



Trading and Settlement Code

Terms of Reference for the Market Audit 2023

Consultation Paper

30 November 2023

SEM-23-090

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 a consultation process.

The purpose of this paper is to set out the RAs’ proposed scope of the 2023 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 2022 has now been completed, with the Independent Market Auditor’s Report published on the SEMO website on 22 November 2023. It was a core SEMO audit. The Market Audit 2022 was reported under ISAE 3000 Assurance Opinion¹. Based on reasonable assurance engagement, 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 2022 for the period from 1 January 2022 to 31 December 2022 ([SEM-23-048](#)).

2 PROPOSED 2023 AUDIT SCOPE

2.1 Period of Audit

The RAs propose that the Market Audit 2023 covers the 12-month period from 1 January 2023 to 31 December 2023. As specified under paragraph B.16.1.4 of the TSC, the annual period covered by the audit shall be 1 January to 31 December unless the terms of reference specify a different period.

2.2 Scope of Audit

The RAs propose that the Market Audit 2023 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

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

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.

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.

The RAs are aware that an expansion of the scope may add value to the market audits. However, as noted in the Decision Paper on the Terms of Reference for the Market Audit 2022 ([SEM-23-048](#)), inclusion of any expansion would require extra time for the Market Auditor to conduct the audit. Given that the Market Audit 2023 is still behind the schedule, the RAs propose the Market Audit 2023 to be a core SEMO audit without expansion. This is for the purpose of reducing the risk that potential issues may not be identified in a timely manner and the interests of the parties to the TSC may be jeopardised.

The RAs may decide to expand the audit scope in future audit years. This will be communicated in any relevant terms of reference consultation and decision papers.

2.3 Approach of Reporting

The RAs propose that the Market Audit 2023 is to be reported under the ISAE 3000 Assurance Opinion. 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

The RAs propose that the materiality level for the Market Audit 2023 remains at 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 at 10% of the materiality value, which is 0.05% of the estimated annual market value.

Having reviewed the Market Auditor’s Report 2022 and engaged further with the Market Auditor, the RAs are satisfied that, in general, the change to the materiality level in the Market Audit 2022 from 0.25% to 0.5% did not impact on the Market Auditor’s conclusion or the identification of any compliance issues.

3 PREFERRED APPROACH

As explained above, the RAs propose that the Market Audit 2023 covering the 12-month period from 1 January 2023 to 31 December 2023 is to be a core SEMO audit and reported under the ISAE 3000 Assurance Opinion.

The RAs propose that the materiality level remains at 0.5% of the estimated annual market value of electricity traded in 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.

Any views on the proposed scope as set out in section 2 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 2023 as set out in section 2 of this consultation paper.

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 28 December 2023. Please note that the SEM Committee intends to publish all responses unless marked confidential.²

Following closure of this consultation, the RAs will consider the responses received as per above and decide on the terms of reference for the Market Audit 2023. The final terms of reference will be published in a Decision Paper on the SEM Committee website in due course.

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 2024.

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.