



# ELEXON BSC Audit Approach 2017/18

Year ending: 31 March 2018

Classification: Public

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## Executive Summary

In our fifth year as the BSC auditor we continue to use a risk-based planning approach for the audit. Building in our experience in previous years and working collaboratively with ELEXON, we define the scope of our work and testing.

The diagram on the left shows the approach we follow; the process starts by identifying the key risks. We take into account the Settlement risks identified and evaluated by the Performance Assurance Board (PAB) in the Risk Evaluation Register (RER), changes to BSC, issues raised and closed in the previous BSC Audit as well as the findings of the Technical Assurance Agent (TAA) Audit. These provide the risk frame for the audit.

Following this, we collect additional data to identify processes and entities that could represent a higher risk to Settlement. These include Business Unit Settlement Risk Ratings (BUSRR) and other agent-specific performance concerns raised by the PAB.

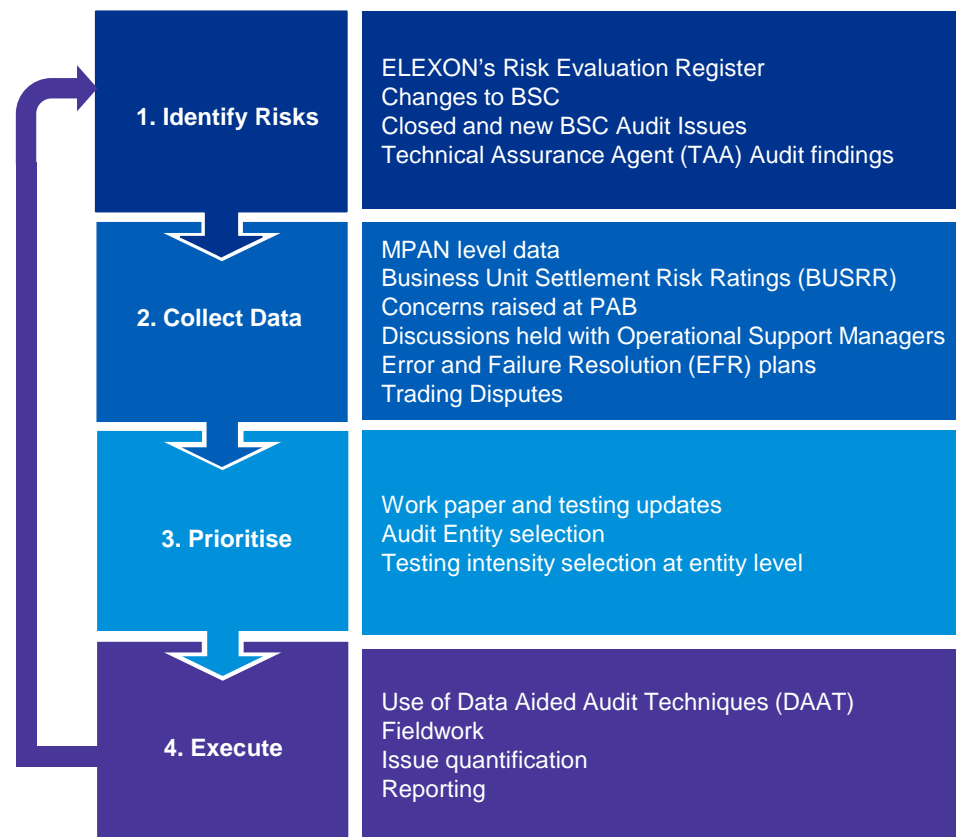
All these risk factors are reflected in our final Audit Entity Selection, which sets out which market participants will be visited and what areas and intensity of assurance testing will be performed, which later feeds into our Audit Planning Memorandums (*what* we test). In addition, those aspects also drive changes to our work programmes and hub training given to our staff (*how* we test).

The fieldwork will take place between November 2017 and March 2018. As in previous years, we will continue to utilise Data Aided Audit Techniques (DAAT), to provide a more robust and insightful audit. We will continue working on the existing scripts to improve their accuracy.

Our findings will be moderated after all on-site work is completed. This will help us to have consistent audit ratings across the market. We will report our findings to PAB and the Panel in June 2017. During the final reporting stage, we will discuss quantification of Settlement impact with ELEXON industry specialists. Our findings will be considered into next year's Audit planning, as part of our continuous improvement process.

Further detail of the audit process is provided in Scoping Detail and BSC Audit Phases slides.

### BSC Audit risk-based planning approach



# Key BSC Audit Findings 2016/17

## Audit 2016/17 findings summary

We have noted that there has been a significant increase in the number of Settlement impacting issues identified across the market. In aggregate these issues were not of sufficient severity to cause a qualification of the report. A number of legacy audit issues have been closed or reduced in severity as a result of efforts by ELEXON, market participants and the PAB; in particular, improvements have been identified in the processing of CoMC scenarios and issues relating to incomplete or delayed provision of meter reads and Meter Technical Details. However we also identified a deterioration in D0235 resolution, leading to greater impact on the overall market error as well as an increase in certain legacy issues such as those raised around resolution of metering faults.

We have expanded our use of DTN data for testing this year, which has continued to provide much greater clarity and insight over the extent of issues as full population testing is undertaken.

There continues to be significant change across the electricity market, both from a regulatory and technical (e.g. P272/smart meter roll out) perspective, which is creating new Settlement risks. Additional testing was brought into scope for the 2016/17 Audit year, including change management, Commissioning and P305. Significant issues were noted around Commissioning in particular, with four entities having Medium/High Issues raised.

We identified a new key area of concern, meaning there are now three broad areas of focus in our BSC Audit Report:

### Issues relating to Metering;

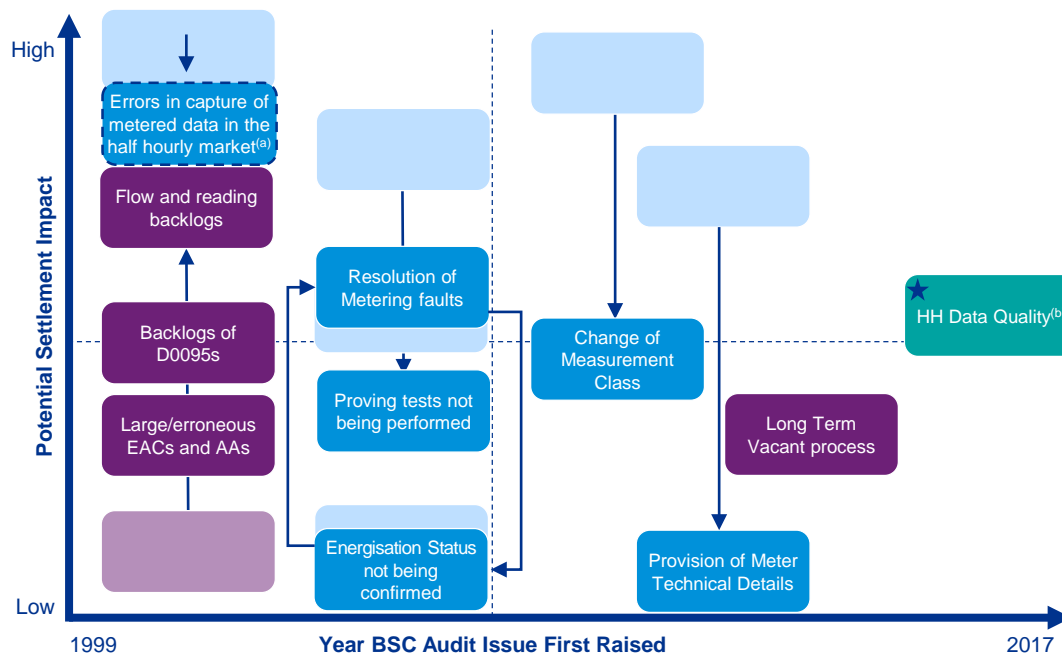
#### Data quality issues in the Non Half Hourly Market; and

**Data quality issues in the Half Hourly Market** (New for 2016/17 – driven by an increase in D0235 issues, likely resulting from the significant increase in HH meters as a consequence of increased CoMC scenarios attributable to P272).

The 'heat map' opposite shows the individual categories of issues within these three areas, split by age and potential impact to Settlement. The arrows indicate the change year on year.

We continue to support ELEXON's EFR process which aligns to our Medium and High rated issues, and to adapt our audit approach to new Settlement risks. We also note that ELEXON's ongoing PAF review provides an opportunity to refocus the scope of the BSC Audit in the future and we support this.

Heat map showing potentially Settlement impacting audit issues identified in our draft BSC Audit Report (arrows indicate the movement since the 2015/16 BSC Audit)



- Key:
- Data quality issues in the Non Half Hourly Market
  - Data quality issues in the Half Hourly Market
  - Issues relating to Metering
  - ★ New issue opened

- Note:
- (a) As reported by the Technical Assurance Agent (TAA), whose work is outside of the scope of our draft assurance opinion.
  - (b) 'D0235 exception report' has previously been reported as part of 'Other Individually insignificant errors' however due to the increase in number of errors and increased impact on Settlement identified in 2016/17, a new category has been created.

# Risk approach: Highlight areas

Our key highlights show areas of the audit where we will place the most emphasis in 2017/18. They include industry driven aspects such as Significant Issues and major themes of our testing strategy.

Area	Activity
<b>Significant Issues</b>	In previous audit cycles we targeted significant issues, such as Resolution of Metering Faults or Backlogs of D0095s and D0235s, and this will be maintained. All of the most significant issues will be part of our testing programmes for all levels of intensity.
<b>BSC Audit Scope Changes in 2017/18</b>	We have reviewed the changes in the approved BSC Audit Scope 2017/18 and are building our test programmes to address these. As part of developing our test processes, where appropriate, we will hold meetings with technical experts from ELEXON. Due to the low number of Settlement impacting issues and as per the BSC Audit Scope, we will reduce the scope of our testing in the Unmetered Supply market. Likewise, we will follow a risk based approach and perform testing over P305 and Change Management only at parties where we noted issues in the BSC audit 2016/17. Furthermore, following the implementation of CP1472 there will be a reduction in the sample size tested in the Medium and Full intensity scopes.
<b>Continue to use DTN data</b>	The expansion of the use of DTN data for testing in the 2016/17 Audit resulted in greater clarity and insight over the extent of issues as full population testing is undertaken. As in previous years, we will continue to utilise Data Aided Audit Techniques (DAAT), to provide a more robust and insightful audit. We will continue working on the existing scripts to improve their accuracy.
<b>'Off the shelf' Suppliers</b>	A risk has been identified with 'Of the Shelf' Suppliers as the organisation operating the business might have not been the Qualification applicant. As such, there is the concern that sufficient experience and processes are not in place in order to operate effectively in terms of Settlement. Three of these Suppliers are in scope for the 2017/18 BSC Audit, which will allow us to gain visibility on the adequacy of the experience and processes in place at such Suppliers.
<b>Change of Measurement Class process</b>	Despite the improvements noted in processing Change of Measurement Class (CoMC) scenarios in the 2016/17 BSC Audit and the reduction in expected CoMC events in 2017/18, focus will remain in this process due to the complexity of the cases remaining.
<b>Spotlight on Market Issues</b>	The impact severity of Market Issues will be reflected in our testing approach. Testing and discussions held in the 2016/17 Audit resulted in two new market issues. One against Suppliers, relating to Supplier Hub Interaction with other BSC Agents and one for Meter Operator Agents, relating to Outstation passwords not being communicated. We will examine these issues closely and design our testing and enquiry questions to cover processes where Settlement Risk is significant. Likewise, we will put emphasis on the issues that had been open for a number of years to better understand why these remain unsolved.



# Risk approach: Scoping Detail 2017/18

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 2017 to 31 March 2018' is published on ELEXON's website.

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 systems.

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 2018, 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 2018 will be in respect of all Reconciliation Runs processed in that year regardless of the audit period in which the relevant Settlement Day sits. Hence all Settlement Days from 17 February 2016 to 31 March 2018 will be considered, as at least one Settlement Run for each of these Settlement Days (SF, R1, R2, R3 or RF) will have occurred in the assurance period. This means that any errors identified may have arisen from Settlement Days spanning a 26 month period (approximately).

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).

# Risk approach: Scoping Detail 2017/18

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.

As mentioned in Background and BSC requirements, additional areas will be brought into scope by the BSC Auditor. 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.

## Materiality

Materiality for the BSC Audit year ending 31 March 2018 remained unchanged at 1.3TWh as set out in the BSC Audit Scope 2017/18 document published in March 2017.

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

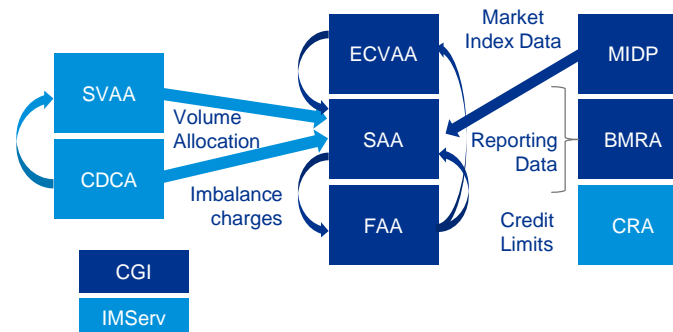
The Balancing Mechanism ('BM') Audit is conducted by the BM Auditor who is appointed by the Transmission Company pursuant to Section H paragraph 5.1.6 of the BSC.

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.

BSC Audit considers the work of the TAA and BM Auditor and will take into account issues which may have a material impact on the conclusion of the assurance work performed under the BSC Audit engagement as part of its ongoing risk assessment.

## 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



## Operational Approach: Overview

### Changes in 2017/18

Our operational approach will not have major changes in 2017/18 as we will build on successes of previous audits.

We will continue to share APMs and Data Requests (including DTN) prior to the audit, which will be agreed with the relevant contact from the parties. The findings will also be reported in the same way.

Some minor changes include:

- Removal of some Data Requests, which can be sourced from DTN data, supplied by Elexon.

### Audit Planning Memorandums (APMs) and Data requests

Audit Planning Memorandums (APMs) and Data requests were re-designed, simplifying the effort required on the side of audited entities. Where possible, DTN Data will be used to reduce the volume of data requests that parties need to provide.

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

### Risk focused audit scope

As shown in Risk Approach section, we are continuing to align our testing to Settlement Risk. As part of this, we have performed a complete review of audit procedures and made testing amendments where necessary.

### Reporting of BSC audit findings

Our findings will be moderated after all on-site work is completed. This will help to have consistent audit ratings across the market. All findings will be recorded directly into the live issues database.

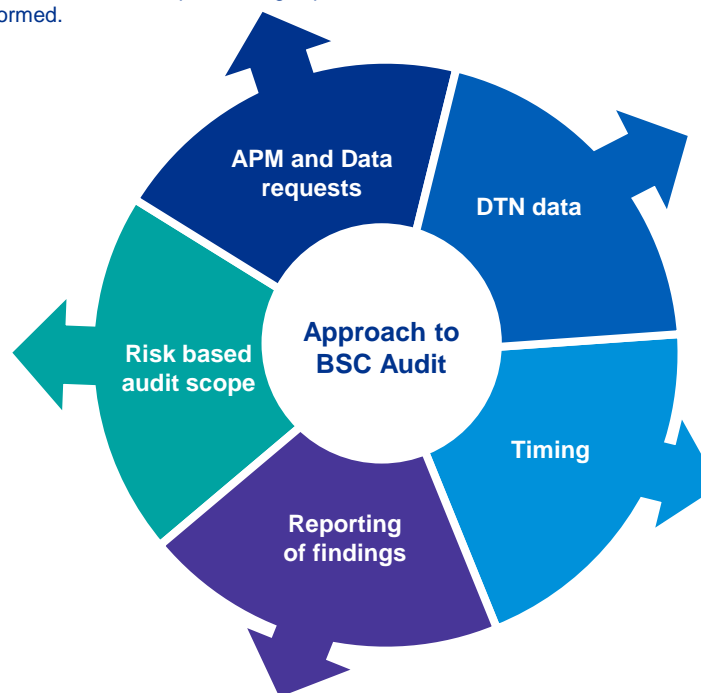
During the final reporting stage, we will discuss quantification of Settlement impact with ELEXON industry specialists.

### Data Transfer Network (DTN) data

Following successful introduction of DTN-based tests in 2016/17, we will look to improve existing tests. Where KPMG use DTN flow data to identify potential anomalies prior to the fieldwork, a sample of these will be sent to parties for follow up in advance of the audit site visits, leading to a more efficient audit whilst on site.

### Timing

Our fieldwork will continue to be conducted pre and post Christmas with most audits being performed in February and March. To keep the audit process efficient, we are introducing a maximum two-week period post site visit for parties to resolve and finalize any outstanding queries on our findings. We will aim to finish all site work by 29<sup>th</sup> March to have appropriate time to finalise any outstanding queries and prepare final reporting.



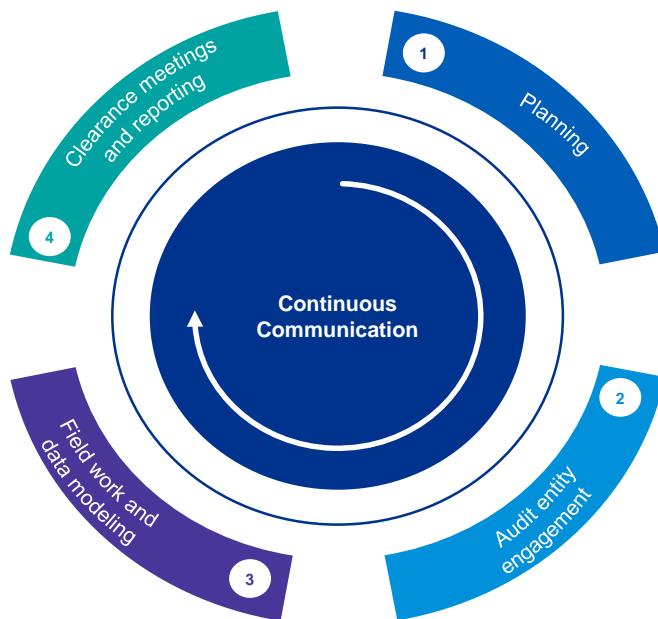


# Operational Approach: BSC Audit phases

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:

- 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 design of this document was reviewed by BSC Auditor for 2017/18 audit period. The APM will detail, amongst other information, a tailored work programme, which is discussed in phase 3 and will capture minutes after planning and close meetings.

# Operational Approach: 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

### 3. Field Work and Data Modelling

Site visits for fieldwork will take place throughout the assurance period and will generally occur between November 2017 and March 2018. 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. We will aim to finish all site work by 29<sup>th</sup> March to have appropriate amount of time to finalise any outstanding queries and prepare final reporting.

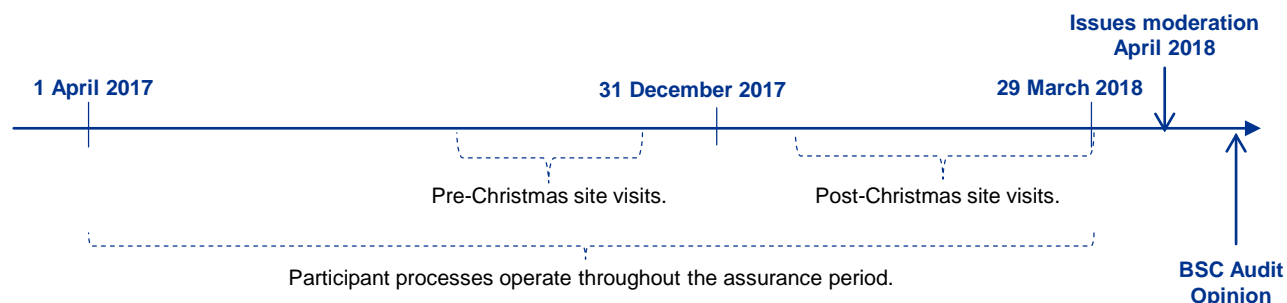
#### Data Assurance Techniques

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.

#### Moderation

The final issues moderation will remain unchanged, where KPMG hub managers and senior management will meet to produce final issue ratings for the market. As in previous audit periods, issues with impact ratings will then be communicated to ELEXON and relevant audited entities. Although changes from moderation are not frequent, as a result of this change, issue ratings will also never change more than once after the Close Meeting is concluded.



# Operational Approach: BSC Audit phases

### The BSC Audit Engagement is structured over four phases:

1. Planning
2. Audit Entity Engagement
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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. Where we are able to, we will consider relying 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.

# Operational Approach: 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

#### 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 & Failure 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.

KPMG will take into account any comments raised by audited entities on Management Letter Points raised during on-site work, but MLPs will not be discussed in detail during clearance meetings. 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 1.3TWh for the current assurance period (i.e. the year ending 31 March 2018).

# Operational Approach: BSC Audit phases

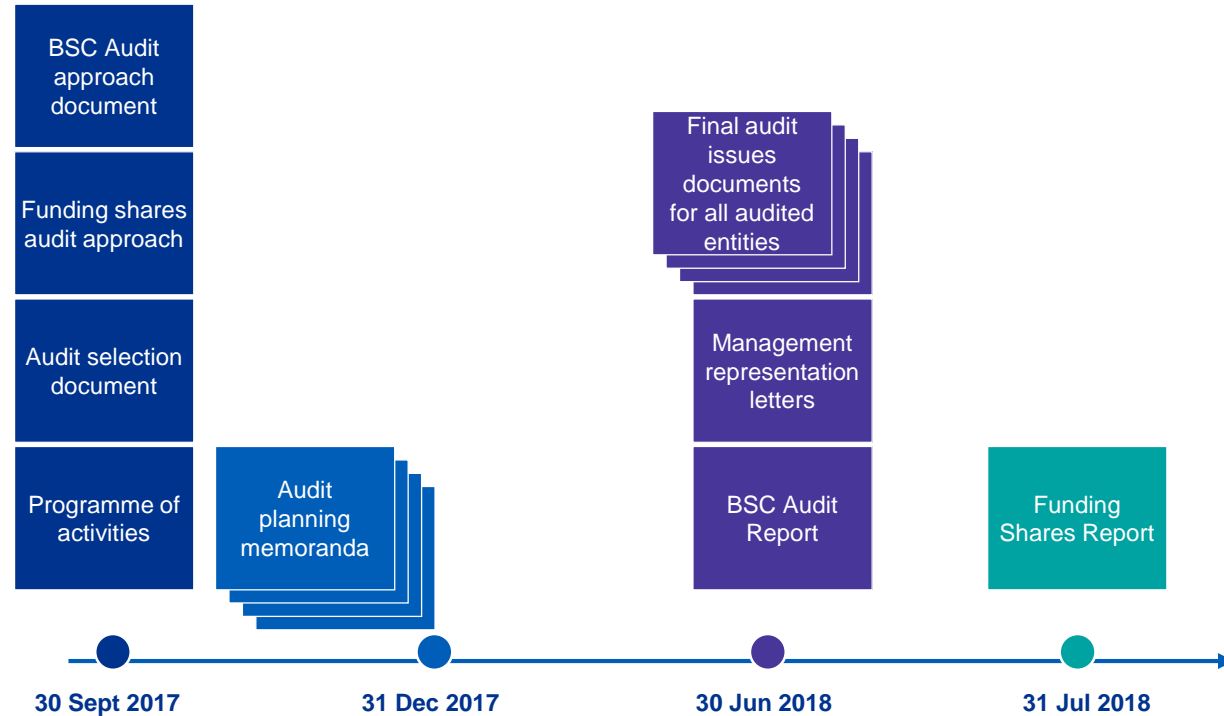
**The BSC Audit Engagement is structured over four phases:**

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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 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 previous audits, 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** Audit Scope

**Appendix D** BSC Audit findings rating methodology



# 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 foregoing, provided that from the Performance Assurance Effective Date the Panel may determine a different scope for the BSC Audit with respect to Supplier Volume Allocation.

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 due 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) All Settlement Runs performed by the SAA in respect of Settlement Days from 1 April 2017 to 31 March 2018;
- b) For avoidance of doubt, coverage will exclude Post Final Settlement Reconciliation ('DF') Runs which will be considered as a corrective technique only.

As a result the specific Settlement Days that will be considered as part of the assurance period are those from 17 February 2016 to 31 March 2018 (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: Settlement Risks

Using the top SVA Settlement Risks from the 2017/18 Risk Evaluation Register we have set out the extent to which these will be considered by the BSC Audit.

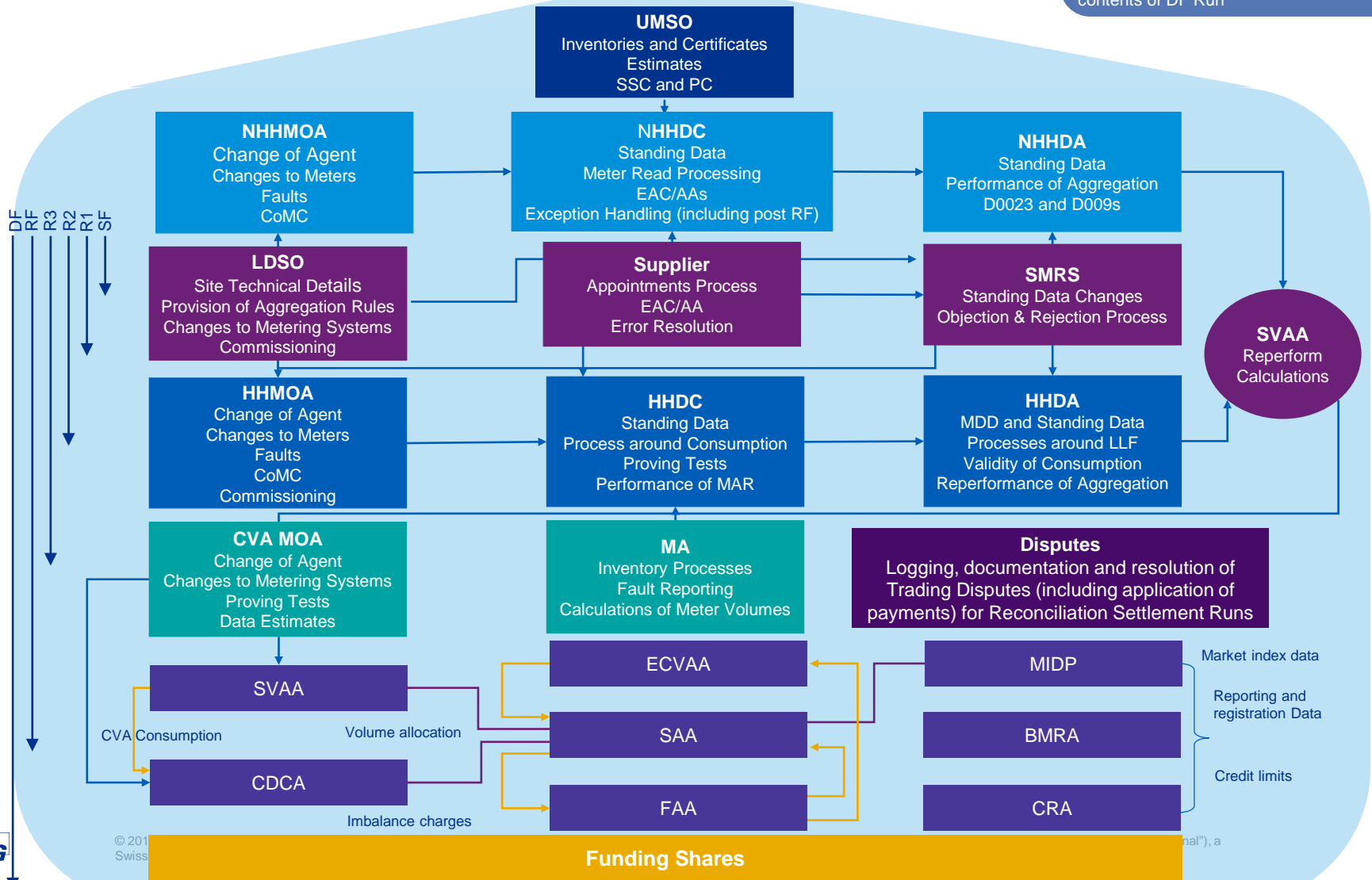
In addition to the specific Risk Evaluation Register ('RER') risks in the table below, there are a number of industry related risks which include agent system changes, increased number of new Suppliers and rise in number and frequency of Supplier switching. Our audit approach addresses these issues through the detailed testing and observations of processes. 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
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
SR0111	The risk that NHH Metering Systems are tampered with resulting in under-accounting of energy in Settlement.	Data Collection Meter Operation
SR0116	The risk that Import/Export Metering Systems are incorrectly installed/configured resulting in inaccurate data entering Settlement.	Meter Operation
SR2868	The risk that non Half Hourly Import/Export Metering Systems are incorrectly installed/configured resulting in inaccurate data entering Settlement.	Meter Operation
SR3019	The risk that HHMOAs do not provide correct Meter Technical Details (MTDs), including when HHMOAs make changes to MTDs, to HHDC, resulting in Meter readings not being collected or misinterpreted.	Meter Operation

# Audit scope

Audit Entity Selection	Approach
MPAN Level Thresholds Prior Year Issues Audit Rotation Risk Assessment ELEXON / OSM Feedback	Changes to BSC Market Issues PARMS results \ trends High Risk Areas

**Outside of the BSC Audit Scope**  
 Customer Billing  
 Production of TNUOs and DUoS  
 MRA disputes procedures  
 Contractual relationships between Agents  
 Accuracy of MTDs (tested back to meter)  
 Completeness, accuracy & validity of contents of DF Run



# 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 its 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?

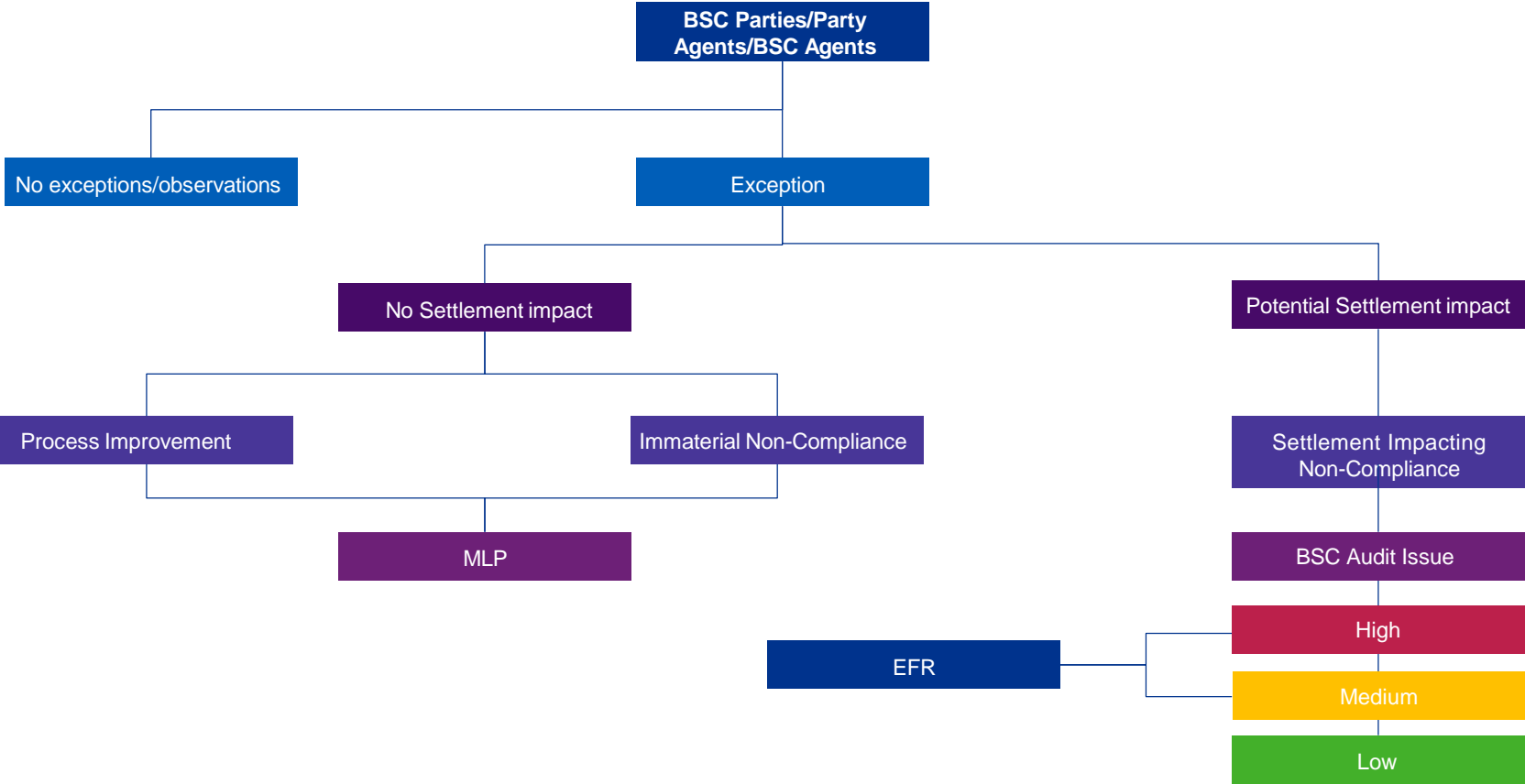
- Each finding will be individually determined but will also be considered in the context of similar findings raised on other Audited Entities.
- Two Audited Entities may have the same underlying issue but if one entity has a mitigating process or control and is responsible for a much lower error rate, 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).
- One moderation session will be performed during the BSC Audit year, following completion of the fieldwork at all market participants. The aim of this session 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 & Failure 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 page 20.

# Audit findings rating methodology

### 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)

# Audit findings rating methodology







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