director appointments to a UK regulated business subsidiary and approved reports on the same to be sent to the Board.

On 5 October 2020, the Compliance Director presented to the Committee the 2020 Compliance Policies Review paper which recommended certain changes be made to various compliance policies, including in respect to the Business Separation Policy, which the Committee agreed to submit to the Board for approval.

On 13 July 2020, the UK Compliance Director presented the Chief Compliance Officer Report Business Separation 2019/20 which was noted by the Committee.



#### i) Audit Committees of UK Subsidiaries

- Coordinating actions and sharing information with the audit and compliance committees that exist in the group companies controlled by ScottishPower (ie. the SPENH Committee) as channelled through the chairmen of the audit and compliance committees of Scottish Power Limited and each subsidiary in question with the purpose to inform the Committee of any matters dealt with by the subsidiaries that might have a significant impact at group level in the UK, all in accordance with applicable legislation and regulations on the separation of regulated activities.

The Audit and Compliance Committee Secretary, supported by the Head of Internal Audit, presented to the Committee for noting certain reports of the SPENH Committee throughout the year as part of coordinating and sharing information (as appropriate) between the respective committees.



## V. APPEARANCES

In 2020, the following officers appeared before the Committee:

Appearing Party	Dates of Meetings Where Appearing
Audit and Compliance Committee Secretary	Full attendance
Head of Internal Audit	Full attendance
Control and Administration Director	Full attendance
Compliance Director	Full attendance
UK Risk Director	18 February 2020, 7 May 2020, 13 July 2020 and 4 December 2020
UK Group Tax Director	18 February 2020 and 5 October 2020
UK Security Director	5 October 2020
Head of Data Privacy and Protection	5 October 2020
CEO SP Retail	5 October 2020
ScottishPower General Counsel and Secretary to the Board	13 July 2020 and 5 October 2020

Members of the external auditor's team appeared before the Committee on 18 February 2020, 13 July 2020, 5 October 2020 and 4 December 2020.

## VI. Training

During 2020, the Committee received briefings and training on a number of areas, including the following topics:

Date	Training Topic
13 July 2020	Special Purpose Vehicles
5 October 2020	Legal claims and regulatory investigations
	Retail debt COVID-19
	Data protection

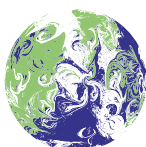
## VII. CONCLUSIONS

**The Committee provided assurance to the Board throughout 2020 with the following being among its key activities:**

- **Internal Audit:** Continuous monitoring of Internal Audit activities (including 2020 objectives), approval of the 2021 Internal Audit Annual Action Plan (including 2021 objectives) and proposal of the 2021 Annual Budget for approval by the Board.
- **Internal Monitoring and Risk Management Systems:** Reviewing risk reporting, noting that risk limits and indicators did not report major risk issues and that the risks identified through the key risk reporting process are the major risks faced by the business.
- **Audited Accounts:** Proposal of the terms of engagement and monitoring the independence of the external auditor.
- **Economic and Financial Information:** Monitoring of financial and economic information, noting that no SP Group company had qualified statutory accounts. This included changes in accounting policies and practices.
- **Compliance, Good Governance and Prevention and Correction of Fraudulent and Illegal Behaviours:** Continuous monitoring of Compliance Division activities (including Business Separation and 2020 objectives), approval of the 2021 Compliance Division Activity Plan (including 2021 objectives), proposal of the 2021 Annual Budget for approval by the Board and level of compliance with Iberdrola Corporate Tax Policy.
- **Irregular and Improper Financial Conduct:** Monitoring claims against the company noting that there are no material claims outstanding against ScottishPower.
- **Special Purpose Vehicles and Tax Haven Companies:** Ensuring that no Special Purpose Entities (Tax Havens) have been created and monitoring the project to reduce the number of companies within ScottishPower.
- **Other UK Audit Committees:** Noting the reports of the SPENH Committee.
- **Training of Committee Members:** Receiving briefings and training on a number of areas relevant to the Committee.



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