



# ELEXON BSC Audit Approach 2018/19 (CVA Market and Central Systems)

Year ending 31 March 2019

Classification: Public

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# Executive Summary

We outlined high-level market developments in our BSC Audit 2017/18 Audit Report, which remain relevant into the 2018/19 Assurance cycle as set out below. Following external industry consultation, the scope of the BSC Audit\* for 2018/19 was changed with Central Systems and CVA MOA included within an ISAE 3000 reasonable assurance report, and SVA market moved outside the ISAE 3000 assurance conclusion and into more targeted process testing (called “Process Assessment”) which will feed into ELEXON’s Process Assurance Framework (PAF). For Process Assessment, ELEXON will be responsible for the scope of testing and conclusions reached. The nature of the onsite testing will remain broadly consistent with prior year’s BSC audits but will be more targeted at specific market roles and BSC Parties which are considered of highest risk to the accuracy of Settlements (see slides 4 and 5 for further details). We have also initiated a BSC Audit Transformation Programme which will provide more flexibility within the process testing work to be reactive in adapting an approach to address new Settlement risks developing during the BSC Audit cycle and into the future. The amendments we have agreed with ELEXON are outlined in slide 6.

The following emerging market developments and risks to Settlements have been considered and built into the BSC Audit approach for the 2018/19 BSC Audit year:

**Off-the-shelf Performance Assurance Parties (PAPs):** there has been a significant rise in the number of off-the-shelf Suppliers and Party Agents with reliance on managed services. This continuing trend creates over dependency on single points of failure.

**Dilution of market knowledge:** the introduction of new Suppliers and Agents, and a tighter resource pool to recruit from, is increasing the risk to Settlements due to errors in manual processes, greater backlogs of flows and loss of company specific knowledge as the churn of people within the industry increases.

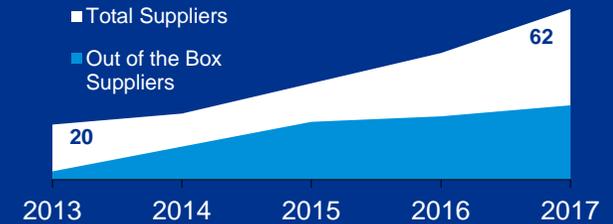
**Performance Metrics:** P272 led to the migration of many AMR meters from NHH to HH, leaving the NHH market with a higher proportion of non-AMR and harder to read meters and significantly increasing the size of the HH market. Other initiatives will continue to markedly alter the market, so the challenge is ensuring that the performance metrics keep up with the continually changing nature of the market.

**Mergers and acquisitions:** increasing mergers and acquisitions (and companies going bust) within the market is leading to risks relating to integration of systems, staff and processes, all of which have been seen in the past to be root causes of Settlement impacting errors.

This approach document outlines other risks in detail and discusses the approach for the CVA MOAs and Central Systems through consideration of Settlement risks and key issues, operational approach and timelines.

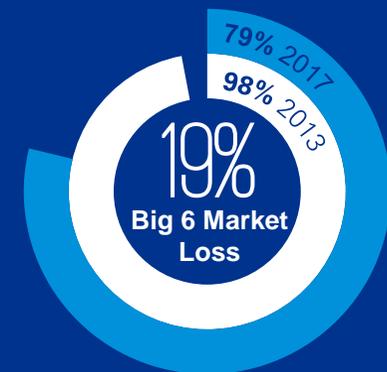
*\*References in this document to the BSC Audit refer both to the work performed for the purpose of the ISAE 3000 Assurance Conclusion and the Process Assessment.*

## Number of Domestic Suppliers in the Market



Source: Ofgem analysis of data from electricity distribution network operators (DNOs) and Xserve. April 2018

## Big 6 Market Share



Source: Ofgem analysis of data from electricity distribution network operators (DNOs) and Xserve. April 2018

# Changes to the BSC Audit

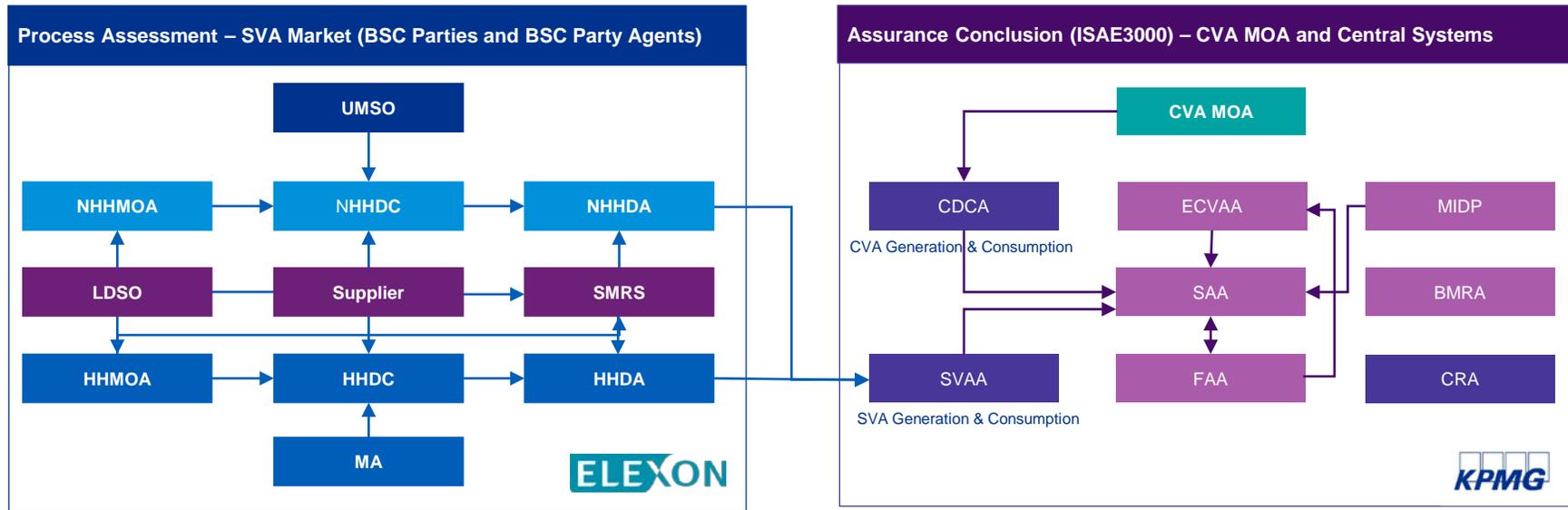
## The BSC Audit is changing

Following changes in BSC Audit Scope, starting this year our work will be delivered in two distinct streams of work: Central Systems and Central Volume Allocation Meter Operator (CVA MOA) will remain within the scope of an ISAE 3000 Assurance Conclusion; and Supplier and Supplier Volume Allocation (SVA) Agents will be within the scope of a new and tailored Process Assessment engagement, forming part of ELEXON's Process Assurance Framework (PAF). These changes have been carefully considered by ELEXON and included external industry consultation.

**Assurance Conclusion (ISAE 3000):** We will continue to issue an Independent ISAE 3000 Assurance Conclusion over Central Systems and CVA MOA. In practice, this means our approach to testing this area of Settlement processes will largely remain consistent with prior year. We will issue a Reasonable Assurance Report and present it to PAB and Panel.

**Process Assessment:** For the SVA Market, We will not be issuing an Assurance Conclusion over the SVA market. ELEXON will be responsible for the scope detailed on site work as well as the owner of the conclusions reached on the assessment. Testing at market participants will be performed in a similar way to previous years. ELEXON will issue a report summarising the key findings, which will be presented to PAB and Panel.

The diagram below outlines how the scope of the BSC Audit in the prior year will be split between Process Assessment and the ISAE 3000 Assurance Conclusion.



# Changes to the BSC Audit (cont.)

## How has the scope of our work changed from last year?

The table below outlines how the changes described on slide 4 will affect various individual areas of the BSC Audit, comparing our activities performed in 2017/18 and the plan for 2018/19.

SVA Market - Process Assessment Fieldwork	
<b>2017/18</b> <ul style="list-style-type: none"> <li>— 60+ annual site visits performed.</li> <li>— On-site testing of process and control design and effectiveness.</li> <li>— Independent ISAE3000 Assurance Conclusion provided.</li> <li>— KPMG own scope of work.</li> <li>— Formal Management Representation Letters requested from Suppliers.</li> <li>— BSC Audit Report and ISAE3000 Reasonable Assurance Report presented to PAB and Panel, including overview of key findings and insights.</li> </ul>	<b>2018/19</b> <ul style="list-style-type: none"> <li>— 60+ annual site visits performed; opportunity to flex scope for BSC Parties mid-year when required.</li> <li>— On-site testing of design and effectiveness performed to deliver scope set by ELEXON.</li> <li>— No ISAE3000 Assurance Conclusion provided, ELEXON will report findings to PAB and Panel.</li> <li>— ELEXON own scope of work and materiality.</li> <li>— Customised Senior Management sign-off requested from all Suppliers and SVA Agents in scope (as an equivalent to a Management Representation Letter).</li> <li>— ELEXON-owned Process Assessment Report delivered to PAB and Panel, including overview of key findings and insights. Similar format to BSC Report in prior year.</li> </ul>

Central Systems and CVA MOA – Assurance Conclusion	
<b>2017/18</b> <ul style="list-style-type: none"> <li>— Independent ISAE 3000 Assurance Conclusion and reporting provided to PAB and Panel as part of the wider BSC Audit Report.</li> </ul>	<b>2018/19</b> <ul style="list-style-type: none"> <li>— Independent ISAE 3000 Assurance Conclusion and reporting provided to PAB and Panel in a Central Systems and CVA MOA BSC Audit Report.</li> </ul>

# Changes to the BSC Audit (cont.)

## What else is changing?

Changes to the methodology of the BSC Audit presented an opportunity to facilitate additional changes to the fieldwork, improving Performance Assurance Parties' ('PAP') experience of Site Visits and enhancing insight provided by our work.

Since completing the 2017/18 BSC Audit we have collaborated with ELEXON to initiate a Transformation Project, by holding a number of improvement sessions in an interactive workshop environment, involving SMEs from KPMG and ELEXON, and also taking into account PAP feedback from the 2017/18 BSC Audit cycle and capturing key short and long-term objectives from ELEXON's industry consultation on the future of the BSC Audit. Examples of improvements that we are initiating are outlined below.



### Improved experience of site visits

#### Reduction in Data Requests

Reducing PAP fieldwork effort.

#### Greater quality insights delivered

Providing MPANs, root causes and resolved within Period Flag.

#### Complete Site Visit schedule

Timing of review of each role within a BSC Party to be shared pre-BSC Audit.



### Emphasis on BSC compliance

#### Emerging Risks and Continuous Scoping

Option for ad-hoc and repeat site visits to improve year round Settlements compliance.

#### Reviewed Work Programmes

Ensuring continuous alignment to new and emerging Settlement risks.



# CVA and Central Systems Approach (Assurance Conclusion)

# Risk Approach Overview

## We'll continue to follow a risk-based planning approach for our ISAE 3000 work.

The scoping process for our Assurance Conclusion over Central Systems and CVA MOA remains the same as last year (being driven by the requirements of ISAE 3000).

The diagram on the right 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 the BSC and BSCPs, and issues raised and closed in the 2017/18 BSC and TAA Audits. Other factors such as Business Unit Settlement Risk Ratings (BUSRR) and other agent-specific performance concerns raised by the PAB and through Disputes are also taken into consideration.

All these risk factors are reflected in final Entity Selection document, which sets out which market participants will be visited, what areas will be tested and at what intensity during fieldwork. This entity and intensity selection then feeds into our Audit Planning Memoranda that define what we test. In addition, these aspects also drive changes to our work programmes and hub training given to our fieldwork teams (how we test).

The fieldwork will take place between November 2018 and March 2019. As in previous years, we will continue to utilise Data Aided Audit Techniques (DAAT), to provide a more robust and insightful BSC 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 issue ratings across all audited entities. We will report our findings for the ISAE 3000 Assurance work to ELEXON and in turn PAB and the Panel in June 2019. Our findings will be factored into next year's planning, as a part of our continuous improvement process.

Further detail of the process is provided in the BSC Audit Phases slides and Appendix B.



# Approach to CVA Market and Central Systems for Assurance Conclusion

## Audit 2017/18 findings summary

We have taken into consideration the findings of the BSC Audit 2017/18 to drive the focus of the fieldwork for our 2018/19 Assurance Conclusion.

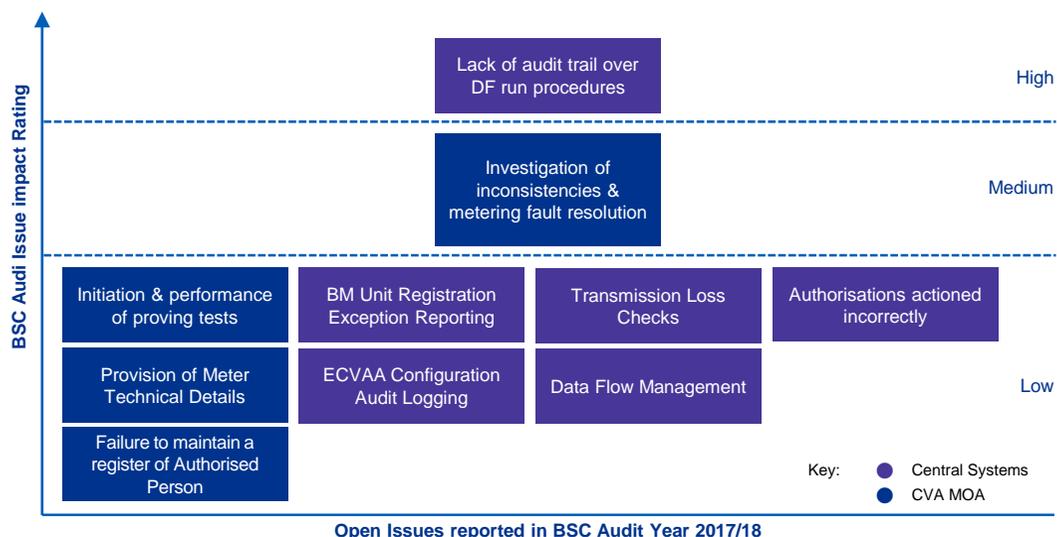
For 2017/18, a number of legacy BSC Audit issues for Central Systems were closed or reduced in severity due to efforts made by ELEXON, their Agents and the focus of PAB.

However, we noted a significant increase in the number of issues in the CVA MOA role. In particular around Processing of Requests to Investigate Metering Faults, Performance of Proving Tests and Provision of Meter Technical Details.

The diagram on the right shows the individual categories of open issues from the BSC Audit 2017/18 split into CVA MOA and Central Systems and their potential impact to Settlement.

We have also listed some key areas of focus for the fieldwork in 2018/19. They include industry driven aspects such as Significant Issues and major themes of our testing strategy.

## Heat map showing potentially Settlement impacting audit issues identified during BSC Audit 2017/18



Area	Activity
Significant Issues	In previous BSC Audit cycles we targeted significant issues, such as the integrity of the DF run process and Transmission Loss Checks, and this will be maintained. For CVA MOA, fieldwork will take into account issues around Fault investigation and resolution.
BSC Audit Scope Changes in 2018/19	We have considered the PAB approved BSC Audit Scope 2018/19 to align our approach to key areas of operation. We have amended our Entity Selection for CVA MOA and have now included in the scope of our testing all entities whose appointments in aggregate account for more than 1% of the total market volume.
Spotlight on Market Issues	The impact severity of Market Issues will be reflected in our testing approach. Our selection of entities and scope of testing will take into account the issues and findings from previous years, as well as risks reported in the RER. For example, we will continue to factor in root causes of why processes are performed manually.
Data Modelling	The testing performed by the BSC Auditor 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. We utilise this data and models as part of the suite of tests we perform over the operation of the Central Settlements Systems.
Materiality	For the Assurance conclusion work over Central Systems and CVA MOA, the materiality threshold for the year ending 31 March 2019 BSC Audit is 1.2 TWh.



# Operational approach

# Operational Approach: BSC Audit phases



## 1. Planning

### Risk assessment and entity selection

For ISAE3000 Assurance Conclusion work over CVA MOA and Central Systems, the scoping of entities and work programs will be done by KPMG with inputs from ELEXON. Utilising information and available data, the risk associated with each market participant to the completeness, validity and accuracy of allocations and Settlement is determined. The 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.

A rotational approach is followed to make sure that each market participant is subject to full scope assurance procedures at least once every four years. We will continue performing testing in three intensities: full, medium and limited.

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.

## 3. Fieldwork and data modelling

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. Entity Engagement

### Audit Planning Memorandum ('APM') and Data Requests

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. Prior to the planning meeting, a draft Audit Planning Memorandum ('APM') will be sent to each in-scope entity outlining the timeframes, key contacts and data requested.

The APMs are being re-designed for 2018/19 BSC Audit period and will provide further details on the work that will be performed, including a description of the processes that will be covered. This will allow entities to plan more effectively the meetings that will be held on the site visits and the resources they will have to allocate to BSC Audit.

## 3. Fieldwork and data modelling

Site visits for fieldwork will generally take place between November 2018 and March 2019. The timing of this work will be agreed with entities during the entity engagement phase. We will aim to finish all site work by 29 March 2019.

# Operational Approach: BSC Audit phases (cont.)



## Detailed Testing

Detailed testing involves inspection of a selection of transactions and records at the entities where we are performing test 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 entity will be determined dependent on the:

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

## Data modelling 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 to support the BSC Audit. The models use source data provided by Market Participants and re-perform the calculations to check their arithmetical 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 BSC Audit periods, issues with impact ratings will then be communicated to ELEXON and relevant entities. Although changes from moderation are not frequent, issue ratings may change as a result of moderation.

## 4. Clearance Meetings and Reporting

### Observations

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

# Operational Approach: BSC Audit phases (cont.)



For Assurance Conclusion, the 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;
- Management Letter Points (MLPs) - findings which have no Settlement impact
  - 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;
  - 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 entity.

Any instances of non-compliance that have been noted and rated 'Medium' or 'High' by the BSC Auditor will be subject to the Error and 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 MLPs within an overall audit issues document that will set out the Settlement impacting non-compliances noted from our testing. All the findings will be reported at MPAN level and the root-cause of the issue will be included. The final issue document will be shared with ELEXON.

KPMG will take into account any comments raised by entities on MLPs raised during on-site work, but they will not be discussed in detail during clearance meetings.

## All Settlement Impacting Non-compliances will be reported

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.

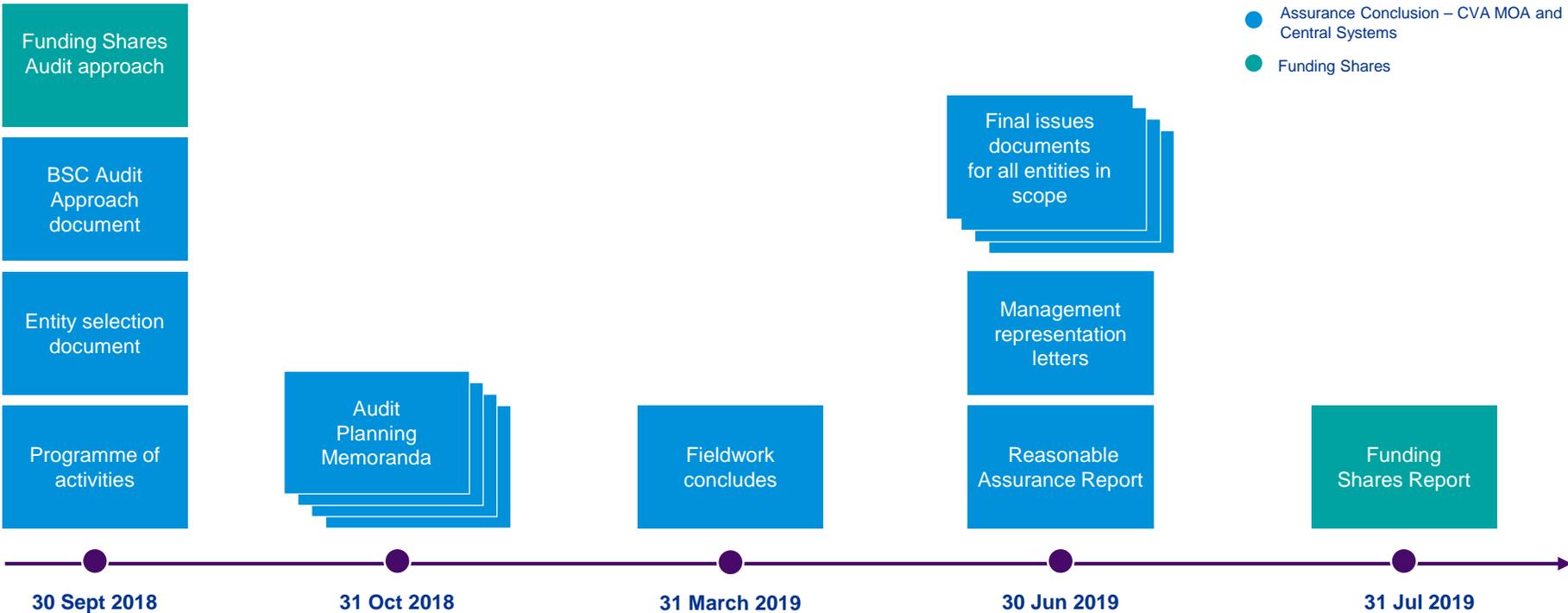
For the Assurance conclusion work over Central Systems and CVA MOA, a Reasonable Assurance Report will be issued and presented to the PAB and Panel. The materiality threshold for the year ending 31 March 2019 BSC Audit is 1.2 TWh. Where non-compliance has an aggregated Settlement impact greater than the materiality threshold, the CVA MOA and Central Systems Assurance Conclusion 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' (SSM) section of the Reasonable Assurance Report. This 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. We will work with ELEXON to produce "worst case" scenario error calculations and also report on key issues.

For Assurance Conclusion work, we will be requesting ELEXON to submit a management representation letter prior to the Reasonable Assurance Report being issued.

# Operational approach: BSC Audit phases (cont.)

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





# Appendices

**Appendix A** BSC Audit requirements

**Appendix B** Risk approach: Scoping detail 2018/19

**Appendix C** Risk assessment

**Appendix D** BSC Audit findings rating methodology

**Appendix E** Glossary of terms

## 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 foregoing.

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 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 fieldwork for the period for those Metering Systems physically located in England, Wales and Scotland.

### **CVA MOA and Central Systems ISAE3000 Opinion (Assurance Conclusion)**

Our scope for metering systems will encompass:

- a. All Settlement Runs performed by the SAA in respect of Settlement Days from 1 April 2018 to 31 March 2019 in BSC Assurance Opinion;
- 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 approach: Scoping detail 2018/19

### 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 2018 to 31 March 2019' 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 work performed by investigating the actual meters on sites. We are also not providing an ISAE3000 Assurance Conclusion over SVA parties from 2018/19.

Compliance for ISAE3000 Assurance Conclusion 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.

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.

### CVA MOA and Central Systems ISAE3000 Opinion (Assurance Conclusion)

KPMG LLP, as the BSC Auditor for the year ending 31 March 2019, will provide the BSC Audit Report which contains a reasonable assurance conclusion based opinion based on Settlement calculations and allocations over CVA MOA and Central Systems with respect to the Balancing and Settlement Code and Code Subsidiary Documents. References to the BSC Assurance Conclusion in this 'BSC Audit Approach Document' relate to the KPMG Assurance Conclusion which forms part of the 'BSC Audit Report' and references to the 'BSC Audit Engagement' are to the Assurance work we are performing.

The Assurance Conclusion for the year ending 31 March 2019 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 14 February 2017 to 31 March 2019 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) where referred to CVA MOA and Central Systems work.

# Risk approach: Scoping detail 2018/19 (cont.)

### **CVA MOA and Central Systems ISAE3000 Opinion (Assurance Conclusion) (cont.)**

Our reporting 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.

BSC Assurance Conclusion considers the work of the Process Assessment which feeds into ELEXON PAF, 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.

### **ISAE3000 Assurance Conclusion Materiality**

Materiality for the BSC Audit year ending 31 March 2019 will be 1.2 TWh as set out in the BSC Audit Scope 2018/19 document published in August 2018.

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 other work in our Assurance Conclusion**

- 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.

## Appendix C

# Risk Assessment: Settlement risks

Using the top Settlement Risks from the 2018/19 Risk Evaluation Register, we have set out the extent to which these will be considered by the Assurance Conclusion over CVA MOA and Central Systems. We have outlined the top five risks, but have also considered RER in completion given that in CVA market where all risks are rated at the highest rating.

### CVA market and Central Systems risks considered for Assurance Conclusion

Industry Risk reference	Industry Risk description	BSC Parties Impacted
SR0121	The risk that the Transmission Company/LDSO does not register new CVA Systems Connection Points or Boundary Points resulting in the omission of one or more Volume Allocation Units from Settlement, leading to energy not being assigned to the correct Party.	LDSO
SR0127	The risk that the Transmission Company sends incorrect Bid Offer Acceptances to the SAA resulting in incorrect Energy Imbalance Prices and incorrect amounts payable by or to Parties.	SAA
SR0129	The risk that the ECVAA sends incorrect Aggregate Energy Contract Volumes to the SAA resulting in incorrect Energy Imbalance Volumes and incorrect amounts payable by or to Parties.	ECVAA SAA
SR0133	The risk that the CVA MOA makes changes to the Metering System/feeder and does not inform the CDCA resulting in Meter readings being misinterpreted or not collected.	CVA MOA CDCA
SR0140	The risk that the SVAA uses the wrong Line Loss Factor (wrong value; wrong Settlement Period; incorrect use of default) resulting in incorrect BM Unit Metered Volumes and hence incorrect amounts payable by or to Parties.	SVAA

## Appendix D

# BSC Audit findings rating methodology

### Overview

The categorisation of reporting findings will not change from previous years. The findings are categorised as either Issues or Management Letter Points ('MLP's) depending on whether there is a potential impact on the completeness and/or accuracy of Settlement.

An impact rating of High, Medium or Low is applied to each issue arising from the Assurance Conclusion.

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 the entities in scope by the BSC Auditor 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 entities.

Two 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.

One split moderation session will be performed during the 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 entities in scope.

Ratings for findings have been defined as follows:

- **Settlement Impacting Non-Compliance** – a non-compliance with the BSC that, if left uncorrected, may have an 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 that 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 entity in scope. These observations will also be categorised as 'Management Letter Points' (MLPs).

## Appendix D

# BSC Audit findings rating methodology

### How will we determine the impact of these factors?

For each Settlement Impacting Non-Compliance issue we will rate these as High, Medium or Low after gaining an understanding of the following:

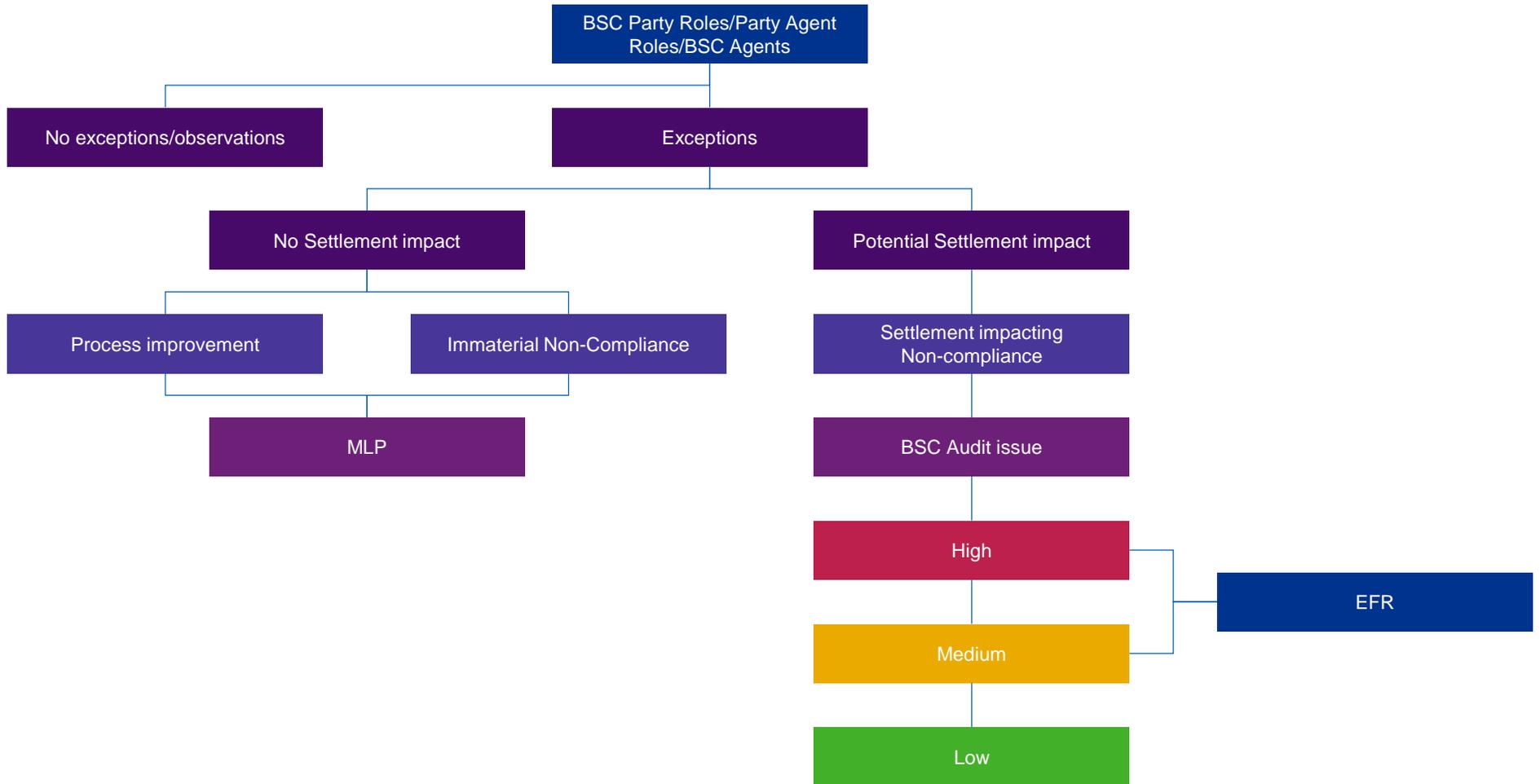
- Nature of the issue;
- Extent of potential impact of the issue on Settlement in MWh;
- Improvement / deterioration (both quantitatively and qualitatively) since the previous BSC Audit;
- Whether the number and/or nature of exceptions indicates the issue is pervasive or more widespread;
- Impact of 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); and
- Existence of any mitigating factors (see below).

Mitigating factors might include the following:

- Other controls or procedures applied by the entity that 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)

The diagram in the following page summarises the rating methodology followed for Assurance Conclusion work.

# BSC Audit findings rating methodology (cont.)



## Appendix E

# Glossary of terms

Acronyms used in this document have the following meanings (as defined in the Balancing and Settlement Code), unless otherwise stated.

Acronym	Definition	Acronym	Definition	Acronym	Definition
<b>APM</b>	Audit Planning Memorandum	<b>ECVAA</b>	Energy Contract Volume Aggregation Agent	<b>NHHMOA</b>	Non Half Hourly Meter Operator Agent
<b>BM</b>	Balancing Mechanism	<b>EFR</b>	Error and Failure Resolution	<b>OSM</b>	Operational Support Manager
<b>BMRA</b>	Balancing Mechanism Reporting Agent	<b>ELEXON</b>	ELEXON Limited	<b>PAB</b>	Performance Assurance Board
<b>BMU</b>	Balancing Mechanism Unit	<b>FAA</b>	Funds Administration Agent	<b>PAF</b>	Performance Assurance Framework
<b>BSC</b>	Balancing and Settlement Code	<b>HHDA</b>	Half Hourly Data Aggregator	<b>Panel</b>	BSC Panel
<b>BSCCo</b>	Balancing and Settlement Code Company	<b>HHDC</b>	Half Hourly Data Collector	<b>PAP</b>	Performance Assurance Party
<b>BSCP</b>	Balancing and Settlement Code Procedure	<b>HHMOA</b>	Half Hourly Meter Operator Agent	<b>PSL</b>	Party Service Line
<b>BUSRR</b>	Business Unit Settlement Risk Ratings	<b>ISAE 3000</b>	International Standard on Assurance Engagements 3000	<b>RER</b>	Risk Evaluation Register
<b>CDCA</b>	Central Data Collection Agent	<b>LDSO</b>	Local Distribution System Operator	<b>RF</b>	Final Reconciliation Settlement Run
<b>Code</b>	Balancing and Settlement Code	<b>MA</b>	Meter Administrator	<b>SAA</b>	Settlement Administration Agent
<b>CoP</b>	Code of Practice	<b>MLP</b>	Management Letter Point	<b>SMRS</b>	Supplier Meter Registration Service
<b>CRA</b>	Central Registration Agent	<b>MOA</b>	Meter Operator Agent	<b>SSM</b>	Statement of Significant Matters
<b>CSDs</b>	Code Subsidiary Documents	<b>MPAN</b>	Metering Point Administration Number	<b>SVA</b>	Supplier Volume Allocation
<b>CVA</b>	Central Volume Allocation	<b>NHH</b>	Non Half Hourly	<b>SVAA</b>	Supplier Volume Allocation Agent
<b>CVAMOA</b>	Central Volume Allocation Meter Operator Agent	<b>NHHDA</b>	Non Half Hourly Data Aggregator	<b>TAA</b>	Technical Assurance Agent
<b>DTN</b>	Data Transfer Network	<b>NHHDC</b>	Non Half Hourly Data Collector	<b>UMSO</b>	Unmetered Supplies Operator



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