

**From:** [Mills, John \(DETI\)](#)  
**To:** [Woods, Michael \(DETI\)](#)  
**Cc:** [Wightman, Stuart](#)  
**Subject:** RE: Draft ToR for the Non Domestic RHI  
**Date:** 06 January 2016 11:20:47

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Michael,

Thanks, that's helpful and I think you've articulated why it is important to approach this with an open mind. The real problem as I see it, the spike which we don't have money for – is not necessarily a weakness of internal control, as you say. Or put another way, what internal controls could have prevented this? There are incontestable weaknesses - not going back to DFP for funding approval from March 2015, for example. So Andrew's not wrong in saying there were internal control weaknesses but I think to say this whole thing is an internal control issue is to prejudge the outcome – staffing, resource, budgetary arrangements, for example, are factors as is simply not being able to predict the future. I do think the revised wording is more in keeping with the wording at the start of para 3.1 and would be grateful if you could check if the revised wording is acceptable.

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**From:** Woods, Michael (DETI)  
**Sent:** 06 January 2016 09:48  
**To:** Mills, John (DETI)  
**Cc:** Wightman, Stuart  
**Subject:** RE: Draft ToR for the Non Domestic RHI

John

It is our normal practice to share the draft Tor, to make sure that the scope of the audit accurately reflects the activities in the area to be reviewed and also to agree the start date and duration of the audit. I am also happy to discuss the wording of specific objectives but within the context that the internal audit function is an independent challenge function. In this instance the draft report was shared with you and also with the accounting Officer. We were asked by him to add the control objective and the wording is the wording he gave to the Team, this was not written by my team. In terms of the audit assignment, i see this as being part of any normal audit in that if weaknesses are identified we look to see how they occurred and what could be done in future to prevent or mitigate, until we complete the audit we will not know what if any weaknesses exist in the system. The spike in applications and the associated costs are not in themselves weaknesses, however, If you wish i will ask the Accounting Officer if he is content with your revised wording of the audit objective.

Michael Woods  
DETI IAS#  
ext 29892

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**From:** Mills, John (DETI)  
**Sent:** 05 January 2016 14:41  
**To:** Woods, Michael (DETI)

**Cc:** Wightman, Stuart  
**Subject:** RE: Draft ToR for the Non Domestic RHI

Michael,

If you weren't open to changing it why did you send it to us?

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**From:** Woods, Michael (DETI)  
**Sent:** 05 January 2016 11:06  
**To:** Wightman, Stuart; Bagdonaite, Dovile  
**Cc:** Mills, John (DETI); Cardwell, Mark  
**Subject:** RE: Draft ToR for the Non Domestic RHI

Stuart

The wording for the additional Control Objective came from Andrew and i would prefer keeping the wording as it currently stands. It may also be the case that the issues are not simply the spike in demand and costs.

Michael Woods  
DETI IAS  
Ext 29892

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**From:** Wightman, Stuart  
**Sent:** 04 January 2016 13:37  
**To:** Bagdonaite, Dovile  
**Cc:** Woods, Michael (DETI); Mills, John (DETI); Cardwell, Mark  
**Subject:** FW: Draft ToR for the Non Domestic RHI

Dovile

Thank you for the opportunity to review the revised draft TOR for the Audit Review. I have amended the wording around the additional control objective to remove the assertion that there are weaknesses in our existing internal controls. It will be for the Audit Review to identify any weaknesses in controls.

Please confirm if you are content to proceed on the basis of the proposed changes.

Thanks, Stuart

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**From:** Bagdonaite, Dovile  
**Sent:** 04 January 2016 08:58  
**To:** Mills, John (DETI)  
**Subject:** RE: Draft ToR for the Non Domestic RHI

Morning

Sorry for a delay in responding to you John, I was off work for Christmas.

Please see the requested attached.

Kind regards

Dovile

**Dovile Bagdonaite**

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**From:** Mills, John (DETI)  
**Sent:** 23 December 2015 14:28  
**To:** Bagdonaite, Dovile  
**Subject:** RE: Draft ToR for the Non Domestic RHI

Dovile,

Stuart's off for Christmas now and I can't access this TRIM version. Can you send word version.

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**From:** Bagdonaite, Dovile  
**Sent:** 23 December 2015 10:33  
**To:** Wightman, Stuart  
**Cc:** Woods, Michael (DETI); Cardwell, Mark; Mills, John (DETI)  
**Subject:** Draft ToR for the Non Domestic RHI

Hi Stuart

The draft TOR has been amended slightly by the senior management. Purpose and scope part of the ToR has been amended to include paragraph 2.3 and another control objective has been added.

Please let us know if you're happy with it.

Kind regards

Dovile

**Dovile Bagdonaite**

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**From:** [McCormick, Andrew \(DETI\)](#)  
**To:** [Woods, Michael \(DETI\)](#)  
**Cc:** [Rooney, Eugene](#); [Cardwell, Mark](#); [Bagdonaite, Dovile](#); [Hill, Janice](#)  
**Subject:** FW: Final (draft) TOR (2)  
**Date:** 06 January 2016 18:10:56  
**Attachments:** [Final \(draft\) TOR \(2\).docx](#)

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One suggestion. Happy to discuss.

Many thanks.

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**From:** Woods, Michael (DETI)  
**Sent:** 06 January 2016 13:56  
**To:** McCormick, Andrew (DETI)  
**Cc:** Rooney, Eugene; Cardwell, Mark; Bagdonaite, Dovile  
**Subject:** Final (draft) TOR (2)

Andrew

Please see attached the Draft TOR for the review of Non Domestic RHI. John Mills has suggested a slight amendment to the final bullet point in the list of audit objectives at paragraph 3.1. I am content that this will not materially constrain the scope of the audit and that ultimately the review will consider how any weaknesses, the audit identifies, transpired and what if any action was taken when management became aware. We will also consider if there is any scope for improvements in the Departments Corporate Governance arrangements that could increase the likelihood of similar weaknesses either being detected or prevented in the future.

If you are content with the suggested amendments I will finalise the Terms of Reference with John. We have already started the audit review.

Michael Woods  
DETI IAS  
Ext 29892

From: Mr. Michael Woods  
Head of Internal Audit

Date: 14th December 2015

To: Mr. Stuart Wightman  
Head of Energy Efficiency Branch

Mr John Mills  
Direct of Energy Division

### **Internal Audit Review of: Non Domestic RHI Scheme within Energy Division**

Please find attached a ***draft*** Terms of Reference which sets out the proposed scope and objectives of the review.

On the basis of our current audit schedule we plan to commence the review during week commencing 14 December 2015.

I would be grateful if you confirm that you are content with the Terms of Reference. Please do not hesitate to contact me should you wish to discuss the proposed review.

**December 2015**

**DRAFT TERMS OF REFERENCE****1. Introduction**

1.1 In accordance with the established Internal Audit strategy and 2015/16 Internal Audit plan agreed by the DETI Accounting Officer and the Departmental Audit Committee, Internal Audit will carry out a review of the non-Domestic Renewable Heat Incentive scheme administered by Energy Division.

**2. Purpose and Scope**

2.1 The purpose of the review will be to provide an independent professional opinion on the adequacy and effectiveness of risk management, control and governance.

2.2 The scope of the audit will include control, governance and risk management arrangements associated with the following areas:

- Scheme Design
- Application, Assessment and Approvals
- Financial Management – Payments and Budgetary Control
- Governance and Oversight Arrangements

2.3 The review will focus particularly on the effectiveness of internal controls exercised from the initiation of the scheme and the action taken to address concerns which arose over regularity, affordability and value for money with the scheme. The review will also assess the potential for fraudulent activity in regard to applications to the scheme.

**3. Objectives**

3.1 The following objectives will be used as a basis for our evaluations and opinion about the adequacy and effectiveness of risk management, control and governance To ensure that:-

- The non-domestic RHI scheme has been designed so that awards are only made for valid applications that demonstrate they have met all of the scheme criteria, including that the purpose is for a valid business activity. In addition that the proposed heat output of the application is only at a level that is necessary for the proposed business described, and by design the scheme incentive is not such that the award generates payments that would exceed the costs of the heat being generated Finally, that there is a valid legally binding agreement between DETI and the applicant.
- Payments made by OFGEM are only made to applicants who provide the required quarterly information (meter readings) demonstrating that they are meeting the conditions of the scheme. In addition, to ensure that a valid inspection programme is undertaken by OFGEM on behalf of Northern Ireland, that the inspection programme includes a valid sampling methodology and that the results of the inspections are communicated to Energy Division.
- An adequate and effective budgetary control system has been established to enable complete, accurate and reliable financial management information to be extracted for monitoring and reporting purposes. In addition, 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.
- Adequate and effective governance and oversight arrangements have been established over the relationship between DETI and OFGEM and robust assurances are provided over budgetary transfer payments made to OFGEM and the administration of Departmental funds, including the award and payment processes.
- In light of ~~the recent~~ experience with the operation of the scheme , a key objective is to provide a full assessment of:
  - the factors which contributed to ~~the large spike in scheme demand and costs~~ weaknesses;

December 2015



- the effectiveness of ~~in-existing~~ internal controls; ~~of~~
- the management of the risks ~~once they materialised~~; and
- on the lessons to be learnt.

#### **4. Conduct of Audit**

- 4.1 The audit work will be performed in accordance with the Public Sector Internal Audit Standards (PSIAS) and the professional standards and guidelines of the Chartered Institute of Internal Auditors.
- 4.2 Members of Internal Audit staff, in accordance with the Internal Audit Charter, have access to all records, assets, personnel, premises and such information and explanations as considered necessary to fulfil audit responsibilities.

#### **5. Audit Resources**

- 5.1 The audit will be performed by members of the internal audit team Dovile Bagdonaite and Mark Cardwell (Audit Manager). The audit is scheduled to start on week commencing 14<sup>th</sup> December 2015.

#### **6. Reporting**

- 6.1 The audit team will provide management with regular informal updates as the audit progresses or as requested. Upon completion of the audit the overall findings will be discussed at a post audit meeting with Mr. Stuart Wightman (Head of Energy Efficiency Branch).
- 6.2 Upon completion of the audit a draft report will be issued to Mr. Wightman, Mr. John Mills (Director of Energy Division). Upon receipt of management's formal response to the draft report, a final report (incorporating the management response) will then be issued to Mr. Wightman, Mr. Mills, Mr Andrew McCormick (Accounting Officer) Mr. Chris Stewart (Deputy Secretary), and the NIAO in accordance with established arrangements.

- 6.3 In accordance with Internal Audit Key Performance Indicators, a draft report will be issued within 15 days of completion of fieldwork. The final report will issue within 10 days of receipt of management responses. Management is requested to submit management responses within 15 working days of receiving the draft report.