

Department for the Economy (DfE)**Review of the Non Domestic Renewable Heating Initiative (RHI) Scheme
Financial Model****Summary****September 2016****Purpose and Scope**

Following on from the Internal Audit Services Report issued in August 2016, a Business Case was approved for a temporary DP Accountant to give assurance that an adequate and effective budgetary control system had been established to enable complete, accurate and reliable financial management information to be extracted for monitoring and reporting purposes and to ensure that the long term budgetary commitments for the scheme are monitored and that formal budgetary cover for the life of the scheme is in place to make sure that all commitments can be met.

Findings**1. Data Verification**

Energy Coordination Branch update the payment model manually with both the standing data and the payment data received from Ofgem. It was found that the data was being transferred accurately. However, applicants' status' had not always been updated to agree to the Ofgem report and there was no evidence that Ofgem ever provided any paperwork to the Energy Renewables Division to support the accuracy of the standing data or of the calculation of the payments made to applicants.

Action

Quarterly spot checks should be put in place on the applicants' paperwork held by Ofgem including site visits to verify the EHO readings being submitted to Ofgem.

2. Forecasting Model

The Energy Coordination Branch forecasting model was found to be predominantly accurate in respect of the methodology and formulae it contained and on the calculations of current financial year and future years' budget commitments, which have been provided to senior management. However, its design and capacity do not lend itself to the detailed interrogation required to provide the level of accurate management information which will be required in the long term.

Action

A new Financial Database management tool should be designed and implemented to replace the current Forecasting Model. This new Database should capture all of the data received from Ofgem electronically and should have the capacity to produce timely and detailed reports to assist in future decision making surrounding the scheme.

3. Seasonality

Presently there is no seasonality calculation included in the monthly budgeted accrual and profiling figure in respect of the Non Domestic RHI Scheme which is being onwardly reported to DfE Finance Division. An exercise to calculate an accrual for seasonality is currently undertaken by the Energy Markets Co-ordination Branch in March each year and manually added to the forecast at this point.

Action

A new Financial Database management tool should be designed and implemented to replace the current Forecasting Model. This new Database should have the capability to incorporate seasonality into the forecasts.

4. Internal Controls

There are currently no restrictions within the Energy Markets Co-ordination Branch regarding access to the Non Domestic RHI Scheme Payment model. In addition, cells in the model are not password protected and therefore open to errors, inconsistencies and manipulation. Formulae and data can easily be overwritten leading to inaccurate reporting.

Action

Password protection and user restrictions should be built in to different functions within the Financial Database model. Access on Trim should be restricted to the relevant branch.

5. Lack of Relevant Data

If more data was captured in the payment model eg; applicants business type, region etc this would give a more accurate basis for estimates used in the forecasting calculation

Action

More detailed data should be captured in the Financial Database to assist with the requirement for more functional and meaningful reporting.

6. Business Contingency Issues & Lack of Resources

The Energy Markets Co-ordination Branch is presently reliant on one member of staff to manage and co-ordinate the Non Domestic RHI Scheme Payment model. In their absence, particularly with the complexity of the model and the manual level of input required, there is a risk that there will be delays in processing of information and that budget calculations will not be accurate nor presented on a timely basis.

Action

Revised procedures should be documented and approved by management going forward. Relevant staff should be identified to manage the Financial Database system and they should receive training before the system is implemented.

7. Dormant Applications and Accounts

Delays and lack of communication of changes in Application Status from Ofgem have resulted in the reporting of inaccurate accrued expenditure. However, this has not had any material impact on the forecasts provided to date. Given that the scheme is now closed to new applicants, Energy Renewables Division should be better able to follow up outstanding applicants' details and queries with Ofgem in a more timely manner.

Recommendations

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