KPMG

cutting through complexity

ELEXON

BSC Audit Approach Document (Non-confidential)

Year ending 31 March 2016

Contents

Overview of 2014/15 findings and focus areas for 2015/16

Overview of 2014/15

In our 2014/15 audit we highlighted that many of the issues identified in previous BSC Audits remained largely unresolved, and have existed for some time, in certain cases for more than 10 years. Our testing identified a change in impact of these existing issues and this is reflected by movement recorded on the graph. As a positive, three previously significant issues were reported as not significant in the 2014/15 audit period and only one new issue was identified as significant.

As in the previous year, based on our work, there were two key areas of concern:

1. Issues relating to Metering
2. Data quality issues in the Non Half Hourly Market

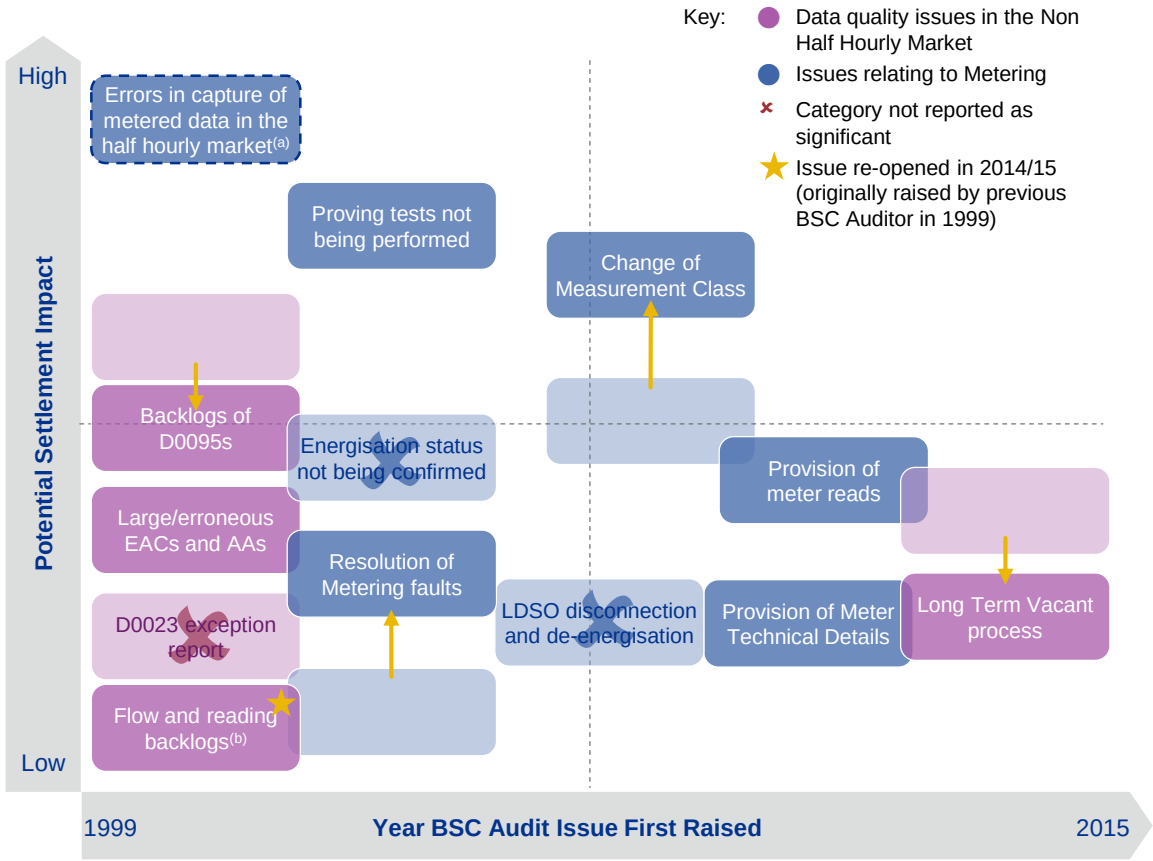
In the 2015/16 audit period, more emphasis is required on two specific high risk issues, in relation to Proving Tests and Change of Measurement Class. This is driven by P272, with Mandatory Half Hourly Settlement for Profile Classes 5-8 from April 2017.

Focus areas for 2015/16

Our audit test work will continue to be aligned to key settlement risks and be predominantly substantive in nature (i.e. sample testing). We will, however, on certain processes, use the DTN data to provide more targeted audit testing and a move to focusing on root cause analysis rather than random sampling.

As part of our planning we will enquire with audited entities about their progress in addressing these long-standing audit issues. This will be corroborated and tested during our fieldwork. Our findings will be reported to PAB and the Panel.

If little progress has been achieved since our 2014/15 audit, then we will continue to report our findings and recommendations to further address these issues.



Overview of 2014/15 findings and focus areas for 2015/16 (cont.)

KPMG are adapting the audit approach in year 3 to fit better with specific circumstances at audited entities.

In the 2015/16 BSC Audit period, KPMG will build on the changes introduced last year:

- **More extensive use of data analytics where entities use the DTN;**
- **Adapting the timing and reporting of issues to provide quicker feedback and insight to audited entities following completion of the fieldwork; and**
- **Focus of our testing on areas of significant settlement risk**

Audit Planning Memorandums (APMs) and Data requests

Audit Planning Memorandums (APMs) and Data requests were re-evaluated, simplifying the effort required on the side of audited entities.

Modelling data requests to be reviewed to ensure a complete listing is provided in advance of procedures being performed.

Data Transfer Network (DTN) data

In relation to some specific tests, KPMG will use DTN flow data to identify potential anomalies prior to the fieldwork, and a sample of these will be sent to parties for follow up in advance of the audit site visits.

The tests will not be fully replaced by the process due to irregularities in the data. Rather, the DTN data will provide more 'intelligence' on potential areas of higher settlement risk at an MPAN and market participant level. Insight from DTN data will be used to refine scoping and focus areas of our underlying BSC Audit testing, providing the basis for a more robust and insightful audit.

Risk focused audit scope

We have performed a complete review of audit procedures and scope, including aligning testing performed to Settlement Risks.

For example, focusing more on Change of Measurement Class given P272.

Timing

Following the approach taken in 2014/15, on site fieldwork testing will be conducted pre and post Christmas.

As for the 2014/15 BSC Audit, KPMG will be requesting management representation letters (from suppliers) as required by the ISAE 3000 (revised) assurance standard which we are performing our work under. The template letter will be included as an appendix to the Audit Planning Memorandum and will remain the same as in audit year 2014/15 (the planning document discussed at each audit kick off meeting).

Reporting of BSC audit findings

Our findings will be peer-reviewed for pre-Christmas audits but a moderation will take place after all on-site work is completed. This will aid in the timely communication of audit findings to market participants.

All findings will be recorded directly into the live issues database.

Scope of the 2015/16 BSC Audit

The detailed BSC requirements for the BSC Audit are provided in Appendix A.

Background and BSC requirements

Per Section H, paragraph 5 of the Balancing and Settlement Code ('the Code') the objective of the BSC Audit is to 'provide assurance (to such level as the Panel considers appropriate) that the provisions of the Code and Code Subsidiary Documents in relation to Settlement have been complied with in the Audit Year'. The detailed BSC requirements for the BSC Audit are provided in Appendix A of this document.

The provisions of the Code and Code Subsidiary Documents in relation to Settlement over which the Panel requires assurance are agreed annually and recorded in the 'BSC Audit Scope'. The latest BSC Audit Scope for the BSC Year '1 April 2015 to 31 March 2016' is published on ELEXON's website. The following additions were identified to the BSC Audit Scope for the 2015/16 audit period:

- CDCA scope will now include Completeness of Commissioning and Proving Test records;
- Meter clock configuration and compliance with the BSC will now be tested in the HHDC market;

For avoidance of doubt, we are planning to perform this work by using information available via investigation of processes, system configuration and flows. There will be no auditing performed by investigating the actual meters on sites.

Compliance will be assessed to the extent that requirements as documented in the Code and Code Subsidiary Documents (BSCPs, COPs or PSLs) relate to the scope as defined by the Panel.

The extent to which Parties, who have signed up to the Code and appointed Party Agents, are subject to assurance procedures is determined by the risk to the completeness and accuracy of Settlement associated with a given party. A number of factors are considered including, but not limited to, the role of the party, the number of MPANs managed by that party, experience of the party in participating in the Code, outstanding Issues Documents and changes in people, process and technology.

Section H of the BSC also requires that assurance is provided annually by the BSC Auditor that the provisions of the Code and Code Subsidiary Documents in relation to Funding Shares have been complied with in the Audit Year. Funding Shares is subject to alternative procedures and, as such, a separate Funding Shares Approach document will be produced.

Assurance Opinion

KPMG LLP, as the BSC Auditor for the year ending 31 March 2016, will provide the BSC Audit Report which contains an assurance based opinion based on Settlement calculations and allocations with respect to the Balancing and Settlement Code and Code Subsidiary Documents. References to the BSC Assurance Opinion in this 'BSC Audit Approach Document' relate to the KPMG Assurance Opinion which forms part of the 'BSC Audit Report' and references to the 'BSC Audit Engagement' are to the Assurance work we are performing.

The reasonable Assurance Opinion for the year ending 31 March 2016 will be in respect of all Reconciliation Runs processed in that year regardless of the audit period in which the relevant Settlement Day sits.

The BSC Auditor undertakes its procedures in accordance with International Standard on Assurance Engagements 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information (revised)' ('ISAE 3000 (revised)') issued by the International Auditing and Assurance Standards Board. The expression 'audit' used in connection with this engagement is determined to mean a reasonable assurance engagement performed in accordance with ISAE 3000 (revised).

Scope of the 2015/16 BSC Audit (cont.)

The detailed BSC requirements for the BSC Audit are provided in Appendix A.

Assurance Opinion (continued)

In forming its opinion the BSC Auditor will take into account a number of factors including:

- Whether instances of non-compliance have resulted in a settlement impacting error (in isolation or in aggregate); and
- Whether the issue has been, or will be corrected by the normal course of operation of Settlement, including the BSC Trading Disputes process.

Materiality for the BSC Audit year ending 31 March 2016 decreased from 1.5TWh in 2014/15 to 1.4TWh as set out in the BSC Audit Scope 2015/16 document published in March 2015.

As mentioned in Background and BSC requirements, additional areas will be brought into scope by BSC Auditor, which will address areas relevant to CDCA and HHDC. Analysis on flow activity data extracted from the Data Transfer Network (DTN) will be used to enhance the coverage of our audit work across a number of scope areas.

The assessment of what is material is a matter of professional judgement and will be discussed between the BSC Auditor and ELEXON prior to publication of the BSC Audit Report.

Consideration of the work of others

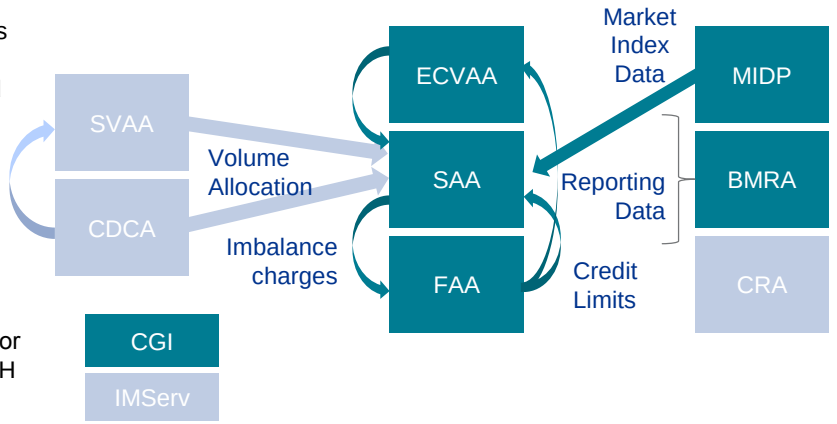
The Balancing Mechanism ('BM') Audit is conducted by the BM Auditor who is appointed by the Transmission Company pursuant to Section H paragraph 5.1.6 of the BSC.

Section L of the Code requires that the Technical Assurance Agent ('TAA') monitors compliance by Parties in relation to Half Hourly Metering System through spot visits at a representative selection of sites where Metering Equipment is installed. Instances of non-compliances should be provided to the BSC Auditor.

The BSC Audit considers the work of the TAA and BM Auditor and will take into account issues which, in the opinion of the BSC Auditor, may have a material impact on the conclusion of the assurance work performed under the BSC Audit engagement.

Central Settlements Systems

The testing performed by the BSC Auditor at audited entities will be supported and focused by the use of models and re-performance of calculations using data from a number of parties within the industry. The BSC Auditor utilises this data and models as part of the suite of tests it performs over the operation of the Central Settlements Systems. The scope of the audit of the Central Settlements Systems is shown below.



Using the DTN data

Background

Since receiving the complete DTN data in early 2015, we have concluded that it will not, as initially planned, be possible to substitute fully, certain audit tests using our analysis of the data flows provided by the DTN data. This is largely due to irregularities in the underlying data which cannot be removed. For example, several flows may be recorded in the DTN data set for a particular MPAN, but without further investigation into each of these it is not possible to determine which one is the genuine or appropriate response to the incoming flow.

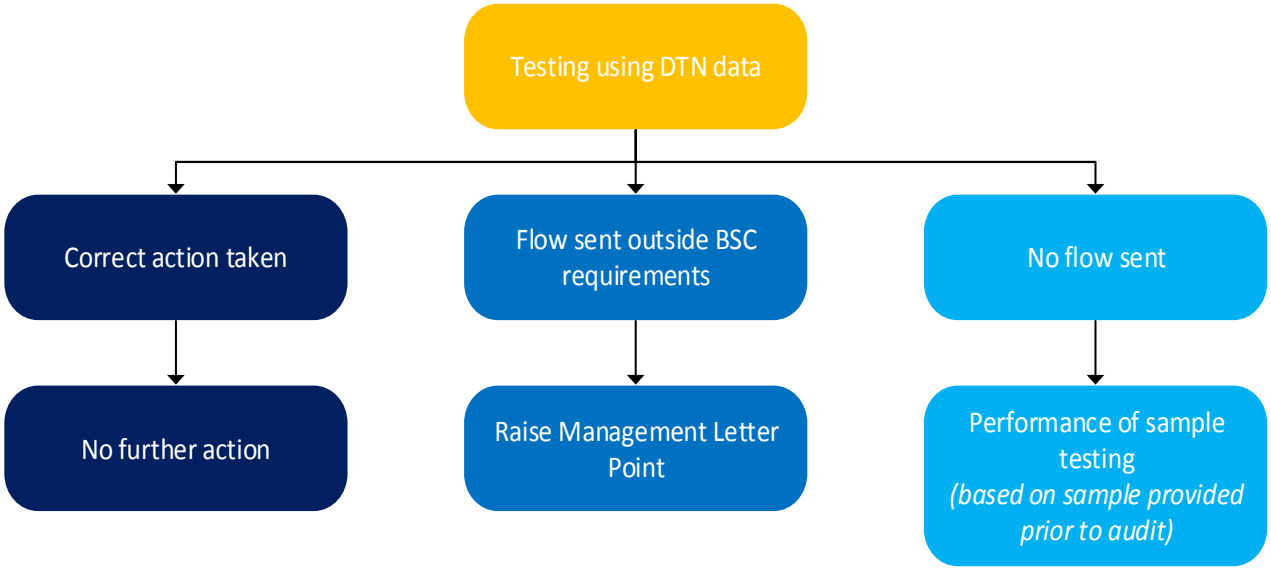
We have identified an initial series of audit procedures, where previously we have relied on manual sample testing. In co-operation with ELEXON we have developed eight data analytical procedures over DTN data and we will now use them to identify a population of potential anomalies (i.e. instances where it appears BSC obligations have not been fulfilled). Audit teams will be provided with anomalies from this central analysis and a sample of these will be sent to Audited Entities for follow up at least two weeks prior to fieldwork commencing.

This change in approach will lead to more targeted audit testing and a move to focusing on root cause analysis rather than random sampling. It is our intention to increase reliance on the use of data analytics as we proceed into future audit years.

Having analysed the data for other attributes, we are able to use the DTN data to provide more 'intelligence' on potential areas of higher settlements risk at an MPAN and market participant level. Using this to refine the scoping and focus areas of our underlying BSC Audit testing will provide the basis for a more robust and value added/insightful audit. As part of our future reporting we would be able to share this insight with PAB. In summary:

- We propose to use DTN data to intelligently scope and inform the direction and intensity of each agent's audit;
- Audits can be targeted to areas of higher potential risk;
- Sampling can be better targeted around key risk areas;
- Risk category assessment is done by comparing number of potential exceptions with quantity of flows;
- Potential exceptions can be in two areas: completeness and timeliness; and
- Tests partially covering eight processes were developed for 2015/16 audit period focusing on three roles: MOA (flows processed in relation to D0001, D0139, D0148, D0150 or D0170 received); HHDC (D0155 or D0001) and NHHDC (D0300).

Using the DTN data (cont.)



How findings will be used in testing?

The testing of DTN data will place failures into two anomaly buckets: a) Required response is suspected to have been sent late; b) Required response is suspected not to have been sent at all.

We will note anomalies from the first bucket, however, we will focus our testing on the second bucket. This is to put emphasis on the testing where the key settlement risk is.

The second bucket of potential failures will be analysed during on-site work. The work will be only performed at entities, whose performance of the process is beyond the acceptable threshold of failures and they are deemed more likely to have a settlement impacting effect. Determining the thresholds will be on a case by case basis and depend on factors such as volumes of flows sent, type of processes being tested and prevalence of the issues (i.e. exceptions) across the market.

Only process inquiry will take place at entities, where the work programme is scoped in, but which has an acceptable threshold of potential failures.

A sample will be chosen for entities beyond acceptable threshold, which will be investigated during on site testing. Any confirmed failures will be reported as settlement impacting issues.

Parties, which do not use DTN for these processes (e.g. vertically integrated entities), will continue to be audited as previously.

Using the DTN data (cont.)

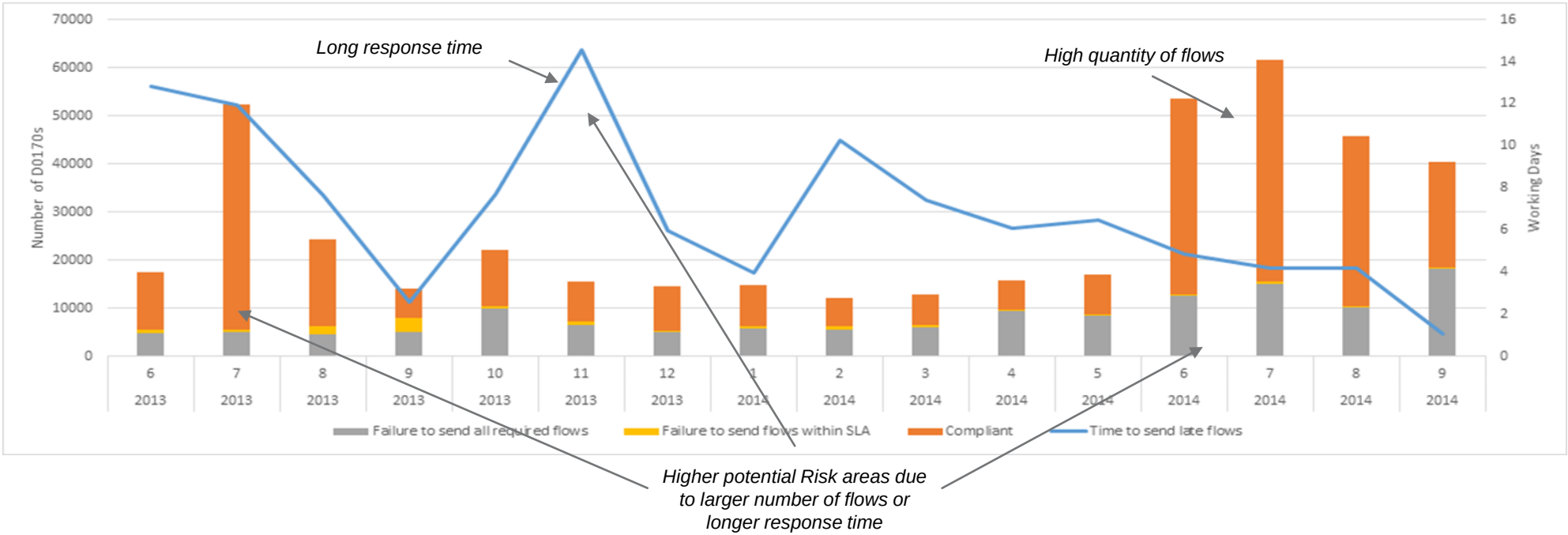
Example – Change of NHHMOA

Our current sampling approach is based on selecting a random sample of flows across the audit year. Using the DTN data will allow us to identify the most likely areas of failure by targeting sample testing during periods of higher potential risk of settlement error. This may involve (a) sampling certain dates depending on response time and quantity of total flows; and (b) selecting samples during periods where the likelihood of failure is higher (i.e. excluding cases where we know processes were operating effectively). This upfront analysis in advance of the fieldwork testing will help to focus our time whilst on site on key areas of greater perceived risk, will improve our assurance quality and the results will provide more insight for audited entities and ELEXON. The following example shows the D0170 flows sent to one MOA during a NHH change of MOA process.

Key:

- The bars indicate the total number of D0170 flows and the colours represent potential compliance / non-compliance with BSCPs.
- The blue line indicates the average number of working days it took to send the flows.

D0170 flows sent to MOA during NHH change of MOA process.

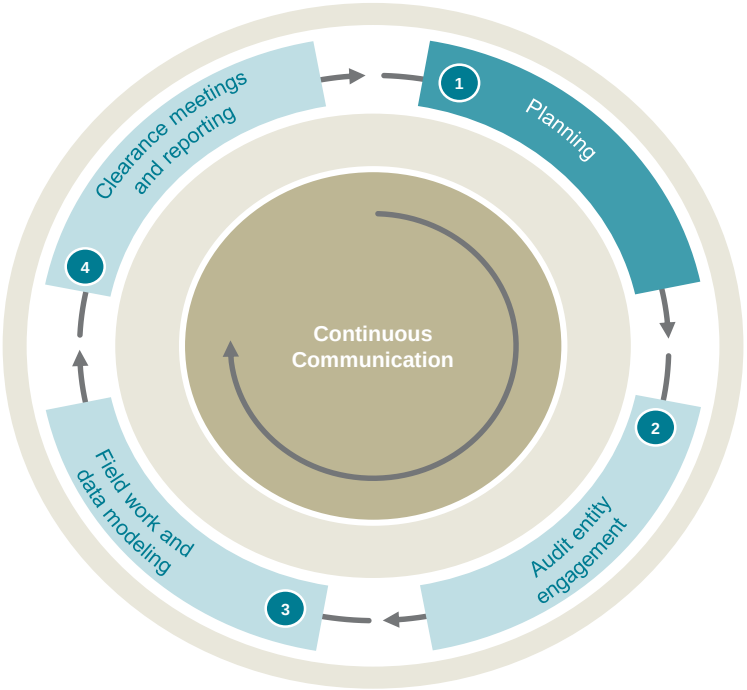


BSC Audit phases

The BSC Audit Engagement is structured over four phases:

1. **Planning**
2. **Audit Entity Engagement**
3. **Fieldwork and Data Modelling**
4. **Clearance meetings and Reporting**

The BSC Audit Engagement is structured over four phases as set out in the diagram below.



1. Planning

Risk assessment and Audited Entity selection

Utilising information and available data, the BSC Auditor will determine the risk associated with each market participant to the completeness, validity and accuracy of allocations and Settlement and, therefore, the extent to which they should be subject to assurance techniques. A rotational approach is also followed to ensure that each market participant is subject to full scope assurance procedures at least once every four years.

These sources of data include:

- PARMS data;
- TAA Audit Findings;
- Number of (and changes in the number of) MPANs managed by the market participant;
- Open Audit Issues, including the length of time those issues have been open;
- Accumulated knowledge and experience of the industry and market participants;
- OSM knowledge with respect to changes in people, processes and systems at participants; and
- Output from the Qualification Service and re-qualification requests.
- Analysis of processes using Data Transfer Network (DTN) flows.

A separate *Audit Selection Document* provides further details as to the rotational approach, selection criteria and market participants in scope for the BSC Audit Engagement during each assurance period.

The audited entity selection process and design of the assurance procedures are informed by the mapping of Industry Risks per the Risk Evaluation Register to relevant sections of the BSC, The Code Subsidiary Documents ('CSDs') and the BSC Audit Scope as set by PAB.

2. Audit Entity Engagement

Prior to each testing period, a planning meeting will be held with nominated representatives at in-scope entities. For new market entrants an extended planning meeting will be scheduled to introduce the BSC Audit, assurance procedures and tools used by the BSC Auditor such as the online portal. Prior to the planning meeting, a draft *Audit Planning Memorandum ('APM')* will be sent to each in scope audited entity which outlines audit timeframes, key contacts and the audit data request. The structure of this document was reviewed by BSC Auditor for 2015/16 audit period, which should improve the efficiency of collaboration between audited entities and the auditor. The APM will detail, amongst other information, a tailored work programme, which is discussed in phase 3. Final versions of this document will be issued following the planning meeting.

BSC Audit phases (cont.)

The BSC Audit Engagement is structured over four phases:

1. **Planning**
2. **Audit Entity Engagement**
3. **Fieldwork and Data Modelling**
4. **Clearance meetings and Reporting**

3. Field Work and Data Modelling

Site visits for fieldwork will take place throughout the assurance period and will generally occur between November 2015 and March 2016. The BSC Assurance Opinion covers a 12 month period. The timing of this work will be agreed with audited entities during the audit entity engagement phase.

Data Assurance Techniques

The BSC contains complex calculations with respect to deriving generation and consumption, aggregation, allocation, apportionment and settlement. A number of models will be utilised by the BSC Auditor to support the BSC Audit Engagement. The models use source data provided by Market Participants and re-perform the calculations to verify their accuracy.

Specific data requests to support the operation of the models are included in the Audit Planning Memoranda sent to in-scope entities (see phase 2) in advance of testing.

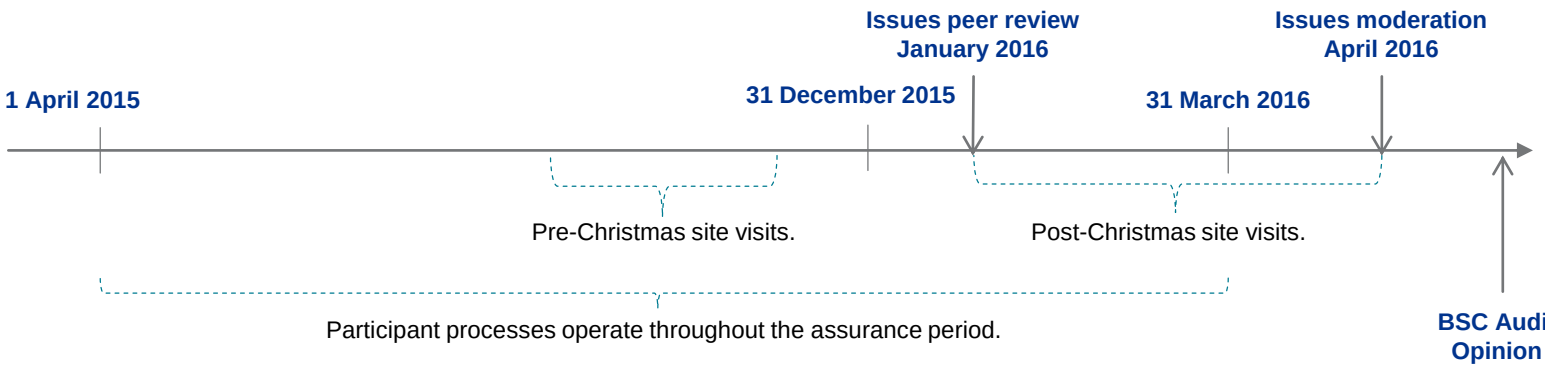
General IT and Entity Level Controls

General IT and Entity Level Controls (GITC) work will continue into 2015/16 audit period. We will update our knowledge of GITCs at entities by confirming and documenting any system or process changes or problems.

Moderation

Another proposed change is to hold an issues peer review at half year instead of a formal issues moderation. This would involve senior members of the engagement team (experts in certain roles), hub managers and senior management being allocated a set of issues, to be reviewed with a task, to set levels of impact. Draft ratings would then be determined by discussing any issues where ratings of different reviewers do not match. As in previous audit periods, issues with impact ratings will then be communicated to ELEXON. This was identified to be a more effective approach to ensure a more consistent level of ratings and testing, as more time would be spent on the review of each individual issue.

The final issues moderation will remain unchanged, where KPMG hub managers and senior management will meet to produce final issue ratings for the market.



BSC Audit phases (cont.)

The BSC Audit Engagement is structured over four phases:

1. **Planning**
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Impact on BSC Audit Approach

Controls testing

We continue to stress the importance of an effective controls environment operating across the industry and a market participant level, particularly given current industry trends (such as P272 and the introduction of smart metering). Where we are able to, we seek to rely on controls as part of our audit approach.

Detailed Testing

Detailed testing involves inspection of a selection of transactions and records at Audited Entities to verify that they have been created and/or processed in compliance with the BSC or to establish completeness and accuracy at the data flow or metering system level information.

The number of items selected for detailed inspection at each audited entity will be determined by the BSC Auditor dependent on the:

- Size of the population of items/number of transactions;
- Maturity of the processes operated by the Audited Entity;
- Knowledge, experience and skills of the process operators;
- Changes to IT systems at the Audited Entity;
- Inherent risks associated with the processes operated by the Audited Entity; and
- Open issues/observations relating to non-compliance with the BSC.

Specific data requests including number of items selected for detailed testing are included in the Audit Planning Memoranda provided to each Audited Entity in advance of testing.

BSC Audit phases (cont.)

The BSC Audit Engagement is structured over four phases:

1. **Planning**
2. **Audit Entity Engagement**
3. **Fieldwork and Data Modelling**
4. **Clearance meetings and Reporting**

4. Clearance Meetings And Reporting

Observations

At the conclusion of testing at each Audited Entity the BSC Auditor will classify and rank observations based on whether they have resulted in a non-compliance with the BSC and whether the non-compliance has resulted in a potential impact on the completeness and/or accuracy of imbalance Settlement, or not. KPMG will discuss observations with audited entities as they arise to determine compensating/mitigating activities in place at the entity. A clearance meeting will be held with audited entities to discuss and formally agree observations raised by KPMG.

Ratings for observations have been defined as follows:

- Settlement impacting non-compliance – a non-compliance with the BSC which, if uncorrected, will impact on the completeness and/or accuracy of Settlement. In this case we will assess the impact as High, Medium or Low, depending on the estimated overall potential impact on Settlement;
- Immaterial non-compliance – a non-compliance with the BSC which is unlikely to have a direct impact on the completeness and/or accuracy of Settlement. These observations will be categorised as 'management letter points'; and
- Process improvement – the BSC appears to have been complied with but the BSC Auditor has identified the potential for process and/or control improvements at the audited entity.

For the avoidance of doubt, issues classed as Management Letter Points (MLPs) refer to either Immaterial non-compliance or Process improvements, i.e. findings which have no Settlement impact.

Any instances of non-compliance that have been noted and rated 'Medium' or 'High' by the BSC Auditor will be subject to the Error & Fault Resolution ('EFR') processes operated by ELEXON.

Reporting

Following clearance meetings, immaterial non-compliance and process improvement observations will be reported to the audited entity as management letter points within an overall audit issues document that will set out the settlement impacting non-compliances noted from our audit. The audit issues document will be shared with ELEXON.

For management letter points audited entities will be requested to provide management responses to observations detailing the actions they plan to take to address these observations and progress against these actions will be monitored by the BSC Auditor. It is likely that these matters will not be subject to the EFR process.

For Audited Entities that are subject to audit before Christmas, draft final issues documents will be distributed early in the new year to facilitate timely reporting of the BSC Audit findings.

All Settlement Impacting Non-compliances will be reported to PAB.

An annual *BSC Audit Report* will be issued in June of each year by the BSC Auditor as discussed above. Where non-compliances have resulted in an impact to Settlement the potential impact will be assessed across all affected MPANs and aggregated over the assurance period. The materiality threshold for the BSC Audit is 1.4TWh for the current assurance period (i.e. the year ending 31 March 2016).

BSC Audit phases (cont.)

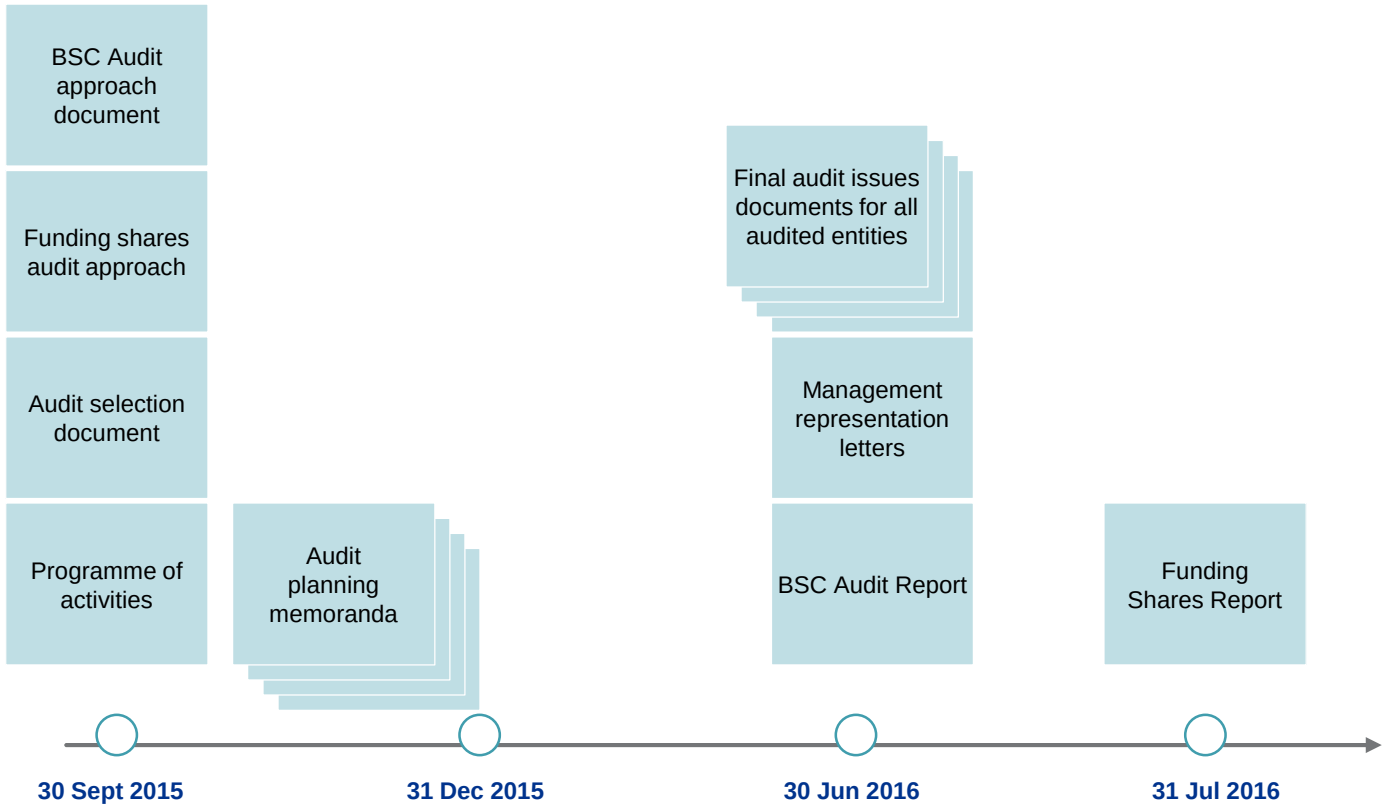
The BSC Audit Engagement is structured over four phases:

1. **Planning**
2. **Audit Entity Engagement**
3. **Fieldwork and Data Modelling**
4. **Clearance meetings and Reporting**

Where non-compliances have an aggregated Settlement impact greater than the materiality threshold, the Assurance Opinion in the BSC Audit Report will be qualified by the BSC Auditor. Issues of significance and industry best practice in respect of those issues will be reported in full within the 'Statement of Significant Matters' section of the BSC Audit Report. The 'Statement of Significant Matters' section therefore contains matters which are of sufficient importance by their nature that we feel it appropriate to bring them to the attention of the recipients of the report.

As in 2014/15, we will be requesting Suppliers to sign management representation letters prior to the BSC Audit Report being issued. A draft of the letter will be included in the Audit Planning Memoranda discussed at the supplier planning meetings.

An indicative time-line for delivery of the annual BSC Audit Report is illustrated below.



Appendices

Appendix A BSC Audit requirements

Appendix B Risk assessment

Appendix C BSC Audit findings rating methodology

Appendix A

BSC Audit requirements

Section H paragraphs 5.1.2 to 5.1.4 of the Code sets out the objective and scope of the BSC Audit as follows:

'The objective of the BSC Audit is to provide assurance (to such levels as the Panel considers appropriate) that the provisions of the Code and Code Subsidiary Documents in relation to Settlement and in relation to the calculation of Funding Shares have been complied with in the Audit Year.'

The scope of the BSC Audit (save to the extent covered by the scope of the audit to be carried out by the BM Auditor under paragraph 5.1.6) shall include:

a) The submission and application of standing and periodic data, used in connection with Settlement, by Parties and Party Agents;

b) The processes applied to such data pursuant to the Code and Code Subsidiary Documents;

c) The determinations and calculations made by Market Index Data Providers in the provisions of Market Index Data (but only to the extent provided in the relevant Market Index Data Provider Contract);

d) The determinations and calculations made by BSC Agents and BSCCo where it provides the Profile Administration Services for the purposes of Settlement; and

e) The systems processes and procedures used and applied (by BSC Agents and BSCCo) for the purposes of or in connection with the above.

The scope of the BSC Audit shall not include:

a) The registration of Metering Systems in accordance with the Master Registration Agreement; and

b) The application by BSCCo of the compensation provisions under Section M4.

The Scope of the BSC Audit is designed to meet the requirements of the Code and the Code Subsidiary Documents, subject to those areas specifically excluded in the 'Auditor Agreement'.

In determining the Scope KPMG has made a number of assumptions with regards to the meaning of Section H paragraphs 5.1.2 to 5.1.4 and these are set out below:

- 'Settlement' – means the determination and settlement of amounts payable in respect of Trading Charges (including Reconciliation Charges) in accordance with the Code (including where the context admits Volume Allocation);
- 'The submission and application of standing data and periodic data' – submission arises from the point of capture by the relevant Party Agent, unless otherwise indicated, and the data relates only to data used in or required by Settlement;
- 'The processes applied to such data' – validation, calculation and allocation performed on Settlement data by Party Agents; and
- 'BSC Agents for the purposes of Settlement' – the Technical Assurance Agent, the Teleswitch Agent and the Profile Administrator have been specifically excluded from the scope of the BSC Audit to the technical nature of their activities.

The coverage of the Audit for the period for those Metering Systems physically located in both England and Wales and Scotland will encompass:

a) Timetabled Reconciliation Settlement ('RF') Final Runs, performed by the SAA and processed between 1 April 2015 and 31 March 2016 and;

b) All Settlement Runs performed by the SAA in respect of Settlement Days from 1 April 2015 to 31 March 2016 up to the Final Runs ('RF');

c) For avoidance of doubt, coverage will exclude Post Final Settlement Reconciliation ('DF') Runs which will be considered as a corrective technique only.

BSC Audit requirements (cont.)

As a result the specific Settlement Days that will be considered as part of the assurance period are those from 12 February 2014 to 31 March 2016 (approximately a 26 month period).

Where a settlement impacting error is detected, either by the BSC Auditor or by a BSC management process that will not be corrected through RF an assessment will be undertaken as to whether that error has been, or will be subject to correction via the BSC Trading Disputes procedure and the effectiveness of these processes assessed by the BSC Auditor. The Trading Disputes process is considered to be a corrective technique that includes both Extra Settlement Determinations ('ESD') and DF Runs.

Risk Assessment

Using the top SVA Settlement Risks from the 2015/16 Risk Evaluation Register we have set out the extent to which these will be considered by the BSC Audit.

In addition to the specific Risk Evaluation Register ('RER') risks in the table below, there are a number of industry related risks which include supplier and agent system changes, public attention on the UK electricity suppliers and general industry wide developments such as Smart Metering. Our audit approach endeavours to address these issues and through our rigorous internal training programme for those who form part of the BSC Audit team. Our approach will also keep up with industry changes that may occur throughout the year.

Industry Risk reference	Industry Risk description	BSC Audit Scope Section*
SR0022	The risk that HHMOAs do not provide correct Meter Technical Details to the HHDCs resulting in Meter readings being misinterpreted or not collected.	Meter Operation Data Collection
SR0072	The risk that NHHDCs process incorrect Meter readings, resulting in erroneous data being entered into Settlement.	Data Collection
SR0112	The risk that HHDCs use data from faulty Metering Systems resulting in incorrect data being entered into Settlement.	Meter Operation
SR0073	The risk that stolen energy notified by Revenue Protection units is not used in calculations by Suppliers and NHHDCs resulting in inaccurate data being entered into Settlement.	Data Collection
SR0074	The risk that NHHDCs do not collect and / or enter valid Meter readings resulting in old/default data entering Settlement.	Data Collection
SR0111	The risk that NHH Metering Systems are tampered with resulting in under-accounting of energy in Settlement.	Data Collection Meter Operation
SR0024	The risk that NHHMOAs do not provide Meter Technical Details to the correct NHHDCs resulting in Meter readings not being collected.	Meter Operation Data Collection
SR0025	The risk that HHMOAs do not provide Meter Technical Details to the correct HHDCs resulting in Meter readings not being collected.	Meter Operation Data Collection
SR0028	The risk that HHMOAs make changes to the Metering System and do not inform the HHDCs resulting in Meter readings being misinterpreted or not collected.	Meter Operation Data Collection
SR0081	The risk that HHDCs do not process valid HH readings resulting in estimated data being entered into Settlement.	Data Collection
SR0116	The risk that Import/Export Metering Systems are incorrectly installed/configured resulting in inaccurate data entering Settlement.	Meter Operation
SR0188	The risk that non Half Hourly Import/Export Metering Systems are incorrectly installed/configured resulting in inaccurate data entering Settlement.	Meter Operation

** - For all relevant Settlement Risks, we also inquire on and analyse related Supplier processes during audits of the role.*

Appendix C

Audit findings rating methodology

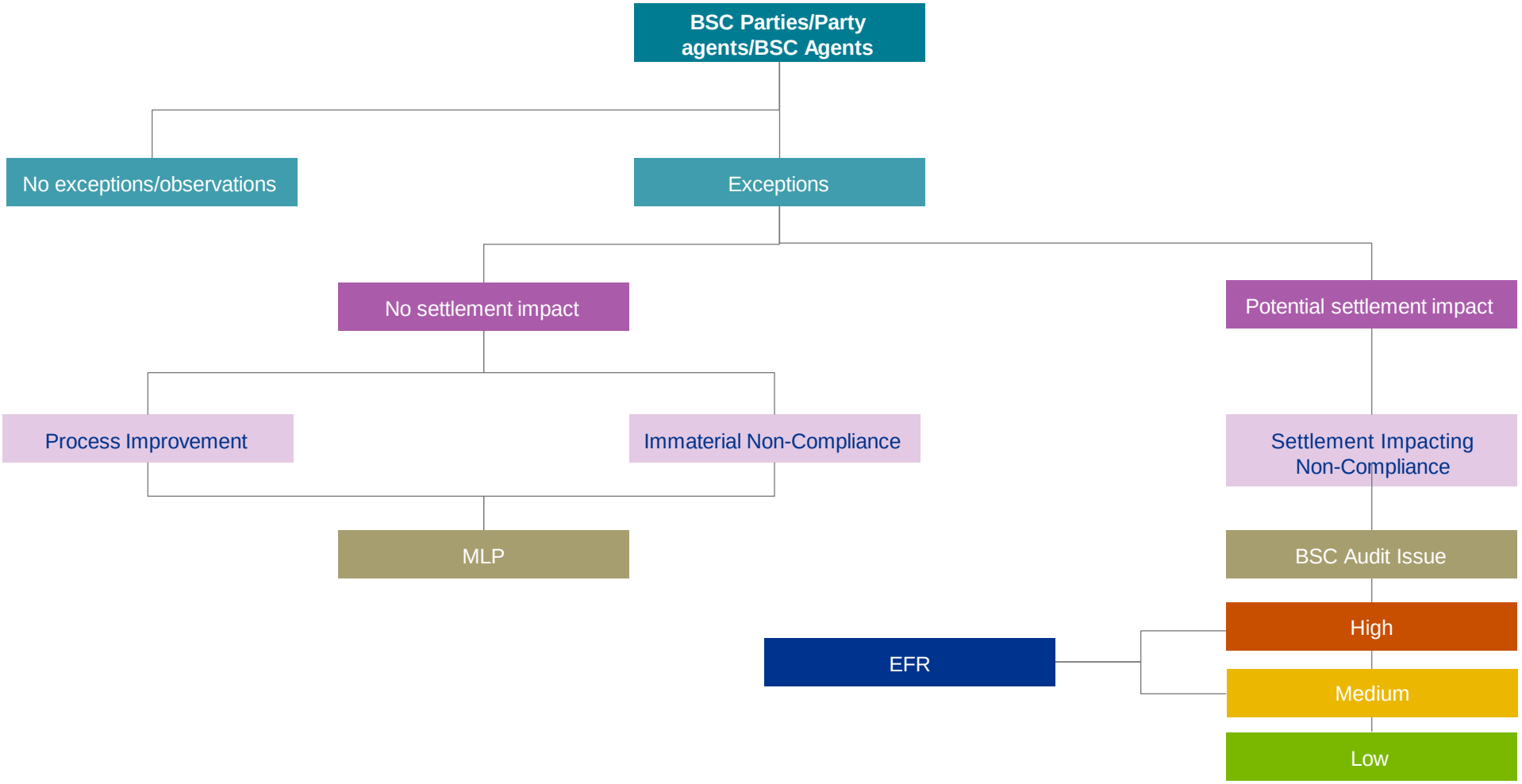
Overview

- BSC Audit findings are categorised as either BSC Audit Issues or Management Letter Points ('MLP's) depending on whether there is a potential impact to the completeness and/or accuracy of Settlement.
- An impact rating of High, Medium or Low is applied to each BSC Audit Issue arising from the BSC Audit.
- Ratings will be applied by the BSC Auditor using his professional judgement. A number of underlying principles which provide guidance as to how this will be applied are set out in this document.
- Issues will be considered across Audited Entities by the KPMG BSC audit team and the KPMG central team at an issues 'moderation' meeting to ensure the determination of ratings is consistent.

How each finding will be considered?

- Each finding will be individually determined but will also be considered in the context of similar findings raised on other Audited Entities.
- Two Audited Entities may have the same underlying issue but if one entity has a mitigating process or control and is responsible for a much lower error rate, impact or residual risk as a result, then a different impact rating may apply.
- The BSC Auditor follows a standard work plan for each type of Audited Entity (tailored for specific risks at each).
- Two moderation sessions are performed during the BSC Audit year, following 'pre-Christmas' and 'post-Christmas' fieldwork. The aim of these sessions is to ensure a ratings consistency across each of the Audited Entities.
- Ratings for findings have been defined as follows:
  - **Settlement Impacting Non-Compliance** – a non-compliance with the BSC which, if uncorrected, may impact on the completeness and/or accuracy of Settlement. In this case we will assess the impact as High, Medium or Low, depending on the estimated overall potential impact on Settlement. Issues rated as High and Medium will be subject to ELEXON's Error & Fault Resolution ('EFR') processes;
  - **Immaterial Non-Compliance** – a non-compliance with the BSC which is unlikely to have a direct impact on the completeness and/or accuracy of Settlement. These observations will be categorised as 'Management Letter Points' (MLPs); and
  - **Process Improvement** – the BSC appears to have been complied with but the BSC Auditor has identified the potential for process improvements at the Audited Entity. These observations will also be categorised as 'Management Letter Points' (MLPs).
- We have outlined the above in the diagram on the next page.

Audit findings rating methodology (cont.)



Audit findings rating methodology (cont.)

How will we determine the impact of these factors?

- For each Settlement Impacting Non-Compliance audit issue we will rate these as High, Medium or Low after gaining an understanding of the following:
  - Nature of the issue
  - Extent of potential impact of the issue on Settlement in MWh
  - Improvement / deterioration (both quantitatively and qualitatively) since the previous BSC Audit
  - Whether the number and/or nature of exceptions indicates the issue is pervasive or more widespread
  - Impact of the issue on other Audited Entities or Trading Parties
  - Extent to which a compliance issue might impact other issues (especially those which have a direct impact on Settlement)
  - Existence of any mitigating factors (see below)
- Mitigating factors might include the following:
  - Other controls or procedures applied by the Audited Entity which reduce the potential impact of the error/non compliance arising
  - Whether the issue has been resolved in the BSC Audit period (the importance of the issue remains the same but the required focus to be placed on it by ELEXON/PAB will be less)

cutting through complexity