



Trading and Settlement Code

Terms of Reference for the Market Audit 2019

Consultation Paper

03 July 2019

SEM-19-032

1 BACKGROUND

Paragraph B.16.1.3 of the Trading and Settlement Code (“TSC” or “the Code”), requires the Market Auditor to conduct an audit of the Code, its operation and implementation of the operations, trading arrangements, procedures and processes under the Code at least once a Year.

Paragraph B.16.1.5 of the Code requires to Regulatory Authorities (RAs) to consult with Parties on the terms of reference for the audit. Paragraph B.16.1.6 requires the Regulatory Authorities to specify annually the precise terms of reference for the audit following this consultation process.

The purpose of this paper is to set out a number of options for the scope of the 2019 audit.

A Market Audit has been conducted on an annual basis since 2007. Over the years the scope has extended and changed to account for specific developments in the market and requests from market participants.

The 2017 Market Audit was the last Market Audit. It was expanded to cover the first nine months of 2018 until the go-live of I-SEM (1st October 2018). It consisted of a Core SEMO Audit.

The 2019 Market Audit will be the first TSC Market Audit of the new SEM. The Go-Live of I-SEM occurred on 1st October 2018, consequently the 2019 Audit will run over a period of fifteen months from October 2018 – December 2019.

Accounting for the new SEM market and the identification of a number of known issues, a different approach to the Market Audit (than has been employed in previous audits) has been proposed. It is considered this is necessary to provide the greatest benefit to the RAs and Market Participants upon SEMOs compliance with the TSC.

This audit will support the SEMO Key Performance Indicators (KPIs)¹. The KPIs are used as a mechanism to incentivise improvements in performance. However, they do not account for the system issues that have arisen to date which SEMO are also incentivised to address to progress normal market operations. This Market Audit review in detail system issues that occurred over the audit period.

¹ Outlined in SEMO Key Performance Indicators Decision Paper (to be published in July 2019)

2 PROPOSED 2019 AUDIT SCOPE

This will be the first TSC Market Audit for the new SEM. As such the RAs propose a number of additional assessments be carried out in the assurance audit of SEMO as required under the TSC, in the new market. Additionally, a number of issues have been identified within the settlement systems and associated calculations and a known-issues report is published each week by SEMO. It is likely that at least some of these items inherently represent non-compliance by the Market Operator with the TSC. These issues also create some practical implications for the approach to conducting the Market Audit. Therefore, the RAs are proposing a different approach to this Market Audit (than had been employed previously).

The RAs proposed structure of the Audit is:

1. Core Audit
2. SEM Settlement Cutover

The RAs proposed scope for each section and approach to auditing it is outlined below.

2.1 Core SEMO Audit

The RAs propose a core audit. This will be an audit of SEMOs compliance with relevant aspects of the Code and Agreed Procedures. It will cover, inter alia, the following areas:

- Accession & Registration
- Imbalance Settlement Price calculation and recalculation
- Settlement Production and Reruns (to include all of the Market Operator Charges)
- Currency and balancing charges
- Invoices, payments and credit cover
- Queries and disputes
- Code development
- Information publication
- Communication channels, systems and operation

As participants will be aware since I-SEM go-live a number of issues have been identified within the settlement systems and associated calculations and a known-issues report is published each week by SEMO. It is likely that at least some of these items inherently represent non-compliance by the Market Operator with the TSC. These issues also create some practical implications for the approach to conducting the Market Audit – notably that in testing settlement calculations during the impacted

periods it is expected a much higher level of exceptions than normal would be identified and it would be necessary to distinguish which of these were due to known issues and which represented additional audit findings. The impact of both known and “new” issues would require to be quantified and considered by the Market Auditor in forming any overall opinion. Whilst known issues have been identified there is no process in place within the Market Operator to determine on a daily basis the individual and compound impact of each known issue. This could therefore result in expending significant audit effort even though it is already known that there are non-compliances present in the specific calculation.

The Market Operator has and continues to deploy fixes to the settlement systems to resolve the issues identified and will run resettlement of periods affected by known issues prior to the end of the audit period. It is therefore expected that the Market Auditor will need to vary their approach to testing – for example by focusing testing on calculations performed at resettlement after fixes have been deployed in order to isolate any additional audit findings and using the details of the movement between initial settlement and resettlement as an approximation of the impact of the corrected known issues.

2.2 SEM Settlement Cutover

The resettlement of the old SEM will continue in parallel with the operation of I-SEM for a period of 13 months to complete settlement of all relevant periods prior to I-SEM go-live. The TSC Part C defines the Cutover Time and stipulates that Part A provisions apply to Trading Periods before go-live and Part B applies thereafter.

The RAs propose that the methods and controls SEMO operated over this Cutover period in the resettlement of legacy SEM should be audited and included in a separate section in the Report. Moving between markets is a rare event, nevertheless the RAs believe there is value in carrying out an assurance audit of the cutover on behalf of the RAs and market participants, so that when SEMO must carry out major changes, they can transition in an appropriate and controlled manner with the correct data items.

2.3 Reporting

Historically the Market Audit has reported in the form of an ISAE3000 Reasonable Assurance Opinion – reporting on whether the Market Operator has complied, in all material respects, with the requirements of the TSC. In the context of the known issues as outlined above there are two potential options for reporting that could be considered:

- 1) ISAE3000 Reasonable Assurance Opinion – the Market Auditor could continue to report on this basis, consistent with prior years. However, given the known issues and the fact that the Market Operator is currently in a ‘stabilisation’ phase the extent and coverage of testing would need to be significantly increased to reflect the extent of known issues and the potential for additional issues to be identified affecting the audit period. This would have significant time and cost implications for both the Market Auditor and Market Operator. Given that the Market Auditor will require to revisit the settlement calculations following the remediation of all issues as well as evaluating the compliance of the Market Operator with the

Code during the audit period the increase in effort required may not be cost beneficial to participants.

- 2) ISRS4400 Agreed Upon Procedures – under this reporting approach, which has been utilised in prior years for testing at MDPs and SOs, a specific scope of testing procedures would be agreed by the RAs with the Market Auditor. The Market Auditor would report on the factual results of these procedures, including any issues identified, but would not provide an overall opinion or conclusion in respect of the Market Operators compliance with the TSC. For example, this approach would allow the RAs to specifically direct the Market Auditor’s testing to areas of particular concern or exclude testing where there would be no benefit from further examination of specific known issues at the present time.

2.4 Audit Period

The audit will cover the period from 1st October 2018 to 31st December 2019. The Auditor will provide an Interim Report to the RA’s in Q3 2019. The results of this audit will be reported to the RAs but not published. However, if any major issues arise they will be articulated to market participants. The full results of this audit will be included in the main Report. The main Auditors Report will be published in Q2 2020.

3 PREFERRED APPROACH

The RAs do not have a strong preference for an approach at this point and therefore views on the Options put forward in this consultation document, including a preferred option, are welcomed from interested parties.

4 CONSULTATION AND NEXT STEPS

In presenting this paper for consultation, the SEM Committee seeks views on the merits of the above options for the Market Audit Scope for 2019.

Responses to this Consultation Paper should be sent to Rachel Strong (rstrong@cru.ie) and Karen Shiels (Karen.shiels@uregni.gov.uk) by 17.00 on 29 July 2019. Please note that the SEM Committee intends to publish all responses unless marked confidential².

Further to their consideration of the comments received, the RAs will publish their decision on the terms of reference for the I-SEM Market Audit for the period October 2018 to December 2019.

Once the terms of reference for the I-SEM Market Audit for the period October 2018 to December 2019 have been decided and issued in a Decision Paper. The Auditor will begin work on an interim audit to report to the RAs in Q3 2019. The results of this audit will be reported to the RAs but not published. However, if any major issues arise they will be articulated to market participants. The full results of this audit will be included in the main Report due to be published in Q2 2020.

² While the SEMC does not intend to publish responses marked confidential please note that both Regulatory Authorities are subject to Freedom of Information legislation.