

PAB200/09 – ATTACHMENT A

BSC AUDIT ASSURANCE OPTIONS

1. Purpose

- 1.1 This paper sets out ELEXON's recommendations with respect to the assurance arrangements under which the BSC Audit is delivered against the subject matter within the BSC Audit Scope Document.
- 1.2 This recommendation is supported by the report provided to ELEXON by PwC acting as an independent assurance consultant (attachment D).

2. Option A – 'Hybrid Option 1' (ISAE 3000¹ Assurance opinion and Advisory 'review and recommend' / internal audit)

- 2.1 Having considered the recommendations made by PwC as part of the report it has provided with respect to the assurance options available for application through the BSC Audit; it is ELEXON's view that this 'hybrid' approach is the most appropriate and is most likely to achieve the objectives set for this review.
- 2.2 ELEXON agrees with PwC's recommendation that a 'one size fits all' assurance approach is not the most suitable option and agrees that a combination of assurance options should be implemented in order that the potential benefits of multiple approaches can be leveraged.
- 2.3 ELEXON's recommendation is that the 'as is' assurance arrangements (i.e. one Assurance opinion delivered under the ISAE 3000 standard) should be applied against:
 - All elements of the BSC Audit Scope Document pertaining to BSC Systems and BSC Agents; and
 - All elements of the BSC Audit Scope Document pertaining to BSC Parties and BSC Party Agents deemed to be 'higher risk' (based on the methodology detailed below).
- 2.4 With an advisory 'review and recommend' / internal audit approach applied to the undertaking of the BSC Audit against the remaining elements of the BSC Audit Scope Document which pertain to BSC Parties and BSC Party Agents deemed to be 'lower risk' (based on the methodology detailed below).
- 2.5 It is ELEXON's view that these revised assurance arrangements offer the opportunity for the greatest degree of flexibility in audit approach; ensuring that audit activity is truly risk-based, presents the greatest value to the industry and can be delivered in a cost effective manner.
- 2.6 In addition, where an internal audit approach is taken ELEXON will have greater facility to influence and feed into the specifics of the testing undertaken by the BSC Auditor; utilising the expertise of ELEXON's subject matter experts to ensure that testing is refined to be as efficient as possible while concentrating effort where there is the potential for the greatest material risk. This additional engagement from ELEXON should help to mitigate the general theme in feedback received as part of this review; that the scope is in general appropriate at a high level and that Parties and Party Agents are more often dissatisfied with how the testing to address the subject matter within the BSC Audit Scope Document is implemented.
- 2.7 The table below sets out how the different assurance approaches would be applied in this version of the proposed hybrid approach.

¹ International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

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Assurance Option	Elements of the BSC Audit Scope Document Covered
Assurance opinion (against ISAE 3000 (revised))	<p>BSC Systems and BSC Agents</p> <ol style="list-style-type: none"> 1. Central Registration 2. Aggregate and Check Contract Volume 3. Credit Cover Management 4. Balancing Mechanism Reporting 5. Calculation of Market Index Data 6. Calculation and Aggregation of Metered Data 7. Calculate Settlement Debits and Credits 8. Funds Transfer 9. Market Domain Data 10. Supplier Volume Allocation & Reconciliation 11. Trading Disputes 12. Balancing Mechanism <p>All elements of the BSC Audit Scope Document under 'BSC Parties and BSC Party Agents' determined to be 'higher risk' based on the methodology set out below.</p>
Advisory 'review and recommend' / internal audit	<p>All elements of the BSC Audit Scope Document under 'BSC Parties and BSC Party Agents' determined to be 'lower risk' based on the methodology set out below.</p>

3. Methodology for Determining Risk of BSC Audit Scope Subject Matter

- 3.1 In order to ensure that the assurance provided through the BSC Audit is proportionate, appropriate and delivered cost effectively, ELEXON will review the subject matter covered by the BSC Audit Scope Document which pertains to BSC Parties and BSC Party Agents against:
- i) The BSC Audit Report's quantification of issues 2015/16 and 2016/17.
 - ii) The BSC Auditor's Market Issues Report 2016/17.
 - iii) Analysis with respect to the number and age of Audit Issues identified or which remained open against each element of the BSC Auditor's testing carried out in 2015/16 and 2016/17.
 - iv) ELEXON's internal reporting.
 - v) ELEXON's log of top SVA Settlement risks.
 - vi) The feedback received through the engagement undertaken as part of this review.

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- 3.2 Doing so will allow ELEXON to determine which of these elements of the BSC Audit Scope Document present 'higher' or 'lower' risk; ensuring that the assurance options available to the industry are applied in a risk-based and appropriate manner.
- 3.3 These determinations will be made based on the following methodology:

Data Source	Methodology
The BSC Audit Report's quantification of issues 2015/16 and 2016/17	All elements of the BSC Audit Scope Document associated with issues which have warranted individual quantification (of worst case scenario impact 0.01TWh or higher) to be deemed 'higher risk'.
The BSC Auditor's Market Issues Report 2016/17	All elements of the BSC Audit Scope Document associated with Market Issues rated as either 'medium' or 'high' impact by the BSC Auditor to be deemed 'higher risk'.
Analysis with respect to the number and age of Audit Issues identified or which remained open against each element of the BSC Auditor's testing carried out in 2015/16 and 2016/17	All elements of the BSC Audit Scope Document associated with 'medium' or 'high' rated Audit Issues which were identified or remained open during the BSC Auditors testing in 2015/16 or 2016/17 to be deemed 'higher risk'. All elements of the BSC Audit Scope Document associated with three or more 'low' rated Audit Issues which were identified or remained open during the BSC Auditors testing in 2015/16 or 2016/17 to be deemed 'higher risk'.
ELEXON's internal reporting	All elements of the BSC Audit Scope Document flagged as areas of concern by ELEXON's internal monitoring to be deemed 'higher risk'.
ELEXON's log of top SVA Settlement risks	All elements of the BSC Audit Scope Document associated with any of the top SVA Settlement risks to be deemed 'higher risk'.
The feedback received through the engagement undertaken as part of this review	All elements of the BSC Audit Scope Document identified as higher risk by corroborated ad hoc reports noted through the engagement activity undertaken as part of this review to be deemed 'higher risk'.

4. Option B – 'Hybrid Option 2' (ISAE 3000 Assurance opinion and Advisory 'review and recommend' / internal audit)

- 4.1 In the interest of presenting all of the options considered, ELEXON also puts forward PwC's direct recommendation to split assurance delivered through the BSC Audit into BSC Systems and BSC Agents to be covered under the ISAE 3000 opinion with all elements of the BSC Audit Scope Document pertaining to BSC Parties and BSC Party Agents falling under the internal audit approach.
- 4.2 While ELEXON agrees with this hybrid approach in principle and with the rationale provided in support of this approach within PwC's report; it is ELEXON's view that a consistent approach to assurance taken against Settlement critical processes operated by BSC Parties and BSC Party Agents would help to make the opinion provided against BSC Systems and BSC Agents more meaningful.
- 4.3 ELEXON does note that as stated in the rationale provided against 'Hybrid Option 1' this approach would still give ELEXON greater opportunity to directly influence and feed its expertise into how the testing undertaken as part of the BSC Audit is implemented. This option in fact providing greater flexibility in that ELEXON would

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have the opportunity to influence and refine the testing undertaken against all elements of the BSC Audit Scope Document pertaining to BSC Parties and BSC Party Agents.

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Advisory 'review and recommend' / internal audit	<p>BSC Parties and BSC Party Agents</p> <ol style="list-style-type: none"> 13. Supplier Meter Registration Data 14. Data Retrieval & Data Processing (Data Collection) 15. Data Aggregation 16. Meter Operation 17. Licensed Distribution System Operation 18. Unmetered Supplies 19. Meter Administration 20. Data Transfer 21. Supplier Systems and Associated Internal Procedures 22. Implementation of Specific BSC Changes 23. Off The Shelf

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5. Option C – ‘As Is’

- 5.1 ELEXON does not recommend but notes for completeness the option for PAB to continue with the BSC Audit assurance arrangements delivered ‘as is’ with assurance against the entirety of the subject matter covered within the BSC Audit Scope Document provided under one ISAE 3000 assurance opinion.
- 5.2 It is ELEXON’s view that these arrangements limit the flexibility of the BSC Audit in addition to the value presented by the assurance provided through the BSC Audit. These assurance arrangements also represent a potentially less cost effective approach to delivering the assurance sought through the operation of the BSC Audit.

Assurance Option	Elements of the BSC Audit Scope Document Covered
Assurance opinion (against ISAE 3000 (revised))	All elements of the BSC Audit Scope Document