



## **Trading and Settlement Code**

### **Terms of Reference for the Market Audit 2020**

#### **Consultation Paper**

**24 June 2020**

**SEM-20-041**

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

The purpose of this paper is to set out the RAs’ proposed approach for the scope of the 2020 audit together with the reporting arrangements.

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 2019 Market Audit has now been completed and was the first TSC Market Audit of the new SEM which went live on 1st October 2018. Taking account of the new SEM market and the identification of a number of known issues, the 2019 Market Audit had a different reporting approach than previous audits. This entailed the following:

1. The audit covered a 15-month period from 1st October 2018 – 31st December 2019, due to Go-Live of the revised SEM arrangements in October 2018.
2. The scope of the audit was expanded to include the SEM Settlement Cutover. The resettlement of the original SEM continued in parallel with operation of the revised SEM arrangements for a period of 13 months to complete settlement of all relevant periods prior to go-live. As this fell over the Audit reporting period the RAs believed there was value in carrying out an assurance audit of the cutover.
3. The reporting structure was under ISRS4400 against a set of Agreed Upon Procedures (AUP), instead of the usual ISAE 3000 Assurance Opinion. This was due to the number of known issues in the new market during the 2019 reporting period.

Historically the format of the TSC Market Audit was based on an assurance opinion, however the 2019 audit report was based on factual findings (under ISRS4400) against a set of Agreed Upon Procedures (AUP) ([SEM-20-030](#)). The AUPs focused testing on calculations performed at resettlement after fixes have been deployed to facilitate identification of any additional audit findings (over and above existing known issues) and reduce the risk of expanding significant effort testing periods with existing known non-compliance’s present.

As this 2020 Market Audit will cover the 2020 calendar year, the RAs are of the view that the market is no longer in the ‘stabilisation’ phase, so are proposing to revert back to the original audit reporting approach employed prior to the 2019 Market Audit. It is considered this approach, which will require an assurance opinion (under ISAE 3000), will provide the greatest value to the RAs and market participants upon SEMO’s compliance with the TSC.

## 2 PROPOSED 2020 AUDIT SCOPE

The 2019 Market Audit scope entailed the following:

- The audit was over a 15-month period 1st October 2018 – 31st December 2019, due to the go-live of the revised SEM arrangements in in October 2018.
- The audit was expanded to include the SEM Settlement Cutover. The resettlement of the old SEM continued in parallel with the operation of the revised SEM arrangements for a period of 13 months to complete settlement of all relevant periods prior to go-live. As this fell over the Audit reporting period the RAs believed there was value in carrying out an assurance audit of the cutover.
- The reporting structure was under ISRS4400 against a set of Agreed Upon Procedures (AUP), instead of the usual ISAE3000 Assurance Opinion. This was due to the number of known issues in market over the reporting period.

The SEM is in its second year of operation of the revised arrangements and the majority of cutover and legacy activities have been completed. The market is in a more stable condition with less outstanding known issues to be addressed, so can be considered to be outside of its 'stabilisation' phase.

The RAs therefore propose that the 2020 Market Audit reverts back to the traditional audit reporting approach employed prior to the 2019 Market Audit.

The 2020 audit will cover the 12-month period of 1st January 2020 – 31st December 2020. The majority of cutover activities were completed in 2019, with no significant findings arising around them in the 2019 Market Audit. The RAs therefore propose no further audit of SEM Cutover in the 2020 Audit.

The RAs further propose to revert back to an ISAE 3000 Assurance Opinion Audit (from ISRS 4400 Agreed Upon Procedures that was employed in the 2019 Market Audit to account for the number of known issues in the market). Whilst there are still a number of known issues in the market, the RAs consider the market to be less volatile than it was in 2019. The RAs are of the view the market is in a stable enough condition to support an ISAE 3000 Assurance Opinion Audit. The RAs are of the opinion that returning to an ISAE 3000 Assurance Opinion Audit (as has been the historic reporting structure) will provide the most value.

The RAs propose that the 2020 Market Audit is a Core SEMO Audit, without expansion. The 2020 Market Audit will be the first ISAE 3000 Assurance Opinion Audit of the new SEM. Additionally, whilst the market is in a more stable condition than the previous year, there are still a number of known issues to be addressed. The RAs therefore consider focusing upon a core SEMO Market Audit as making the most sense at this time, so as to provide the greatest value to both the RAs and market participants upon SEMOs compliance with the TSC. The Core Audit 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

*Please note the RAs are cognisant of the extraordinary environment of 2020 due to the COVID-19 pandemic, resulting in new protocols and working arrangements. The RAs do not however, foresee that it will impede the ability to complete the Audit as proposed for 2020. The RAs will take a pragmatic view upon any implications that the COVID-19 pandemic has on the Audit, and any subsequent decisions required. If the COVID-19 pandemic has implications upon the Market Audit, the RAs will inform the market of such.*

### **3 PREFERRED APPROACH**

The 2019 TOR Decision paper stated that once the market is stable enough, the RAs will most likely revert back to the ISAE 3000 Assurance Opinion reporting structure. The RAs consider the market is in a position to facilitate a Assurance Opinion Audit and favour this reporting approach as providing the greatest value to both the RAs and Market Participants.

The RAs note that whilst the market is in a more stable position, there are still a number of known issues. Therefore, the RAs favour an Audit upon the Core SEMO activities without any further expansion. The RAs consider that whilst the Market has recently stabilised, the most value will be gained from determining if SEMO are operating the core activities in compliance with the TSC. The RAs will look to expand future audits into additional SEMO activities once the market is further settled.

## 4 CONSULTATION AND NEXT STEPS

In presenting this paper for consultation, the SEM Committee seeks views on the proposed Market Audit Scope for 2020.

Responses to this Consultation Paper should be sent to Rachel Strong ([rstrong@cru.ie](mailto:rstrong@cru.ie)) and Karen Shiels ([karen.shiels@uregni.gov.uk](mailto:karen.shiels@uregni.gov.uk)) by 17.00 on 15 July 2020. Please note that the SEM Committee intends to publish all responses unless marked confidential<sup>1</sup>.

Further to their consideration of the comments received, the RAs will publish their decision on the terms of reference for the 2020 SEM Market Audit.

Once the terms of reference for the 2020 SEM Market Audit have been decided, they will be issued in a Decision Paper. The Auditor will begin work on an interim audit to report to the RAs in QX 2020. 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 2021.

---

<sup>1</sup> While the SEMC does not intend to publish responses marked confidential please note that both Regulatory Authorities are subject to Freedom of Information legislation.