

Balancing Mechanism (BM) Audit delay additional charges

BSC Panel

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Purpose of paper **Decision**

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Summary **A delay to the delivery of the BM Audit has incurred additional charges that are not included in BSCCo's pre-approved Assurance budget. This paper seeks a determination from the Panel whether these charges should be paid by BSCCo and treated as BSC Costs under BSC Section D.**

1. BM Audit Governance

- 1.1 The National Electricity Transmission System Operator (NETSO), under its obligations held in the [Electricity Transmission Standard Licence Conditions](#), is required to procure audits in relation to the cost of Balancing Services.
- 1.2 BSC Section Q¹, sets out the rules how BSC Parties and the NETSO submit BM data to the Balancing Mechanism Reporting Agent (BMRA) and Settlement Administration Agent (SAA).
- 1.3 Section H², (5.1.6) requires that an independent auditor of internationally recognised standing is appointed by the NETSO to act as the BM Auditor to review the compilation and submission of BM data. The objective of the BM Audit is to establish whether the NETSO is compliant with the requirements of Section Q of the BSC and provides Assurance that the BM data is correct. This forms part of the BSC Audit.

2. BM Audit delay

- 2.1 For the 2021/2022 BSC year, the delivery of the BM Audit Opinion has been delayed by four months. NGESO has advised on the reason behind the delay:

"The BM Auditors (PWC) have refreshed their understanding of the processes that NGESO follow to comply with Section Q of the BSC and also the underlying IT applications that NGESO utilise to support these processes. Through the audit exercise the BM Auditors identified areas where their testing approach should evolve to ensure that they continue to appropriately audit all aspects of compliance and the key IT dependencies. As a result a number of new or enhanced procedures have been performed which as required more engagement across ESO departments than originally foreseen.

This includes additional ITGC testing due to the number of new IT applications within ESO, leading to delays in receiving responses to data requests. In addition The IT dependencies and the wider business have had resource constraints, industry prioritisation, and personal matters which has led to delays for PWC in getting the evidence.

¹ [Section Q: Balancing Mechanism Activities](#)

² [Section H: General, Section 5.1 BSC Audit](#)

This delay in provision of supporting evidence for the audit to PWC has led to the additional costs incurred for the BM Audit.”

- 2.2 NGESO has also advised that there are additional charges that have been incurred as a result of the BM Audit delay. And that the total amount to be paid ‘is in the region of £70,069+ VAT’. As of 4 October 2022 not all invoices had been provided to Elexon to confirm the additional cost so the exact final figure is yet to be confirmed by NGESO.
- 2.3 NGESO has informed Elexon that it wishes to recover half of the additional costs from BSCCo, with these treated as BSC Costs.
- 2.4 Section H, 5.7.6 states: ‘The costs of carrying out any such audit by the BM Auditor shall, subject to the prior approval of such costs by the Panel, be charged to BSCCo and shall be treated as BSC Costs for the purposes of Section D³’. The budget of this Audit is therefore accounted for under the pre-approved BSC Audit costs along with BSCCo’s other Assurance activities. However, these unexpected additional charges have not been accounted for in the pre-approved budget. This paper seeks a determination from the Panel regarding payment of these charges.
- 2.5 The delivery of the BM Audit Opinion was also delayed for the 2019/2020 and 2020/2021 BSC years; this was attributed mostly to impacts of the COVID-19 pandemic but also in part attributed to some of the delays as described in 2.1.

3. Implications of the delay

BSC Audit impacts

- 3.1 The Central Volume Allocation (CVA) portion of the BSC Audit reviews the Central Settlement Systems and CVA Meter Operator Agents (CVAMOs). This audit provides a level of assurance that the calculations and allocations that have been performed within CVA are in accordance with the BSC and its subsidiary documents.
- 3.2 The BSC Auditor takes account of the findings of the BM Audit performed by the BM Auditor when forming its Opinion⁴. The opinion is usually delivered to the BSC Panel in the June following the completion of the BSC Audit work.
- 3.3 Therefore, for the 2021/2022 BSC year, the BSC Audit Opinion has been delayed by four months because the BSC Auditor is waiting for the BM Audit to be completed to be able to form the BSC Audit Opinion.

Party impacts

- 3.4 If the BM Audit Opinion is delayed this also put delays on the BSC Auditor being able to schedule the right senior management resource within each BSC Party for signing its management representation letters⁵. This is usually done following completion of the audit work and just before the presentation of the BSC Audit Opinion to the Panel. The BSC Auditor has had to reschedule these more than once for the current audit due to the continued delay of the BM Audit delivery and uncertainty of its delivery date.
- 3.5 In addition, Elexon understands that many Parties use the output of the BSC Audit for their own reporting, for example their own financial audit. We are aware of one Party that had asked the BSC Auditor regarding when this was going to be completed.

Elexon impacts

- 3.6 There has also been an increase in Elexon resource to manage this delay, through liaising with NGESO and the BSC Auditor regularly. This increase has been absorbed through existing resource within Elexon.

³ [Section D: BSC Cost Recovery and Participation Charges](#)

⁴ The BSC Auditor delivers an International Standard on Assurance Engagements (ISAE (UK)) 3000 Opinion

⁵ A management representation letter is a formal requirement for an ISAE (UK) 3000 Assurance Opinion to be provided. The letter is written by the BSC Auditor to the CVAMOs and Elexon (for Central Systems) and confirms the accuracy of statements provided during the audit. It also confirms that the signee has not become aware of anything material that would either have changed what was advised, or has subsequently impeded the ability to be compliant after the audit close out meeting and before the end of the audit period itself.

4. Future Audits

4.1 Elexon has taken actions in order to mitigate uncertainty and delays in future audits:

- The BSC Audit Assurance Approach is to be sent to NGESO upon its approval and before the start of the BSC Audit year. This document details the BSC Audit schedule and will enable NGESO to have visibility each year of when Elexon will deliver the BSC Audit to the Panel.
- Elexon will schedule regular checkpoint calls with NGESO throughout the year to obtain updates on the progression and delivery of the BM Audit.
- Elexon is considering what can be done to strengthen the governance around this process and will report to the Panel as required upon a conclusion.

4.2 NGESO has advised that it will also put in a number of measures to ensure a timely delivery of future BM Audits:

“ESO recognises that the audit delay is not acceptable, and that BSC parties have downstream dependencies on the audit opinion. For future audits we will be working more closely with Elexon, having regular meetings/checkpoints to discuss progress on the BM Audit. For instance the meetings we’ve had with Elexon has led to NGESO having a greater appreciation of the BSC Audit and the importance of it (that many businesses rely on the opinion of the BSC Audit for their crucial audits).”

We have increased resourcing for BM Audits (for the wider business), from the current resource of 2 analysts managing the BM Audit to 4 analysts. The two analysts will be trained and should be compliant in Audit work within the year. We also intend to split off the delivery of the ITGC testing to the division holding the IT dependencies – the growth in IT applications used in managing our requirements have led to an increase in the audit scope and requirements.”

2. Recommendations

2.1 The Panel is invited to:

- a) **COMMENT** on the delay of the BM Audit; and
- b) **DETERMINE** whether the additional charges should be paid for by BSCCo and treated as BSC Costs.

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