

Proposed Redlined changes for P293 ‘Changes to BSC Section H ‘Audit’ and BSC Service Description for BSC Audit to reflect current Practice’.

The modification proposes changes to the BSC Service Description for BSC Audit.

There are a number of minor Housekeeping changes included alongside the changes proposed by P293. These changes are highlighted throughout the document.

The changes have been redlined against version 3.0.

BSC SERVICE DESCRIPTION FOR BSC AUDIT (v.3.0)

1 INTRODUCTION

1.1 Purpose

This document is the BSC Service Description for the BSC Auditor, appointed by the Balancing and Settlement Code Company (“BSCCo”), to undertake an operational audit (the “BSC Audit”) in relation to each Audit Year¹ on behalf of Parties and such other ad hoc operational audits as the Balancing and Settlement Code Panel (the “Panel”) may require from time to time ~~-(the “BSC Audit”).~~ -The requirement for the BSC Auditor to undertake the BSC Audit is set out in Section H5.1.1 of the Balancing and Settlement Code (the “Code”).

No changes to Section 1.2 – 2.1.3

2.2 General Obligations

2.2.1 The BSC Auditor shall undertake all the functions and responsibilities described in the Code and in any Code Subsidiary Documents as being the functions and responsibilities:

[Housekeeping]2.2.2+2.2.1.1 of the BSC Auditor; and

[Housekeeping]2.2.2.2.2.1.2 applicable to the BSC Agents generally.

2.2.2 The ‘BSC Audit Scope Document’ acts as the formal terms of reference for the BSC Auditor described in Section H and sets out the Materiality Threshold for the BSC Audit. The BSC Audit Scope Document sets out the detailed requirements in respect of the BSC Audit.

2.2.3 The BSC Auditor Contract may further require the BSC Auditor to provide routine or ad-hoc services (necessary for or reasonably incidental to giving effect to the Code) in addition to those set out in this BSC Service Description for BSC Audit.

2.2.4 The BSC Auditor shall, as part of the BSC Audit, undertake an audit of the activities, processes and matters set out in Section H5.1.3 of the Code. Namely:

¹ The “Audit Year” is defined in Section H5.1.1 as the “BSC Year” ~~(1 April to 31 March)~~or such period of time as the Panel may determine.

~~[Housekeeping]2.2.3.1~~2.2.4.1 the submission and application of standing and periodic data used in connection with Settlement by Parties and Party Agents;

~~[Housekeeping]2.2.3.2~~2.2.4.2 the processes applied to such data pursuant to the Code and Code Subsidiary Documents;

~~[Housekeeping]2.2.3.3~~2.2.4.3 the determinations and calculations made by Market Index Data Providers in the provision of Market Index Data (but only to the extent provided in the relevant Market Index Data Provider Contract);

~~[Housekeeping]2.2.3.4~~2.2.4.4 the determinations and calculations made by BSC Agents for the purposes of Settlement; and

~~[Housekeeping]2.2.3.5~~2.2.4.5 the systems, processes and procedures used and applied (by BSC Agents and BSCCo) for the purposes of, or in connection with, paragraphs 2.2.~~34~~.1 to 2.2.~~34~~.4 inclusive,

provided that the Panel may determine a different scope for the BSC Audit with respect to Supplier Volume Allocation.

2.2.5 The BSC Auditor, as part of the BSC Audit, shall if requested by BSCCo, carry out checks of all processes associated with the matters referred to in the BSC Audit Scope Document and monitor compliance with the Code and Code Subsidiary Documents within the limits of the 'Materiality Threshold', and in sufficient depth, to be able to provide BSCCo with a 'BSC Audit Opinion' for each Audit Reporting Period.

2.2.6 In addition, the BSC Auditor shall, if required to do so by BSCCo as a result of a request from the Panel made pursuant to Section H5.1.5 of the Code, undertake ad hoc operational audits, tests, reviews or checks. Such ad hoc operational audits, tests, reviews or checks may include a review of all or any of the Code Subsidiary Documents for the purposes of determining whether they are appropriate to give effect to the Code in accordance with the objectives set out in Section B1.2 of the Code.

2.3 Period of Responsibility

2.3.1 The BSC Auditor shall perform the responsibilities and obligations set out in this BSC Service Description for the duration of the BSC Auditor ~~or and~~ Qualification Agreement ~~Contract~~.

2.3.2 The BSC Auditor shall comply with the service levels that the BSC Audit and Qualification Agreement ~~Contract~~ requires to be achieved in relation to the delivery of the BSC Audit Services.

3 SERVICE REQUIREMENTS

3.1 Objectives

3.1.1 The BSC Auditor shall conduct the BSC Audit in such a way as to enable the BSC Auditor to as part of the BSC Audit Opinion form an independent opinion on whether:

3.1.1.1 the calculations and allocations performed by BSC Systems have been performed in accordance with the Code. The BSC Audit shall be performed by the BSC Auditor so as to provide a reasonable, but not absolute, level of assurance that the calculations and allocations performed by BSC Systems are in accordance with the Code, taking into account the Implementation Date of any Approved Modification; and

[Housekeeping] 3.1.1.2 the amounts shown on the FAA's quarterly statements, or daily Advice Notes produced by the FAA for those days not yet covered by a ~~quarterly~~ quarterly statement, are in accordance with the amounts calculated by the BSC Systems, and are free from material misstatement, whether caused by fraud or other irregularity or error.

No changes to Section 3.2

3.3 Audit Planning

- 3.3.1 The BSC Auditor shall produce annually the 'BSC Audit Approach' and the 'Funding Shares Audit Approach' Documents—~~BSC Audit~~ which shall be based on the requirements set out in this BSC Audit Service Description and the BSC Audit Scope and BSC Funding Shares Scope Documents. The BSC Audit and Funding Shares Audit Approach Documents—~~BSC Audit~~ shall be produced by a date to be determined by BSCCo and shall be submitted to BSCCo for approval. ~~The Approach Document—BSC Audit and Funding Shares Audit Approach Documents~~ shall specify the methodology and approach to be adopted by the BSC Auditor in providing the BSC and Funding Shares Audits and shall include the methodology and structure for providing each of the documentary deliverables stipulated in paragraph 3.6 of this BSC Service Description.
- 3.3.2 The BSC Auditor shall in each Audit Year submit, by a date to be determined by BSCCo, the '~~Annual~~ Programme of ~~BSC Audit~~ Activities'. This document, to be approved by BSCCo, shall set out the activities to be undertaken by the BSC Auditor for the relevant Audit Year. The ~~Annual~~ Programme of ~~BSC Audit~~ Activities shall:
- 3.3.2.1 include each activity to be undertaken together with a detailed timetable for each such activity;
 - 3.3.2.2 form the baseline for the BSC Audit for the Audit Year; and
 - 3.3.2.3 be kept up-to-date by the BSC Auditor to record any variances or relevant matters agreed by BSCCo at a monthly Service Review Meeting.
- 3.3.3 The BSC Audit shall be comprised of the following three stages, which shall be defined further in the BSC Auditor Contract:
- 3.3.3.1 Planning;
 - 3.3.3.2 Site visits; and
 - 3.3.3.3 Reporting.
- 3.3.4 BSCCo shall use all reasonable endeavours to ensure that each BSC Agent (other than the BSC Auditor) provides the BSC Auditor with sufficient access to the following in order to enable the BSC Auditor to properly undertake the BSC Audit:
- 3.3.4.1 the systems, system specifications and other systems documents used by that BSC Agent in connection with performing its obligations and functions as BSC Agent; and
 - 3.3.4.2 its premises, personnel, data, information and records.

No changes to Section 3.4

3.5 Reporting

- 3.5.1 Unless otherwise instructed by the Panel, and in accordance with Section H5.4.1 of the Code, the results of the BSC Audit shall be reported at a time

~~set out in the terms of reference for by the BSC Auditor (BSC Audit Scope Document) twice a year; in the BSC Auditor Opinion (which shall form part of the BSC Audit Report) and in a 6 month interim report known as the BSC Audit Status Report with the delivery of an opinion (the "BSC Audit Report").~~

3.5.2 Delivery of reports relating to the other ad-hoc operational audits referred to in Section H5.1.1 of the Code shall be at the discretion of the Panel.

~~3.5.3 The 'BSC Audit Report' shall relate to the 12 month Audit Year, and shall contain the BSC Audit Opinion and the 'BSC Statement of Significant Matters'.~~

3.5.43 The BSC Statement of Significant Matters shall be in the form of a report providing information on any issues arising from the BSC Audit which are considered by the BSC Auditor to be significant. The BSC Statement of Significant Matters shall be in sufficient detail for Trading Parties to determine how such issues may affect their respective financial statements. The BSC Statement of Significant Matters shall be included in form an attachment to the BSC Audit ~~Opinion or to the BSC Audit Status Report (as applicable).~~

3.5.54 The BSC Statement of Significant Matters shall relate to the period covered by the BSC Audit Status Report or which the BSC Auditor, as at the date of the BSC Audit Status Report, considers to be the appropriate for inclusion in the BSC Statement of Significant Matters.

~~3.5.6 The BSC Auditor shall, if so requested by BSCCo, provide an additional report called a 'Letter to the PAB on the Less Significant Control Issues Arising'. This report shall set out the less significant control weaknesses identified during the course of the BSC Audit. This report shall be sent to BSCCo only and shall not be sent by the BSC Auditor to Trading Parties or any other person. BSCCo shall be entitled to provide this letter (or a copy thereof) to other persons.~~

3.5.75 The BSC Auditor shall not be required to report in respect of particular matters with a potential financial impact below the Materiality Threshold.

3.5.86 The BSC Audit Report shall, in accordance with Section H5.4.3 of the Code, be addressed to the Panel for and on behalf of Trading Parties and the Transmission Company in the Audit Year, and shall include all of the BSC Auditor's findings and conclusion. The BSC Auditor shall provide a copy of the BSC Audit Report to BSCCo.

~~3.5.9 The BSC Audit Status Report shall also be addressed to the Panel for and on behalf of the Trading Parties and the Transmission Company.~~

3.5.107 The BSC Auditor shall deliver the BSC Audit Report to the ~~PAB and the~~ Panel (pursuant to Section H5.4.4 of the Code), and shall upon request from the Panel, send copies of the report to the PAB, each Trading Party, the Transmission Company and the Authority.

3.5.148 ~~The BSC Auditor~~BSCCo shall ~~be entitled to~~ produce a version of the BSC Audit Report that is suitable for publication and ~~for~~

~~downloading~~distribution from the BSC Website (in accordance with Section H5.4.5 of the Code). BSCCo shall (pursuant to Section H5.4.6) be entitled to provide a copy of this version of the BSC Audit Report to any person upon request.

3.5.~~429~~ The BSC Auditor shall attend all Panel and Panel Committee Meetings which it is directed to attend by BSCCo.

3.5.~~43~~10 The BSC Auditor shall, at the request of BSCCo, highlight non-compliances with the Code and Code Subsidiary Documents by individual organisations, specific to but not limited by the following:

- Audited Entities,
- BSCCo, and
- The Market

3.6 BSC Audit Documentation Service

3.6.1 The BSC Auditor shall, in furtherance of Section E1.3.1 of the Code, provide the 'BSC Audit Documentation Service', which shall comprise the preparation, development and ongoing maintenance of the documents contained in Table 1:

Table 1: BSC Audit Documentation Service

BSC Audit Approach Document— BSC Audit
Annual Programme of BSC Audit Activities
Funding Shares Audit Approach Document
BSC Audit Contingency Plans
BSC Audit Quality Plan (Including Statements of Auditing Standards) <u>Quality Manual</u>
BSC Audit Security <u>GuidelinesPolicy</u>
BSC Audit Disaster Recovery Plans
BSC Audit Exit Management Plans

No Changes to Section 3.6.2 – Section 4.2

4.3 ~~Contingency Plan~~Not Used

~~4.3.1 The BSC Auditor shall develop and maintain BSC Audit Contingency Plans in place, in accordance with Section E1.3.1(c)(i) of the Code. The BSC Audit Contingency Plans shall stipulate the designated actions to be taken and procedures to be followed by the BSC Auditor in the event of any situation (excluding a disaster) which may or does adversely affect either the provision by the BSC Auditor of the BSC Audit Services or its ability to otherwise perform its obligations under the BSC Auditor Contract. The designated actions shall be such as to ensure that the BSC Auditor can~~

~~avoid or mitigate the effects of such situation and ensure the restoration and continuity of the services provided by the BSC Auditor and the performance of its obligations in accordance with the BSC Auditor Contract.~~

~~4.3.2 The BSC Auditor shall submit the BSC Audit Contingency Plan to BSCCo for approval.~~

4.4 ~~BSC Audit~~ Disaster Recovery and ~~BSC Audit Data~~ Security Service

4.4.1 The BSC Auditor shall provide a 'BSC Audit Disaster Recovery and Data Security Service'. The ~~BSC Audit~~ Disaster Recovery and Data Security Service shall, without limiting the generality of the foregoing, ensure that a copy set of data collected, or produced, for the BSC Audit Services is held in addition to the original or working set in order to provide protection against and to minimise or avoid the effects of a disaster. The requirement for the provision of a Disaster Recovery Service is set out in Section E1.3.1(c) of the Code.

4.4.2 The ~~BSC~~ Disaster Recovery and ~~BSC Data~~ Security Service shall ensure that a copy set of audit data collected, or produced, for the BSC Audit Service is held in addition to the working set so that there will be no need for re-collection or reproduction of the audit data in the case of a disaster.

4.4.3 The BSC Auditor shall develop and maintain '~~BSC Audit~~ Disaster Recovery Plans' as approved by BSCCo, and in accordance with the BSC Audit ~~Contract~~ and Qualification Agreement.

4.4.4 The BSC Auditor shall test the BSC Audit Disaster Recovery Plans once every year, against scenarios approved by BSCCo. The BSC Auditor shall inform BSCCo of the results of all tests.

4.4.5 BSCCo reserves the right to witness any testing, by the BSC Auditor, of the BSC Audit Disaster Recovery Plans, and the BSC Auditor shall provide reasonable notice to BSCCo of any forthcoming testing associated with the aforementioned BSC Audit Disaster Recovery Plans.

4.4.6 Following a disaster, the ~~BSC Audit~~ Disaster Recovery and ~~BSC Audit Data~~ Security Service shall be capable of ensuring that the BSC ~~a~~ Auditor can provide the full BSC Audit Service to BSCCo until the full, primary operational environment can be restored and the transfer of all services to that environment can be planned and executed within timescales as set out in the ~~BSC Audit~~ Disaster Recovery Plans.

4.4.7 The BSC Auditor shall provide physical and logical data security in accordance with its '~~BSC Audit Data~~ Security ~~Guidelines~~ Policy'.

4.4.8 The BSC Auditor shall submit the ~~BSC Audit~~ Security ~~Guidelines~~ Policy to BSCCo for approval.

4.4.9 The BSC Auditor shall develop and maintain BSC Audit Contingency Plans in place, in accordance with Section E1.3.1(c)(i) of the Code. The BSC Audit Contingency Plans shall stipulate the designated actions to be taken and procedures to be followed by the BSC Auditor in the event of any

situation (excluding a disaster) which may or does adversely affect either the provision by the BSC Auditor of the BSC Audit Services or its ability to otherwise perform its obligations under the BSC Auditor Contract and Qualification Agreement. The designated actions shall be such as to ensure that the BSC Auditor can avoid or mitigate the effects of such situation and ensure the restoration and continuity of the services provided by the BSC Auditor and the performance of its obligations in accordance with the BSC Audit and Qualification Agreement.

5 SERVICE LEVELS

[Housekeeping] 5.1.15.1 The 'Service Levels ~~Milestones~~' which the BSC Auditor is required to achieve shall be ~~set out in the Annual Programme of BSC Audit Activities. The BSC Service Milestones shall be those milestones set or~~ and approved by BSCCo, and will be specified in full in the BSC Auditor ~~and Qualification Contract Agreement~~.

APPENDIX A – TERMS AND DEFINITIONS

Terms	Definitions
Ad-hoc Services	[Housekeeping]: para 2.2.7 was deleted in v2.0 on 15/11/04 for BETTA 6.3 changes Additional services that the BSCCo may require from time to time pursuant to paragraphs 2.2.4, 2.2.7 and/or 3.7.
Annual Programme of BSC Audit Activities	The programme of audit activities to be undertaken in the course of the BSC Audit referred to in paragraph 3.3.2.
BSC Audit Approach Document – BSC Audit	The document prepared by the BSC Auditor in accordance with paragraph 3.3.1 and approved by BSCCo.
Audit Year	Each successive period of 12 months beginning 1 April in each year and ending on 31 March.
Balancing Mechanism and Imbalance Settlement	The systems and processes that support the operation of the trading arrangements under the Code.
BSC Audit Contingency Plan	The document referred to in paragraph 4.3.1.
BSC Audit Disaster Recovery and Data Security Service	The BSC Audit Disaster Recovery and Data Security Service described in paragraph 4.4.
BSC Audit Disaster Recovery Plans	The plans which define the actions to be taken by the BSC Auditor to make BSC Audit Service available following a disaster.
BSC Audit Documentation Service	The BSC Audit Documentation Service referred to in paragraph 3.6.1.
BSC Audit Exit Management Plans	The document defining the actions to be undertaken by the BSC Auditor on termination of the BSC Auditor Contract.
BSC Audit Opinion	[Housekeeping– numbering error] The BSC Audit Opinion to be provided by the BSC Auditor in accordance with the requirements of this BSC Service Description and further referred to in paragraph 3.5.21.

Terms	Definitions
BSC Audit Quality Plan	The document setting out the BSC Auditor's approach to ensuring quality in the work performed in respect of the BSC Audit Services.
BSC Audit Report	The report of the BSC Auditor concerning the BSC Audit referred to in paragraph 3.5.3 and produced in compliance with this BSC Service Description.
BSC Audit Scope Document	<u>[Housekeeping – numbering error]</u> A document prepared by BSCCo to define the scope of the BSC Audit and further referred to in paragraph 2.2.32.
BSC Audit Security Guidelines	Documentation detailing the security features of the BSC Audit Service.
BSC Audit Service	Services provided by the BSC Auditor in accordance with the BSC Auditor Contract <u>and Qualification Services Agreement</u> .
BSC Audit Status Report	The interim report of audit work referred to in paragraph 3.5.2.
BSC Statement of Significant Matters	The report referred to in paragraphs 3.5.3 and 3.5.4.
Letter to the PAB on the Less Significant Control Issues Arising	The report described in paragraph 3.5.6.
Materiality Threshold	The threshold determined by the Panel from time to time pursuant to Section H5.4.2 of the Code.
Service Credits	The Service Credits described in the BSC Auditor Contract <u>and Qualification Services Agreement</u> .
Service Level Milestones	A key milestone established by BSCCo at the time of approving the Annual Programme of Audit Activities which, if not achieved, shall be subject to Service Credits.
Service Review Meeting	A meeting between the BSC Auditor and BSCCo to review the BSC Audit Service.

Other abbreviations and terms in this document are defined in Section X of the Code.