



## **Trading and Settlement Code**

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

#### **Decision Paper**

**10 September 2020**

**SEM-20-060**

## 1 EXECUTIVE SUMMARY

The Trading and Settlement Code (“TSC” or “the Code”) provides the rules by which the market and its participants may operate, setting out the detailed rules and procedures concerning the sale and purchase of wholesale electricity in the market. The Single Electricity Operator (SEMO) is responsible for the administration and operation of the TSC.

Under Section B.16 of the Code the Regulatory Authorities (RAs) are required to appoint a person or firm to be the Market Auditor and ‘conduct an audit of the Code, its operation and implementation and the operations, trading arrangements, procedures and processes under the Code at least once a year’. The RAs ‘shall specify annually the precise terms of reference for the audit following the consultation process under paragraph B.16.1.5 and in sufficient time to enable the Market Auditor to complete the work in a timely manner and shall publish the terms of reference before the commencement of the audit activities’.

This paper sets out the Terms of Reference (TOR) that the SEM Committee has set for the 2020 Market Audit, following the publication of the Consultation Paper on the proposed TOR for the 2020 Trading and Settlement Code Market Audit ([SEM-20-041](#)), and subsequent review of responses received.

The Consultation paper received three responses. Based upon these responses the SEM Committee decided to implement the following structure and approach for the 2020 Market Audit:

### 1. Reporting

Then SEM Committee has decided to use the ISAE 3000 Assurance Opinion reporting approach for the audit.

### 2. Core SEM Audit

The SEM Committee has decided to implement a Core SEMO audit. 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

Following publication of this paper the Auditor will begin work on the audit. The Auditor will provide the RAs with an interim audit report in Q4 2020. The interim audit results will not be published, but if major issues arise the RAs will articulate these to market participants. The final audit report will be presented to industry at the SEM TSC Modifications Committee and published Q2 2021.

## 2 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 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’ TOR for the scope of the 2020 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 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. Accounting for 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). 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 will 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.

### 3 PROPOSED 2020 AUDIT SCOPE

On 24 June 2020, the SEM Committee published a Consultation Paper on the proposed terms of reference for the 2020 Trading and Settlement Code Market Audit ([SEM-20-041](#)). The key proposals for scope are outlined below.

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 proposed no further audit of SEM Cutover in the 2020 Audit.

The RAs further proposed 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 sufficiently stable 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 proposed that the 2020 Market Audit is a Core SEMO Audit, without expansion<sup>1</sup>. 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. Therefore, the RAs consider that focusing on the core SEMO Market Audit would provide the greatest value regarding SEMOs compliance with the TSC at this time. 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

The consultation welcomed views on the proposed, as well as any alternative approaches for the 2020 Market Audit.

---

<sup>1</sup> In the past, some SEM markets Audits have included the core audit with some additional areas of interest

## 4 RESPONSES RECEIVED

Three responses were received:

- Single Electricity Market Operator (SEMO)
- SSE
- Bord Gáis Energy (BGE)

### *4.1 Reporting*

SEMO agree with the RA's view that while there are still a number of known issues the market it is less volatile than it was in 2019 and therefore it is in a stable enough condition to support an ISAE 3000 Assurance Opinion Audit.

BGE noted that the number of known issues in the SEM is higher than it was this time last year; and SSE stated that whilst there are still critical market design elements to be delivered, it cannot be said that the market has stabilised. SSE therefore questioned if the market is indeed past the stabilisation phase as such if a return to an ISAE 3000 Assurance Opinion Audit was prudent at this stage.

BGE requested that the audit should take account of the known issues in the market and that the reporting structure will facilitate testing after fixes have been deployed to ensure robust solutions are being implemented.

### *4.2 Core SEMO Audit*

SEMO supports the RAs' proposal that the 2020 Market Audit should be a Core Audit without expansion. BGE stated that they believe there is value to be gained from understanding whether SEMO is correctly operating core activities in compliance with the TSC and this should be revealed by a Core SEMO audit.

It was requested by BGE and SSE that the following should be part of the core audit:

1. A review of the largest defects in the market and their effective closure/resolution through resettlement. Examples include CFC defect, CRM FX rates. (BGE)
2. Reviews under the 'queries and disputes' with a view to getting assurance on SEMO's processes for determining impacts and affected parties. (BGE)
3. System operation, in terms of freedom and accuracy of operation where it is contingent on the relationship with the IT vendor for the market systems and with regard to sufficient resourcing to comply with the requirements for system and operation compliance. (SSE)

Specifically, on resettlement both SSE and BGE expressed a preference for the audit to take account of the ad hoc pricing resettlement planned for October 2020. SSE consider the relevant part of the process towards the repricing derogation and the alternative approach currently in place could be examined as well as the settlement compliance surrounding repricing during the period covered by this market audit.

BGE requested that the RA's give further consideration to the possible expansion of the Core SEMO Audit to include the TSO's compliance with its scheduling and dispatch process.

### 4.3 COVID-19

SEMO stated that consideration of new protocols and work arrangements as a result of the COVID-19 pandemic must be factored into 2020 SEM Market Audit's planning and implementation. SEMO stated that it would welcome continued engagement with RAs on this.

### 4.4 Other Points

BGE sought clarity on how the results of the previous market audit will be used by the SEM Committee. BGE also requested that SEMO would provide updates on any steps taken or planned annual updates to resolve or address issues with their processes/procedures/activities which had been discovered on foot of the annual audit. BGE argued that assurances on compliance should be reinforced through follow up actions. This position was supported by SSE who wanted clarification from the RAs on its intentions regarding the outcome of the audit and confirmation that where a market audit raises important results they will be acted upon.

## 5 DECISION

Based on the responses received, the SEM Committee has decided to implement the following structure and approach for the 2020 Market Audit:

### 1. Reporting

The SEM Committee has decided to use the ISAE 3000 Assurance Opinion reporting approach for the audit. The SEM Committee considers an assurance opinion is likely to produce the most useful information for the RAs and Market Participants.

The SEM Committee notes that whilst the market is in a more stable position, it is not fully 'stabilised' as there are still a number of known issues. However, unlike in the previous Market Audit (2018-19) the audit is starting in a position where the market issues and specifics around them are known. This enables the delivery of an ISAE 3000 Assurance Opinion from the audit.

The auditors in delivering an ISAE 3000 Assurance Opinion will take account of the known issues in the market. However, this will not be through direct testing of each defect and corresponding fix. Rather, as the audit testing will cover the full year, any issues will be identified as a defect through the testing, those that have been adequately fixed will subsequently be identified as no longer occurring in the testing after the date that their fix has been implemented. These individual issues will not be directly reported upon in the final ISAE 3000 Assurance Opinion. However, if any issues (known or not) are identified as material non-compliance this will result in qualification and impact the final opinion. Any such findings and the context of them will be included in the report.

### 2. Core SEMO Audit

The SEM Committee has decided to implement a core SEMO audit. 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

Greater detail on the specifics of each area will be determined in the risk assessment and planning stage of the audit. The responses will be shared with the auditors and the specific areas mentioned will be considered as part of the planning stage and, where appropriate and in scope, reflected in the audit procedures and testing. As part of this the auditor will identify the main known issues in the market, how they manifest, any changes to processes adopted as a result and available quantification that SEMO has performed. Each defect and corresponding fix will not be tested directly, rather it will be used by the auditor to set expectation on where they may see differences or errors in the testing and where procedures may need to be adjusted to account for these. The testing of each area will cover the procedures and processes carried out by SEMO to ascertain if they are in compliance with the TSC obligations, this will include the impact of any assessment of the materiality, to test that it drove the required action.

Please note that the audit will only cover the actions taken by SEMO in regard to delivering their obligations in compliance with that specified in the TSC. It will not cover any contractual or commercial arrangements between SEMO and other bodies, or if the method to achieve the requirement was optimal, as this is considered out of scope. Additionally, any decision processes upon derogations or amendments to the TSC are out of scope for the audit. The audit will only look at SEMO's operation of such amendments or derogations (if they have been implemented over the audit period).

The SEM Committee is not expanding the Market Audit to include the TSOs' compliance with its scheduling and dispatch process. A separate audit on the Scheduling and Dispatch process is being carried out by the TSOs as required under condition 10A(9) and 22A(9) of Eirgrid and SONI licences (respectively). The Terms of Reference for the [2020 Periodic Audit of the Scheduling and Dispatch Process, its Operation and Implementation](#) is published on SEMO's website.

### **3. COVID-19**

The SEM Committee recognises the extraordinary operating environment in 2020 due to the COVID-19 pandemic which has resulted in new protocols and working arrangements. The SEM Committee does not foresee that it will impede the ability of the auditors to complete the 2020 audit but will take

a pragmatic approach to ensure the audit is delivered as outlined. If the COVID-19 pandemic proves to have material implications for the completion of the Market Audit, the RAs will inform the market of such.

#### **4. Other Points**

The Final Report, whilst being an ISAE 3000 Assurance Opinion, will also include a report of any findings of significant issues or other matters arising from the audit. This report will outline the issue and the effect and provide an overview of SEMO's response and action in relation to the issue. The audit report will contain any recommendations as a result of the audit and should the SEM Committee direct, SEMO (as required under the Trading and Settlement Code) will be required to implement the recommendations. The SEM Committee may also (irrespective of any recommendations) choose to take action on the basis of any findings from the audit.

Specific known issues that have been included in monthly market operator reporting (monthly market operator report or known issues report) will not be repeated. Other significant issues or matters that are found to have additional issues will be included in the relevant section of the audits' final report.

[The Market Audit Report for 2018-19](#) is published on SEMO website. The Report includes SEMO's response and any planned actions as a result of each finding. The SEM Committee is satisfied that SEMO is taking appropriate actions in relation to the findings. The SEM Committee will continue to monitor SEMO's actions in relations to the 2018-19 Market Audit.

## **6 NEXT STEPS**

Following publication of this paper the Auditor will begin work on the audit. The Auditor will provide the RAs with an interim audit report in Q4 2020. The interim audit results will not be published, but if major issues arise the RAs will articulate these to market participants. The final audit report will be presented to industry at the SEM TSC Modifications Committee and published Q2 2021.