



Trading and Settlement Code

Terms of Reference for the Market Audit 2022

Consultation Paper

24 April 2023

SEM-23-033

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 the parties to the Code 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 2022 audit together with reporting arrangements.

A Market Audit has been historically conducted on an annual basis. Over the years, the scope has extended and changed to account for specific developments in the market and requests from market participants, on the basis of a core audit on activities of the Single Electricity Market Operator (“SEMO”).

The Market Audit 2021 has now been completed. It was a Core SEMO Audit with limited expansion to include calculation, application and reporting of the Market Operator charges (Fixed and Variable) and Imperfection charges within the TSC. The Market Audit 2021 was reported under the ISAE 3000 Assurance Opinion¹. Based on reasonable assurance engagement, the SEMO was found, in all material respects, compliant with the TSC and relevant Agreed Procedures (“APs”) as set out in the Terms of Reference for the Market Audit 2021 for the period of 01 January 2021 – 31 December 2021.

2 PROPOSED 2022 AUDIT SCOPE

2.1 Period of Audit

The RAs propose that the Market Audit 2022 covers the period of 12 months from 1 January 2022 to 31 December 2022.

Paragraph B.16.1.4 of the TSC specifies that the annual period covered by the audit shall be 1 January to 31 December unless the terms of reference specify a different period. The Market Audit 2018/19, which was the first audit following the go-live of the revised SEM arrangements, covered the period of 15 months from 1 October 2018 to 31 December 2019. Subsequent audits in 2020 and 2021 covered 12 months of each calendar year. For the Market Audit 2022, the RAs consider it appropriate to cover the full calendar year of 2022.

¹ International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

2.2 Scope of Audit

The RAs propose that the Market Audit 2022 is a Core SEMO Audit, focusing on activities of SEMO under the TSC and its APs and covering the systems and processes within the control of SEMO.

The proposed scope excludes activities undertaken by the System Operators, Meter Data Providers and other participants as set out in the TSC and its APs. However, the scope will include calculation of Modified Interconnector Unit Nominations by the Interconnector Administrator.

The Core SEMO 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 Core SEMO Audit will provide reasonable assurance, within a reasonable timeframe, to the RAs and Market Participants that market pricing and settlement activities are being carried out by SEMO in accordance with the TSC and its APs.

2.3 Reporting Approach

The RAs propose that the Market Audit 2022 is to be reported under the ISAE 3000 Assurance Opinion.

Following the go-live of the revised SEM arrangements in October 2018, the RAs considered the ongoing 'stabilisation' phase of the market and used the ISRS 4400 Agreed Upon Procedures reporting approach for the Market Audit 2018/19. For the subsequent audits in 2020 and 2021, the RAs were of the view that the market was in a sufficiently stable condition and decided to use the ISAE 3000 Assurance Opinion reporting approach. This approach was also used for the audits prior to the go-live of the revised SEM arrangements. The RAs consider this reporting approach as providing the greatest value to both the RAs and Market Participants upon SEMO's compliance with the TSC.

2.4 Materiality Level

Materiality is generally used by the Market Auditor in two ways:

- a. to plan and perform the assurance engagement, and
- b. to evaluate whether the subject matter is free from material non-compliance.

Based on the ISAE 3000 (Revised), *“Misstatement, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information.”*

As stated in the terms of reference for the first market audit ([AIP/SEM/07/502](#)), the determination of materiality *“is a matter of judgement and reflects cost benefit considerations as well as an assessment of risk and susceptibility to error.”*

The RAs are considering two options for the materiality level, outlined below.

Option 1: 0.25%

Option 1 is to set 0.25% of the estimated annual market value of electricity traded in the SEM, as governed by the TSC, as the materiality level.

A lower threshold of 10% of the materiality value, i.e., 0.025% of the estimated annual market value, is set for reporting significant issues. It should be noted that there may be qualitative aspects in determining the significance of any issue. That means, the Market Auditor shall report on issues that come to its attention which exceed the quantitative threshold or which it believes to be significant for other reasons.

The percentages are consistent with those in previous audits.

Option 2: 0.5%

Option 2 is to increase the materiality level to 0.5% of the estimated annual market value of electricity traded in the SEM, as governed by the TSC. The quantitative threshold for reporting significant issues remains unchanged, i.e., 10% of the materiality value, which is 0.05% of the estimated annual market value.

The existing threshold, 0.25%, was initially determined in the context of the original SEM, where the annual market value was calculated based on the gross mandatory pool model. That means, the threshold was based on the total annual gross value of payments to generators.

Whereas in the context of the revised SEM arrangements, only the trading and settlement arrangements for the Balancing Market and the settlement arrangements for the Capacity Market are governed by the TSC. The Day-Ahead Market and Intraday Market, where the majority of electricity is traded, are not governed by the TSC² and, hence, not covered by this audit. That means, the total annual market value related to this audit is lower than that in the original SEM. This change may warrant an increase to the materiality level in terms of percentage.

For information, the 0.25% materiality value for each audit period since 2015 is provided in the table below.

² These are governed by SEMOpx Rules: <https://www.semopx.com/rules-and-monitoring/market-rules/>

Audit period	2021	2020	2018/19	2017/18	2016	2015
Value	€2.4m	€2.2m	N/A ³	€6.4m ⁴	€3.6m	€4.44m

3 PREFERRED APPROACH

As explained above, the RAs propose that the Market Audit 2022 covering the period 1 January 2022 to 31 December 2022 is to be a core SEMO audit and reported under the ISAE 3000 Assurance Opinion.

As to the materiality level, the RAs do not have a strong preference at this point.

Any views on the proposed scope as set out in section 2 and particularly on the materiality level to be applied are welcomed from interested parties.

4 CONSULTATION AND NEXT STEPS

In presenting this paper for consultation, the SEM Committee seeks views on the proposed scope for the Market Audit 2022 and particularly on the materiality level to be applied.

Responses to this Consultation Paper should be sent to Yongkang An (yan@cru.ie) and Mary Farrelly (Mary.Farrelly@uregni.gov.uk) by 17:00 on 24 May 2023. Please note that the SEM Committee intends to publish all responses unless marked confidential.⁵

Further to their consideration of the comments received, the RAs will make their decision on the terms of reference for the SEM Market Audit 2022.

Once the terms of reference for the SEM Market Audit 2022 have been decided, they will be issued in a Decision Paper.

The Market Auditor will then begin work on this audit. To ensure that the audit is conducted in an efficient and effective manner, the Market Auditor will report to the RAs on the progress on a monthly basis. The full audit report is due to be published in 2023.

³ The 2018/19 audit was based on Agreed Upon Procedures.

⁴ Note this was for a 21-month period, which equates to €3.6m over 12 months.

⁵ While the SEM Committee does not intend to publish responses marked confidential, please note that both RAs are subject to Freedom of Information legislation.