



# **Issue document impact methodology**

Application of Impact ratings to Issue Documents for the period ending 31 March 2005



# Issue document impact Methodology

In brief:

- An impact rating will be applied to each issue document arising from the BSC Audit for the period ending 31 March 2005.
- 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 to ensure consistency of approach.



# How will each issue be considered?

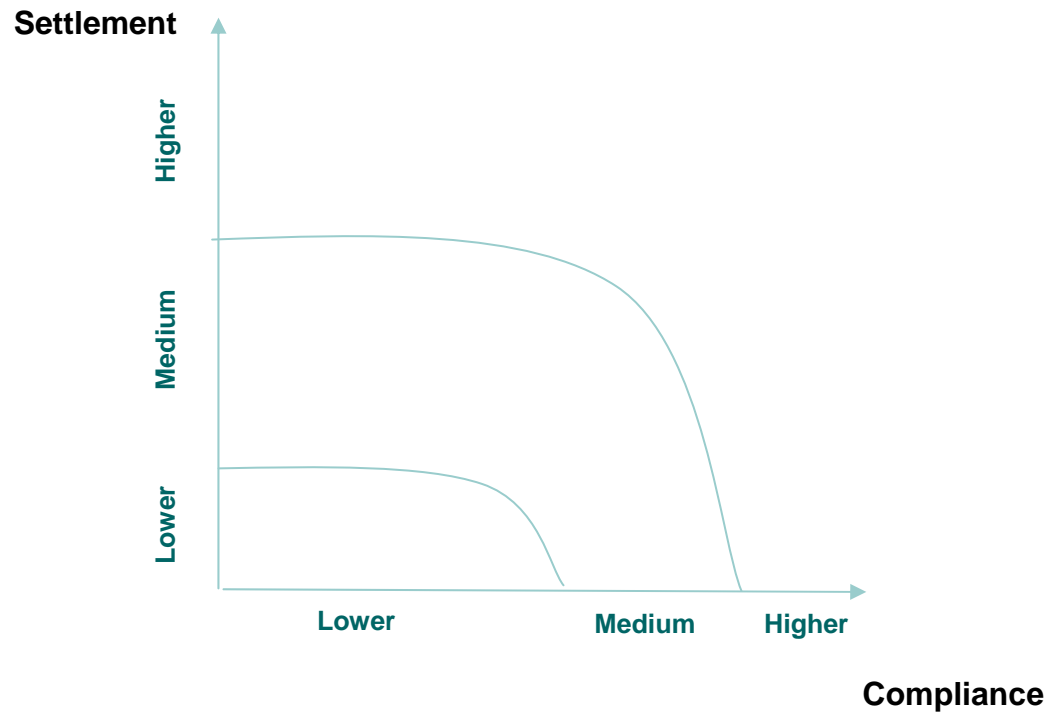
- Each impact rating will be individually determined but will also be considered in the context of similar issues raised on other Audited Entities.
- Two Audited Entities may have the same underlying issue but if one Agent has a mitigating control and is responsible for a much lower error rate as a result 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). The steps in this plan link to an Issues matrix which sets out the issues identified as a result of work performed against each step and analyses these per Audited Entity.
- This matrix enables the BSC Auditor to consider issues by type to ensure that the impact ratings applied are consistent.



# How will each issue be considered?

- In order to make the required judgements on issues two key factors have been identified.
  - Does the issue have a direct impact on Settlement calculations and allocations?
  - Does the issue represent a breach in BSC requirements, but has no direct impact on Settlement calculations and allocations?
- Issue impacts will be categorised as follows:
  - Higher
  - Medium
  - Lower
- Other non compliances or exceptions may be identified as part of the audit process that are of such a low level or of such little impact that these will not have been raised as issue documents.

# Extent of impact of the key factors will be reviewed





# How will we determine the impact of these factors?

- For each issue we will consider the **impact** of these key factors by gaining an understanding of the following:
  - Nature of the issue
  - Extent of impact of the issue on Settlement in MWh
  - 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)
  - Are there any mitigating factors?
- Mitigating factors might include the following:
  - Other controls or procedures applied by the Audited Entity which reduce the impact of the error/non compliance arising
  - Whether issue has been resolved in the 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)



# How will we determine the impact of these factors?

- To illustrate:
  - A - An issue which has a direct impact on the materiality calculations included within the BSC Audit report will have a high impact on Settlement calculations and allocations.
  - B - An issue that has been reported within the SSM will be considered to be of Medium to Higher impact. It may in itself have an impact on Settlement or will be a root cause of an issue included within the BSC Audit report.
  - C - An issue which represents a compliance breach only with no direct impact on Settlement is more likely to be of lower impact but could be higher if for example it was a root cause of other Settlement impacting issues.

# Impact rating determination

- A. Does the issue impact materiality calculations?
- B. Does the issue contribute to the SSM?
- C. Is this a compliance issue only?

