

INTERNAL AUDIT BRIEFING NOTE ON AUDIT PLANNING, IDENTIFICATION OF AUDIT COVERAGE AND NON-DOMESTIC RHI AUDIT 2015/2016

General Principles of Internal Audit Planning and Identification of Audit Coverage

- Internal Audit strategies and plans are developed in accordance with the Public Sector Internal Audit Standards (PSIAs) and HMT Treasury Good Practice Guidance.
- Previously, a 4 year internal audit strategy was in place covering the 2011/12 – 2014/15 period from which the annual audit plans were derived. In accordance with best practice, the Departmental Risk Register is used as the primary basis of development for the strategy. However, a specific risk associated with the delivery of the non-domestic RHI scheme did not feature on the Corporate Risk register until July 2015.
- Following on, two sequential one year plans (2015/16 & 2016/17) were then developed as an interim measure due to the ongoing Departmental restructuring exercise associated efficiency savings and the absence of an agreed NICS PFG. This approach was agreed by the Departmental Accounting Officer and endorsed by the Departmental Audit Committee.
- The 2015/2016 audit plan included Non-Domestic RHI. The inclusion of the audit in the audit plan was based on the Departmental budgetary allocations in conjunction and other relevant factors,
- A new strategy for the 2017/18 to 2019/20 period is currently under development and the audit coverage required will be identified via an audit needs assessment which will ensure that audit resources are sufficiently focused on high risk systems and regularly reviewed within the planning cycle.

Internal Audit Report on Non –Domestic RHI

- Internal Audit the non-Domestic RHI scheme was identified for inclusion in the 2015/16 plan and a final report was issued in August 2016 with an overall Unacceptable audit opinion and highlighting a number of systemic weaknesses in the scheme's governance and oversight arrangements.

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- Internal Audit contacted a Northern Irish based company selling and installing biomass boilers and pretended to be a genuine business requesting information on

installing a biomass boiler in a warehouse. The company advised that it would cost circa £30k to purchase a medium sized boiler plus installation costs and receive 6.4p for each kWh generation for 20 years compared to a wood pellet boiler that would receive approximately 3.6p per generation of each kWh of heat.

- Under the conditions of the scheme prior to 19th November 2015, by installing a 99 kWh boiler which is 90% efficient and run on a 24/7 basis, a business may expect to generate 2000 each day or 70,000 kWh every year. This in turn would result in an RHI payment of £44,800 paid on an annual basis and almost £900,000 throughout the 20 year lifetime of the incentive. Assuming a capital cost of £60,000 and the fuel consumption to generate the same amount of heat, the expenditure would be less than £600,000 throughout the lifetime of the scheme resulting in over £300,000 in profit for generating heat.
- We understand that this information gathered from a supplier should allow for a certain degree of optimism bias however, these figures sufficiently demonstrate how the NIRHI payments before the introduction of a cap and tariff tiering, was a tempting option for businesses to make additional profits.

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