

From: [Wightman, Stuart](#)
To: [Woods, Michael \(DETI\)](#)
Cc: [Hughes, Seamus](#); [Clydesdale, Alison](#)
Subject: FW: Urgent - Explanation needed around Ofgem to issues identified through Site Audits [OFFICIAL]
Date: 20 May 2016 14:33:32

Michael

Please see response below to your previous queries around the Deloitte Review. We should receive a Phase 2 proposal next week.

Thanks, Stuart

Please see below also, some responses from Deloitte to Michael Wood's earlier email regarding the draft Deloitte Phase 1 report:

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.

First, the reason our report provides no overall opinion / level of assurance is purely because it was commissioned as 'Independent Assurance' Work, for which we have agreed with Ofgem Audit, Risk and Assurance Committee ('ARAC') that we would rate individual findings, but not the overall report. We do provide overall ratings for Internal Audit reviews. Independent Assurance work is typically commissioned on an ad hoc basis by the business, whereas Internal Audit work is delivered under an agreed plan, agreed with ARAC at the start of the year.

We understand your concerns in not receiving this overall rating but would like to provide reassurance that it's not in any way a reflection of the appropriateness and adequacy of Ofgem's system of internal controls relating to NIRHI; it's merely the way we have agreed to present our reports.

Second, we understood there to be allegations of fraud and abuse, but were not privy to the exact

nature of such allegations (what they were, who they came from, how many allegations have been received etc.). We have adopted a two-phase approach to first (and we think sensibly) rule out process and control issues from an Ofgem Administration standpoint, before spending the time and money doing site visits to identify potential fraud and abuse that may only be identified from physical inspections.

Finally, we adopt an exceptions-based approach and only report on those areas where we have identified control gaps, or issues related to operating effectiveness of controls (as identified from audit testing). The absence of findings on the remaining scope items means that we have not identified any control deficiencies in these areas. Unless otherwise agreed, we would not typically report on all key controls identified for each scope area and report against the adequacy of these. Additionally, our process understanding did not reveal any differences in the administration of the NI vs GB scheme, apart from those already identified in the report.

- 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.

For Finding 3.1, we have highlighted that insufficient audit inspections would increase the risks of fraudulent behaviour / non-compliance with NIRHI not being identified. Having more audit coverage is a detective control to identify fraud (and be preventative in a sense that it can deter bad behaviour). Phase 2 would definitely include a consideration of the number of site audits needed to provide appropriate and sufficient coverage, based on the number of live Participants and the exact nature of the allegations (to tailor the audit approach to match the risk areas identified).

We are also mindful that some allegations may be related to Policy, rather than process.

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.

[Addressed above]

- 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.

This finding is merely an administrative point that the SOP's should reflect the differences in process and controls for GB and NI. In this instance, it should cover the differences in definitions of small, medium and large biomass sites and only impacts the Periodic Data Team's desktop review process; it is separate to onsite inspections entirely. From our sample testing, differences in definition did not impact the operating effectiveness of controls because the full review was carried over the correct sites based on size. We acknowledge the importance of SOP's reflecting processes and controls however and hence it has been raised in our report.

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 i 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.

Deloitte agreed that they would perform a comprehensive and independent review irrespective of the allegations of fraud. As we were not privy to exactly what the allegations are, we performed a detailed review over the end to end process in administering the scheme (and hopefully this will have covered off on any process and / or control gaps that would increase the risks of fraud happening). We did not consider or cover Policy, which DETI is responsible for (as discussed today).

[Internal Only]

[]

This message may be confidential, privileged or otherwise protected from disclosure. It does not represent the views or opinions of Ofgem unless expressly stated otherwise.

If you have received this message by mistake, please contact the sender and immediately delete the message from your system; you should not copy the message or disclose its contents to any other person or organisation.

From: [Woods, Michael \(DETI\)](#)
To: [Wightman, Stuart](#); [Clydesdale, Alison](#)
Cc: [Murray, Debbie](#); [Cardwell, Mark](#); [Bagdonaite, Dovile](#)
Subject: FW: Urgent - Explanation needed around Ofgem to issues identified through Site Audits [OFFICIAL]
Date: 20 May 2016 17:31:53
Attachments: [image001.gif](#)

Stuart / Alison

I note the response from OFGEM and their auditors. I would make a number of points:

- 1) My understanding is that the fraud allegations were passed to OFGEM and the review (Phase 1 and Phase 2) is the collective approach to addressing these allegations. This needs to be clearly understood and accepted by OFGEM. As i have not had sight of the Phase 2 proposal yet, i do not want to presuppose that it will not be sufficient to address the allegations. However, i must make it clear that the Department has received allegations, these need to be investigated and the results of that investigation must be robust and provide a clear opinion on whether or not there is evidence that the allegations are true. Anything less than this will not provide sufficient assurance;
- 2) The terms of reference for Phase 1 Clearly make reference in the background to the fact that the department has received allegations of abuse or is vulnerable to abuse. The stated objective of the review is to “assess whether the operation of the NIRHI is in compliance with 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 with the Scheme Regulations.” I am concerned that the final report at the end of Phase 2 will not adequately address the objective of the review unless an overall opinion is expressed against the allegations;
- 3) It is not clear that that the completion of Phase 2 will provide a suitably robust investigation of the allegations and that the auditors will provide an overall opinion on the allegations. The reference by Deloitte to this being “independent assurance work” and that they have agreed with their audit and risk committee not to provide opinions in the overall report is difficult to understand as DETI is the accountable department for this expenditure and it is unclear what level of assurance we can take from the report in the absence of an overall opinion. From the response received i infer that Deloitte identified no major weaknesses. Public Sector Internal Audit standard 2410.A1 states “final communication of engagement results must, where appropriate, contain internal auditor’s opinion and conclusions, it is important therefore that the final report at the end of Phase 2 provides such a conclusion and opinion; and
- 4) Ultimately my only concern is that the allegations are properly investigated and

that the investigation is sufficiently robust. I think in the first instance it would be useful to raise this point with Edmund and seek clarity on the overall purpose of the review as set out in the agreed Terms of Reference and if Phase 2 will provide the necessary assurance. I also think that the response from OFGEM should be shared with Chris , Heather and Andrew . Dependent on the clarification received from OFGEM, on whether or not Deloitte are going to address the allegations of fraud and abuse as part of Phase 2 and therefore deliver an opinion on the stated objective of the review , a decision may need to be taken and quickly on whether the Department should commission its own investigation.

Happy to discuss

Michael Woods

Internal Audit
Department for the Economy
Adelaide House
39-49 Adelaide Street
Belfast, BT2 8FD
Tel: 028 9025 7410 (ext: 57410)
TextRelay: 18001 028 9025 7410
Web: www.economy-ni.gov.uk



[NI Year of Food & Drink 2016](#)

Please consider the environment - do you really need to print this e-mail?

From: Wightman, Stuart
Sent: 20 May 2016 14:34
To: Woods, Michael (DETI)
Cc: Hughes, Seamus; Clydesdale, Alison
Subject: FW: Urgent - Explanation needed around Ofgem to issues identified through Site Audits [OFFICIAL]

Michael

Please see response below to your previous queries around the Deloitte Review. We should receive a Phase 2 proposal next week.

Thanks, Stuart

Please see below also, some responses from Deloitte to Michael Wood's earlier email regarding