

**From:** [Woods, Michael \(DETI\)](#)  
**To:** [Wightman, Stuart](#); [Edmund Ward](#)  
**Cc:** [Hughes, Seamus](#); [Mills, John \(DETI\)](#); [Stewart, Chris \(DETI\)](#); [McCormick, Andrew \(DETI\)](#); [Teri Clifton](#); [Jane Pierce](#); [chris.poulton@ofgem.gov.uk](mailto:chris.poulton@ofgem.gov.uk)  
**Subject:** RE: Deloitte Independent Assurance on NIRHI - Draft Report [OFFICIAL SENSATIVE]  
**Date:** 29 April 2016 14:14:28  
**Attachments:** [FY16-10 Ofgem Independent Assurance - Non-Domestic NIRHI - Draft Report.....docx](#)  
[image001.gif](#)

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Edmund /Stuart

Thank-you for letting me have sight of the Draft report from Phase 1 of Deloitte's investigation of the allegations received in respect of the Non-Domestic Northern Ireland Renewable Head Incentive.

Having read over the report, I will admit to having a number of significant concerns both on the contents of the report itself and whether as a consequence the overall assignment including Phase 2 will be able to demonstrate that the allegations received have been sufficiently robustly investigated.

With specific regard to the draft report I would make the following comments and observations:

- 1) The report provides no overall opinion or stated level of assurance on the system of control as it applies to the NI Scheme. The reason why the investigation has been commissioned is in response to allegations that have been received that the NI Scheme has been subject to Fraud and Abuse and that Scheme Controls are either insufficient to manage these risks or have not been operating effectively. Given that the risks associated with these allegations are the same risks recognised in Ofgem's Fraud risk Strategy, I would have expected the report on Phase 1 to have provided an overall opinion on the system of control to manage these risks as well as a specific opinion on the controls in regard to the 5 key areas specified in the scope;
  - Eligibility;
  - Ongoing Compliance;
  - Payments;
  - Governance; and
  - Site inspections.

The report lists the findings ( in most cases there are none) in each of these areas but provides no specific level of assurance on controls in each area. It would be useful as part of the work on Phase 1 for the report to set out the key controls in each of these areas and the extent to which these were found to be adequate to manage the stated fraud risks and the extent to which any differences in the NI Scheme impacted on these controls.

- 2) The report includes two findings, the issues raised appear to be significant but receive Medium to Low ratings respectively. The report would need to include more information on the assessment of the consequences of these risks for the system of control and in particular if they increase the risks highlighted in the allegation: For example:

Finding 3.1 this finding highlights that a total of 6 on site inspections were carried on the NI scheme applications in 2015/2016 which represents 0.86% of the NI Population compared with 1.8% for the GB scheme. The report does not however, consider the impact of this on the effectiveness of the onsite inspections as a control over risks in the NI Scheme and the extent to which this figure is in line with the % of installations that would need to be inspected to provide a reasonable level of assurance on the NI Scheme. One of the allegations being that there is ineffective oversight of the scheme.

The finding goes on to state that three out of the four finalised reports for 2015/2016 identified non compliance issues related to fuel records and heat loss calculations (75%). There is no explanation of whether or not these non compliance issues are significant, the amount if any of grant at risk or how these findings affect the overall risks of fraud and abuse in the NI scheme. It states that all issues were investigated and managed by the compliance team but does not state if the issues were resolved without affecting eligibility or if these findings are as a matter of course formally shared with DETI.

- 3) The second finding in the report, highlights the differences between the categorisation of Medium installations between NI and GB schemes. It recommends that management perform a review of process differences between GB and NI and the impact on Standard Operating Procedures (SOP) within the Scheme controls. The finding needs to make clear the impact of any differences, on how the NI scheme is controlled whether or not as a result there has been insufficient coverage on NI installations as part of onsite inspections. Further understanding the impact of any differences in SOPs and how they affect the control over the risks in the NI scheme is something that would need to be undertaken as part of Phase 2.

In considering the current draft report and the scope for Phase 2 of the review, it is critical that at the end of Phase 1 and 2 we have a completed piece of work that has investigated the allegations of Fraud and Abuse and not simply a systems audit review and a series of site inspections. To ensure the investigation meets its objectives it is important that the scope of the work undertaken in Phase 2 is such that Deloitte are in a position to express an opinion of whether or not the allegations have been found to be true or not. It is also important that this opinion is based on a sufficient substantive programme of inspections, that it considers and reports against the Fraud / Abuse / Gaming Risks that are recognised in the Ofgem Fraud risk strategy and are at the centre of the allegations that have been received i.e. gaming the scheme, fraud, generation of unnecessary Heat etc. In the context of the draft report on Phase 1 it is important that it clearly states that there are clear controls to mitigate these risks and its opinion on the adequacy and effectiveness of these controls.

Given that the allegations were received several months ago it is also imperative that the programme of site inspections takes place as soon as is practical and that this programme is based on a robust risk analysis and sampling methodology.

**Michael Woods**  
Internal Audit

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**From:** Wightman, Stuart  
**Sent:** 23 April 2016 12:20  
**To:** Woods, Michael (DETI)  
**Cc:** Hughes, Seamus; Mills, John (DETI)  
**Subject:** Fw: Deloitte Independent Assurance on NIRHI - Draft Report [OFFICIAL ]

Fyi

Sent from my BlackBerry 10 smartphone.

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**From:** Edmund Ward <[Edmund.Ward@ofgem.gov.uk](mailto:Edmund.Ward@ofgem.gov.uk)>  
**Sent:** Friday, 22 April 2016 17:46  
**To:** Mills, John (DETI); Wightman, Stuart; Hughes, Seamus  
**Cc:** Chris Poulton; Gareth John; Teri Clifton; Jane Pierce  
**Subject:** Deloitte Independent Assurance on NIRHI - Draft Report [OFFICIAL ]

John, Stuart, Seamus

Please see attached a draft independent assurance report from Deloitte on the joint NI RHI review, phase 1.

We are sharing on receipt and haven't yet reviewed in detail, but have provided a brief summary view below. We will review and share further comments with you in the first instance, prior to reverting to Deloitte.

**Initial view/summary:**

We note that there are *no 'High' priority findings*.

There is *only one 'Medium' priority finding*, and this relates to the recommendation to *update the NIRHI site audit strategy*, which we note was already planned between DETI and Ofgem and will flow from Phase 2 of the review. This finding is therefore *in line with our expectations* from the report – we would anticipate suggesting some amendments to the draft report to clarify this.

There is also **a single 'Low' priority finding** relating mainly to some very specific updates to internal documentation, that we would expect to take on board to further support the proportionate manual and automated system controls in place to support our administration of the scheme.

## Next steps:

There is a **high-level approach to future audits/site selection** indicated in the 'Proposed Management action' in Section 3.1 - we would expect greater clarity on the approach to the targeted audit programme to feed into the planning for Phase 2.

You're welcome to feedback any comments at this stage (via me) – or to wait for us to provide initial comments and then to add your comments at that stage, should you prefer. We would target a response to Deloitte by Friday 29 April, but please do let me know if further time is required for your review.

Kind regards,

Edmund

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**From:** Fong, Tahlee (UK - London)  
**Sent:** 22 April 2016 14:42  
**To:** Edmund Ward; Gareth John  
**Cc:** Carlton, Walter (UK - Edinburgh); Li, Lin L (UK - London)  
**Subject:** Ofgem - Non-Domestic NIRHI - Draft Report

Good afternoon Edmund and Gareth

Thank you for sending the signed agreement letters back to me from yourself (on behalf of Ofgem) and DETI. Please find attached the draft report for the Non-Domestic NIRHI review, consistent with the findings we discussed in our closing meeting. Could I please ask that you populate the management response and timeframes, and return this to me by next Friday, 29<sup>th</sup> April.

I have [not] included DETI in the distribution list, so please do forward the draft report on as appropriate.

If you have any questions regarding this report, please don't hesitate to contact me.

Kind Regards

**Tahlee Fong**  
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# OFGEM Independent Assurance

## FY16-10 Non-Domestic Northern Ireland Renewable Heat Incentive (Phase 1)

### DRAFT REPORT

Draft to Management: 22 April 2016

Management Response: [29 April 2016]

Final: [6 May 2016]

**Distribution:** Gareth John, Associate Director, Non-Domestic Renewable Heat Incentive  
Edmund Ward, Head of Technical & Compliance, Non-Domestic Renewable Heat Incentive  
John Mills, Head of Energy Division, Department of Enterprise, Trade and Investment

**Dates of Fieldwork:** 23 March - 1 April 2016

This review was jointly requested by the Head of Technical & Compliance from the Ofgem Non-Domestic Renewable Heat Incentive Team, and the Head of Energy Division, Department of Enterprise, Trade and Investment. The objective was to assess whether the operation of the NIRHI is in compliance with the Scheme Regulations and if there is any evidence of the NIRHI having been abused, fraud having occurred or if eligible scheme participants have failed to operate within the Scheme Regulations.

This is a draft report, represents a work in progress, and may contain preliminary results or conclusions incomplete information or information, which is subject to change.

This report is prepared on the basis of the limitations at Appendix B.

This report and the work connected therewith are subject to the Services Agreement between the Gas and Electricity Market Authority and Deloitte LLP for Internal Audit and Assurance Services dated 25 June 2015. Save for a copy of the report being provided to the Department of Enterprise, Trade and Investment ('DETI'), as the responsible agency for the NIRHI Scheme under the terms of the letter between Deloitte and DETI dated 23 March 2016, and may be provided for information only to the Northern Ireland Audit Office and / or the Northern Ireland Assembly to enable the discharge of their oversight roles, this report is produced solely for the use of Ofgem. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Deloitte LLP will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

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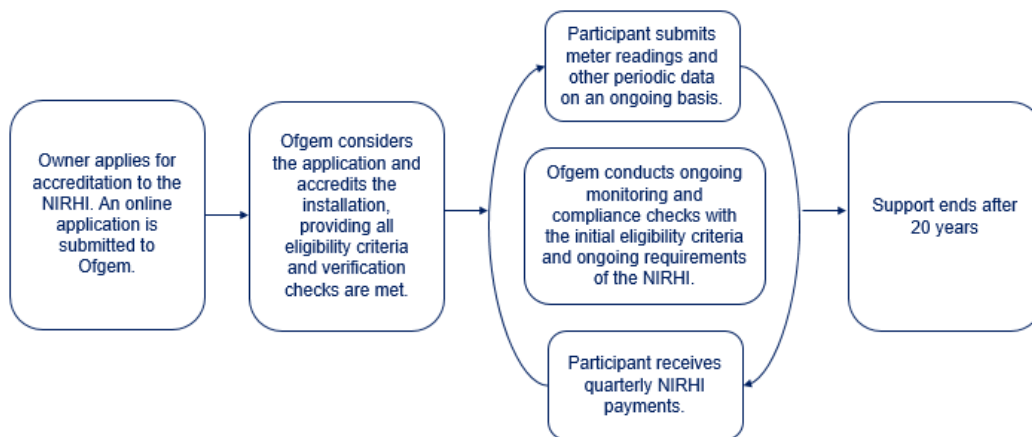
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# 1. Executive summary

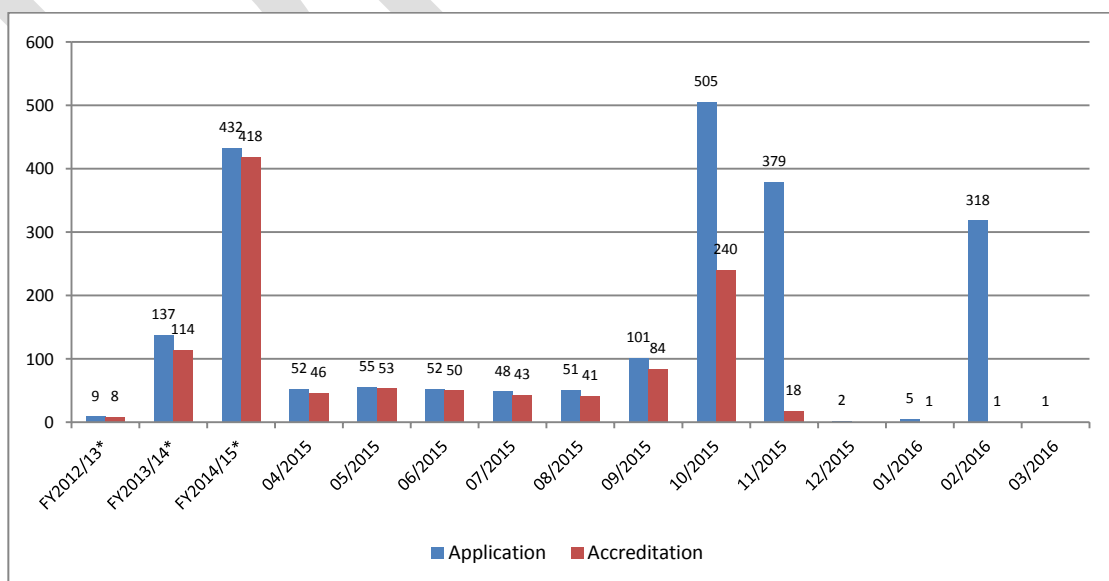
## Background

The Northern Ireland Renewable Heat Incentive ('NIRHI' or the 'Scheme') is a government environmental programme that provides financial incentives to increase the uptake of renewable heat and reduce the UK's carbon emissions. It provides subsidies to eligible non-domestic renewable heat generators and producers of biomethane based in Northern Ireland, payable in quarterly instalments for 20 years. The NIRHI policy, tariff rates and legislative framework are set by the Department of Enterprise, Trade and Investment ('DETI'). The Scheme is administered by Ofgem in accordance with the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012, the Domestic Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2014, the Renewable Heat Incentive Schemes (Amendment) Regulations (Northern Ireland) 2015 and the Renewable Heat Incentive Schemes (Amendment) Regulations (Northern Ireland) 2016 (hereinafter referred to as the 'Scheme Regulations').

The overall process for an NIRHI participant is as follows:



DETI has received recent allegations that the Scheme is being abused or is vulnerable to abuse. There has also been a significant increase in the volume of NIRHI applications in advance of the 2015 Scheme Regulation changes, and in response to the Scheme suspension announcement (effective 29 February 2016) due to insufficient funding. The following graph shows the number of NIRHI applications that have been received and accredited since inception:



\* This figure shown is the annual total for the year ended 31 March.



Due to the spike in number of applications from September 2015 onwards, the accreditation process was changed from a 'steady state' end to end review to a two stage approach – the first phase being a high level review to identify obvious outstanding information (and acknowledge receipt of application within 10 days) and the second phase being a full detailed review of the application. This was to cater for the high volume of applications to be processed.

## Objectives

The objective of this review was to assess whether the operation of the NIRHI is in compliance with the Scheme Regulations and if there is any evidence of the NIRHI having been abused, fraud having occurred or if eligible Scheme participants have failed to operate within the Scheme Regulations. This overall review will be conducted in a two-part process:

1. Phase 1 – an assessment of Ofgem's processes and controls to administer the NIRHI in accordance with the Regulations, to assess whether the Scheme is operating in compliance with the legislation and highlight any areas of concern warranting further investigation; and
2. Phase 2 - site inspections of a sample of (a) current applicants awaiting award; (b) Scheme participants with multiple installations; and (c) Scheme participants with single installations.

This review covered Phase 1 only.

## Key findings arising from our assessment

The Non-Domestic Renewable Heat Incentive Team administer the Renewable Heat Incentive for both Northern Ireland ('NI') and Great Britain ('GB'). Both Schemes are administered under the same processes, controls and Standard Operating Procedures.

At the time fieldwork was performed, there were 1,100 live participants in the NIRHI scheme, with a further 1,022 applicants awaiting accreditation (these applications were submitted prior to scheme suspension on 29 February 2016). The installation capacity of the largest participant is currently 995 kWth. The technologies used by the participants are solid biomass, solar thermal or ground source heat pump.

In September 2015, the Non-Domestic Renewable Heat Incentive Team rolled out an update to the CRM system, used to administer the accreditation, data submission and audit and compliance processes. The update enabled more automated controls to be implemented; examples of current system controls include:

- Accreditation can only be given once the application has passed the in-built system application checks, including confirming that ID and bank verifications have been performed;
- Exceptions are automatically flagged and exception reporting can be generated from the system. For example, the system flags outstanding annual self-declarations (by the participant to confirm they meet the ongoing obligations of the Scheme Regulations). The system also performs a year-on-year and period-on-period analysis of participant data submissions; and
- Documentation and archiving of the compliance workflow.

Furthermore, the Periodic Data Team perform manual reviews over each participants' periodic data submissions, and the system enables the results of these reviews to be logged.

We have raised one medium priority finding from our independent assurance assessment, as follows:

- Site inspection audit coverage:** Site inspection audits selected for FY2015/16 originally covered 0.86% of the full population of sites, with a further 8 sites added at DETI's request in January 2016. However, there has been no adjustment to take account of the 200% increase in applications between September 2015 to February 2016 (compared to the number of applications received for FY2014/15), or the non-compliance issues related to fuel records and heat loss calculation which have been identified in three out of four (75% non-compliance) finalised reports from the FY2015/16 audit plan. Furthermore, site inspections are not performed across all technology types utilised under the NIRHI.

## Summary evaluation of findings

Scope Area	Number of findings identified as:		
	High	Medium	Low
Eligibility	-	-	-
Ongoing compliance	-	-	1
Payments	-	-	-
Governance	-	-	-
Site inspections	-	1	-
	-	1	1

## Acknowledgement

We should like to take this opportunity to thank all staff involved for their co-operation during this project.

## 2. Scope of assurance

### Objectives

The objective of this review was to assess whether the operation of the NIRHI is in compliance with the Scheme Regulations and if there is any evidence of the NIRHI having been abused, fraud having occurred or if eligible Scheme participants have failed to operate within the Scheme Regulations. This overall review will be conducted in a two-part process:

1. Phase 1 – an assessment of Ofgem's processes and controls to administer the NIRHI in accordance with the Regulations, to assess whether the Scheme is operating in compliance with the legislation and highlight any areas of concern warranting further investigation; and
2. Phase 2 - site inspections of a sample of (a) current applicants awaiting award; (b) Scheme participants with multiple installations; and (c) Scheme participants with single installations.

This review covered Phase 1 only.

### Scope

This review addressed the following:

- **Eligibility:** The process for accrediting installations and registering biomethane producers who meet the eligibility criteria, including verifying applicant identity, bank details and ownership of the installation;
- **Ongoing compliance:** Monitoring and enforcing compliance with the initial eligibility criteria and ongoing requirements of the NIRHI. This includes the process for undertaking inspections to verify participants' ongoing obligations under the NIRHI are being complied with and that information provided in the application remains true and accurate;
- **Payments:** Assessment of the payments process to confirm that payments are only made on the receipt of valid, relevant and accurate information supplied by participants;
- **Governance:** Consideration of any Ofgem NIRHI policies and procedures for administering the Scheme; and
- **Site inspections:** Appropriateness of the scope and approach undertaken by Ricardo Energy and Environment in carrying out site inspections of Scheme participants on Ofgem's behalf.

### Approach

We applied the following approach:

- Made contact prior to commencement of the audit to identify key staff, arrange initial meetings and provide details of documentation to which we required access;
- Conducted process discussions with key staff to understand the processes and controls in place for each of the above scope areas;
- Obtained NIRHI system data and conducted basic analytics to identify any trends and anomalies;
- Assessed the design appropriateness of key controls;
- Conducted sample testing to assess the operating effectiveness of key controls;
- Met with responsible management to discuss our conclusions and proposed recommendations; and
- Produced and issued a draft report, prior to the issue of the final report.

## Scope Limitations

This review (phase 1) did not:

- consider the adequacy or appropriateness of the Scheme Regulations or policy framework (including eligibility criteria), for which DETI is responsible;
- extend to site visits or physical inspection of renewable heat generation equipment, meters or pipework; or
- cover the Domestic Renewable Heat Incentive.

Phase 2 would involve conducting site visits or physical inspection; the commissioning of this work would depend on the findings from phase 1. These would not be conducted by Deloitte, but our understanding is that this could be delivered through Ofgem's existing arrangements with Ricardo Energy & Environment.

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### 3. Detailed Findings

#### 3.1 Site inspection audit coverage

Rationale	Priority			Management response and timeframe
<p>The Audit and Compliance team is responsible for developing the RHI audit strategy and selecting the site audit sample size for both the GB and NI schemes.</p> <p>As part of the FY2015/16 annual site selection process (performed in September of each year), six NIRHI sites were selected, representing 0.86% coverage of the full population of approximately 700 sites (that had been accredited by September 2015), compared with 1.8% coverage for the GB scheme.</p> <p>From September 2015 to February 2016 however, there was a 200% increase in the number of applications as compared to the number of applications received for FY2014/15, resulting in an even lower coverage of NIRHI sites. We acknowledge that at DETI's request, a further eight sites were added to the audit plan in January 2016.</p> <p>For context purposes, in the four finalised reports from the FY2015/16 audit plan, non-compliance issues related to fuel records and heat loss calculation were identified in three out of four sites (75% non-compliance). All non-compliance issues are investigated and managed by the Compliance Team.</p> <p>Furthermore, participants under the NIRHI scheme currently utilise technologies including solid biomass, solar thermal and ground source heat pump, however the site inspections only cover small and medium solid biomass sites.</p>	<p><b>Medium</b></p>	<p>There is an increased risk that non-compliance with the Scheme Regulations is not identified, resulting in financial loss.</p>	<p>The Audit and Compliance team should update the audit strategy and sample selection to take account of:</p> <ul style="list-style-type: none"> <li>a) the total number of accredited sites and applications awaiting accreditation i.e. the percentage of site audits should remain consistent;</li> <li>b) all technology types, in proportion to the number of applicants with each technology type; and</li> <li>c) the results of completed audits and non-compliance issues identified.</li> </ul>	<p><b>Response:</b></p> <p><b>Responsibility:</b></p> <p><b>Timeframe:</b></p>

### 3.2 SOP 'Managing Periodic Information and Fuel and Sustainability Data' requires updating

Rationale	Priority	Risk / Opportunity	Proposed management action	Management response and timeframe
<p>The current CRM system automatically checks submissions against pre-defined tolerances (e.g. where a meter reading is the same as a previous submission, or where the heat data submitted exceeds the feasible amount). Exceptions identified are then referred to the Periodic Data Team for review, in accordance with Standard Operating Procedures. RHI ND SOP 117 'Managing Periodic Information and Fuel and Sustainability Data' describes the process for reviewing and approving participants' periodic data prior to quarterly payments being made.</p> <p>We identified that:</p> <ul style="list-style-type: none"> <li>• Across both GB and NI schemes, a full mandatory review is required for sites with an installation capacity of 200kWth and above if an exception is identified. Section 6.1 of the SOP states that a full review is required for medium and large biomass sites, however, the definition of small, medium and large differs between GB and NI such that only 'large' NI biomass sites would require full mandatory review. This was identified because for one of 15 samples selected for audit testing, a full review was not performed because it was under 200kWth, despite it being classed a 'medium' biomass site. Differences in process and definitions between GB and NI should therefore be reflected in the SOPs;</li> <li>• Section 6.1.2 (Qualification of Exceptions) provides a link to another guidance document which details how to qualify exceptions identified in the CRM system. The guidance document is out of date as it does not accurately reflect the list of exceptions as per the current CRM system. For example: <ul style="list-style-type: none"> <li>○ 'The installation's annual declaration is outstanding' is an exception in the guidance document, however it is no longer applicable in the CRM system;</li> <li>○ 'Based on your meter readings provided, the figure calculated for Eligible Heat Output (EHO) is 25% more than</li> </ul> </li> </ul>	<p><b>Low</b></p>	<p>If SOPs are not accurate and / or current, and processes and procedures are not consistently performed, or performed at all, there is an increased risk of non-compliance with the NIRHI.</p>	<p>Management should:</p> <ol style="list-style-type: none"> <li>1. Perform a full review of process differences between GB and NI and ensure these are documented in all SOPs, particularly SOP 117 around periodic review;</li> <li>2. Update the Qualification of Exceptions guidance document to align to the current exceptions per the CRM system; and</li> <li>3. Ensure a periodic review (at least annually) continues to be performed on all SOPs and guidance documentation for accuracy and completeness.</li> </ol>	<p><b>Response:</b></p> <p><b>Responsibility:</b></p> <p><b>Timeframe:</b></p>

<p>the same period the previous year. Please provide an explanation for this increase?' is an exception in the CRM system, however is not covered in the guidance document.</p> <p>We note from the SOP document control section that the SOP was created in October 2015 and an update in respect of the PDS processes was made in February 2016.</p>				
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## Appendix A - Definitions of audit opinion

### Prioritisation of findings

Priority	Description
<b>High</b>	Significant and urgent improvement(s) required to address a serious weakness which exposes the organisation to a material extent in terms of achievement of corporate objectives, financial results or otherwise impairs its reputation.
<b>Medium</b>	Essential improvement(s) required to address control weaknesses that may result in the failure of the process under review or improvement required to achieve efficiencies.
<b>Low</b>	Process improvement advised to address minor control weaknesses or align processes with good practice or to achieve efficiencies.

Management should be aware that our internal audit work was performed according to UK Government Internal Audit standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.



## Appendix B - Statement of responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

**Deloitte LLP**  
**London**

**April 2016**

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