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BSC Audit findings rating methodology

Application of ratings for audit findings for the period ending 31 March 2015

In summary:

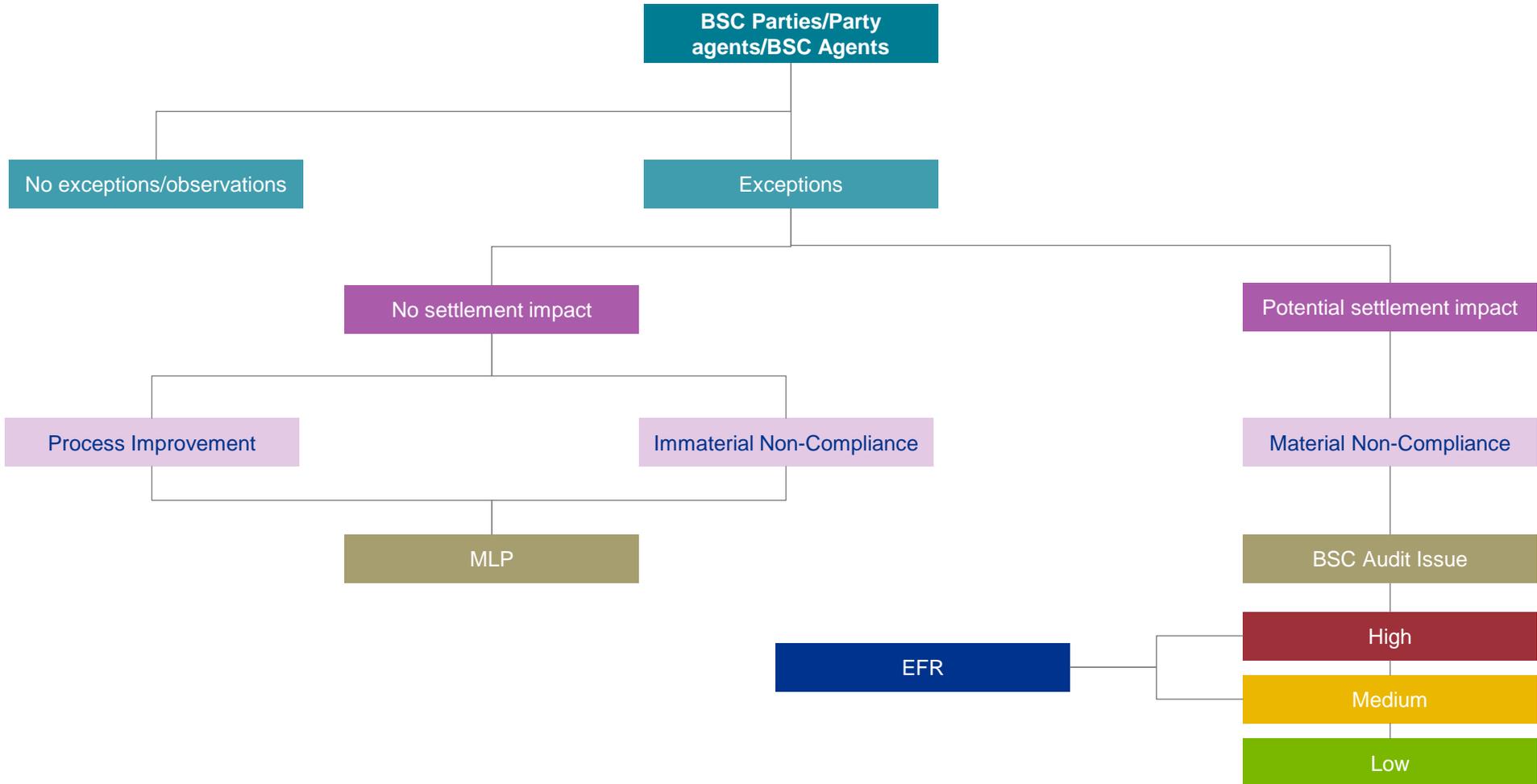
- BSC Audit findings are categorised as either BSC Audit Issues or Management Letter Points ('MLP's) depending on whether there is a potential impact to the completeness and/or accuracy of Settlement.
- An impact rating of High, Medium or Low is applied to each BSC Audit Issue arising from the BSC Audit.
- 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.

- 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, materiality 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:
 - **Material 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.

How will each findings be considered? (cont'd)



- For each Material 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)



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