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To: [Woods, Michael \(DETI\)](#); [Cardwell, Mark](#)
Subject: non domestic RHI - proposed approach
Date: 07 January 2016 16:22:05
Attachments: [Plan for the review - graphic format.DOCX](#)
[Non domestic RHI Questionnaire.DOCX](#)
[Timeline - Non Domestic RHI.DOCX](#)

Mark/Michael

In light of the amendments to the ToR that have been introduced by the PS I am proposing to approach this review the following way:

1. As we know senior management are aware of the issues in running of the scheme i.e. financing and sharp increase in demand. From the interest that they have taken in the scheme and the review itself I understand there is an appetite from senior management to establish how, where and what exactly went wrong which has led to the current situation and whether there are any systematic weaknesses in managing and controlling the risks in the area. In addition, they are keen for us to establish effectiveness of internal controls exercised from the initiation of the scheme and the action taken to address concerns which arose over affordability and vfm aspect of the scheme.

In order to provide answers to these questions I am proposing to produce a timeline of events, actions and documents which may possibly help us build a decent picture of the development and management of the scheme over time. This may also help us establish if and when there has been a loss of momentum in relation to change of core staff working on the scheme and whether this could have had an effect in failure of control if such is established by this review.

2. As part 2 of the review I am proposing to look at scheme operational management in order to establish how branch is exercising the function of controlling the relationship with external delivery agent running the scheme on behalf of DETI. This would hopefully provide us with answers on how well the operation of the scheme is protected from possible fraudulent and/or irregular claims in terms of assessment, identification and action against potential fraud. This should also answer the question of how efficient and effective the relationship between DETI and the agent is to enable DETI to place reasonable reliance on how the scheme is run by the agent .

I am attaching the proposed plan above.

I have also developed a questionnaire (see attached) that I am proposing to use to record management responses and audit testing against. This questionnaire was developed having in mind all risks related to control objectives which we previously discussed and it can be enhanced with further questions and tests if need be.

Let me know whether you are content with the approach I'm proposing.

I'm happy to discuss and cooperate.

Dovile

Non domestic RHI – system QA

NO	IAS QUESTIONS	MANAGEMENT RESPONSE
Agreement with GEMA (Ofgem)		
1.	Is Gema by legislation the only possible administration provider available to administer the scheme? (section 1.1)	<p>Legislation (Energy Act 2011) says that the department may make regulations –</p> <ul style="list-style-type: none"> (a) Establishing a scheme to facilitate and encourage renewable generation of heat in NI, and (b) About the administration and financing of the scheme. <p>At section 114 the legislation goes on to say that –</p> <ul style="list-style-type: none"> (1) Gema and NI authority may enter into arrangements for Gema to act on behalf of the NI authority for, or in connection with, the carrying out of any functions that may be conferred on the NI Authority under, or for the purposes of, any scheme that may be established under section 113.
2.	Section 1.2 of the agreement says that certain functions are conferred on DETI, what exactly are those functions that DETI retains?	
3.	Section 2.1 says that ‘the budget and charging methodology for calculating the administration costs and the types of activity which can contribute to the administration costs, will be agreed separately between the parties in advance of administration costs being incurred’. Can we see the agreed budget and charging methodology? Financial arrangements document to be seen.	
4.	Retained functions by DETI	<p>Regulations:</p> <p>23(1) which says that RHI payments are not to be made for installations that have received other grant unless the grant was paid in respect for an eligible installation which was completed and first commissioned between 1st Sept 2010 and 1st Nov 2012 and has been repaid to the person or authority who made it.</p> <p>36(8) the department must calculate the tariff rates each year in accordance with paragraph (7) and publish on or before 1st April of each year a table of tariffs for the financial year.</p> <p>47(1)(a) relates to overpayments and specifies that the department may ‘require the participant to repay the periodic support payment as a civil debt owed to the department’.</p>

Non domestic RHI – system QA

		50 applicants right of their application reviewed. 51 publication of procedural guidance to participants on departments website, plus statistical information of the numbers of RHI installation accredited and etc.
5. Gema's responsibilities		
5.1	What information departments get under condition 3.2 a) (i and ii)? How often? What has been done in relation to these? Statistical information available?	These relate to retained functions as per regulations 47(1)(a) and 50.
5.2	Condition 3.2 b) how many reviews have been carried out by DETI? Who is responsible for carrying out the review in the branch?	
5.3	Condition 3.2 c) has there ever been any court proceedings or disputes with 3 rd parties? What were the consequences of these?	
5.4	Who is the nominated person of contact in Gema?	
5.5	Condition 3.2 j) refer to the annex to the arrangement document in relation to auditing:	
5.5.1	Any financial irregularities suspected by Gema? Action taken by DETI?	
5.5.2	TOR for the auditing activity undertaken by Deloitte/Ricardo-AEA? Would auditing activity here mean inspections?	
5.5.3	Outcomes shared with DETI? Has this been done? What is understood by outcomes here? Any audit/inspection report or an irregularity identified? Have any reports been received?	
5.5.4	Paragraph 3 of the annex refers to Gema	

Non domestic RHI – system QA

	agreeing to provide any records, information or explanation to enable DETI to follow payments, information relating to accredited installations, calculations of payments and transfer of funds from Gema to the customer. Has this rule ever been exercised?	
6. DETI responsibilities		
6.1	4.1 a) pay administration costs How administration cost had been arrived at? Rationale? Approved? Has there been any benchmarking carried out with other providers? Has consideration been given to operate the scheme in house?	
6.2	4.1 b)transfer moneys for periodic payments What supporting documentation are Gema required to provide for periodic payments? How are they assessed for correctness and completeness? More on payments below.	
6.3	Are there any other documents relevant to the agreement and arrangements with Gema (Ofgem)	
6.4	Are there any targets agreed with Ofgem in relation to their performance, such as:- <ul style="list-style-type: none"> - Application assessment turnaround times, - Dealing with complaints/issues time targets, and etc. I.e the targets that would provide insight of how well the scheme is administered by the outsourced provider.	
Control objective 1		

Non domestic RHI – system QA

7	<p>Are management aware of and content with the procedures that Ofgem apply in administrating the scheme?</p> <p>This includes checking information at all stages of the process:- application, assessment, accreditation, quarterly payments and review</p>	
8	<p>What are the criteria for the scheme? Are the criteria clearly expressed and made available to the customers?</p>	
9	<p>Does/How management know that all criteria are consistently applied in the stage of pre-accreditation. Any assurance received from Gema?</p>	
10	<p>Is there a requirement in the process of application to provide information in relation to the business purpose and the maximum output of heating required for the business that the heating will be used for?</p> <p>Is application of these criteria monitored/challenged if necessary by Ofgem and management?</p>	
11	<p>Are management seeking any assurances that the payments made do not exceed costs of the heating being produced?, i.e. Can management ensure (do management get assurance from Gema) that the RHI scheme does not over incentivise and is not used as revenue generating scheme by the businesses?</p>	
12	<p>Is there a legally binding agreement in place</p>	

Non domestic RHI – system QA

	between DETI and the customer? Do DETI have legal powers for enforcement?	
Control objective 2		
<i>Payments to customer</i>		
14	What assurance management get that all payments made to customers are accurate, valid.	
15	What is the process for customer to provide information that they are continuing to meet conditions of the scheme? What is done to make sure that the meter readings and other information provided is accurate? What assurances management receive?	
16	How overpayments are identified? What is the system?	
17	What is the process of dealing with overpayments? Underpayments? How are these identified and acted upon? What is DETI's involvement in this process?	
18	Are there any reports received regularly by management from Ofgem in relation to overpayment issues?	
<i>Inspection programme</i>		
19	What is the %age of the live applications inspected? Is it tied to the number of the approved applications and is increased if the number of applications increases?	
20	What is Ofgem sampling methodology for choosing a sample? How are risks assessed and prioritised?	
21	Are results of inspections communicated to DETI?	

Non domestic RHI – system QA

22	What actions are taken when irregularities are identified? What is the procedure? DETI's action?	
Control Objective 3		
Budgetary control		
	Is there budgetary profiling information received from Ofgem? How often? What format? What additional information is provided to as a back up? How does management check that this information is accurate and valid?	
	Is there any independent sources providing reports to management to assure that financial information provided by Ofgem is accurate?	
	What is the system in place to record, maintain, monitor and report on accruals and other financial information?	
	How do management ensure that the accruals estimated are accurate so that budgetary over/under spends above tolerance levels do not happen?	
	What is the system adopted by the branch to keep financial information secure and ensuring that it is not corrupted?	
	Is there financial management procedures in the branch which clearly describe the process and roles and responsibilities of the staff?	
	How are the long term budgetary commitments monitored and reported to senior management?	

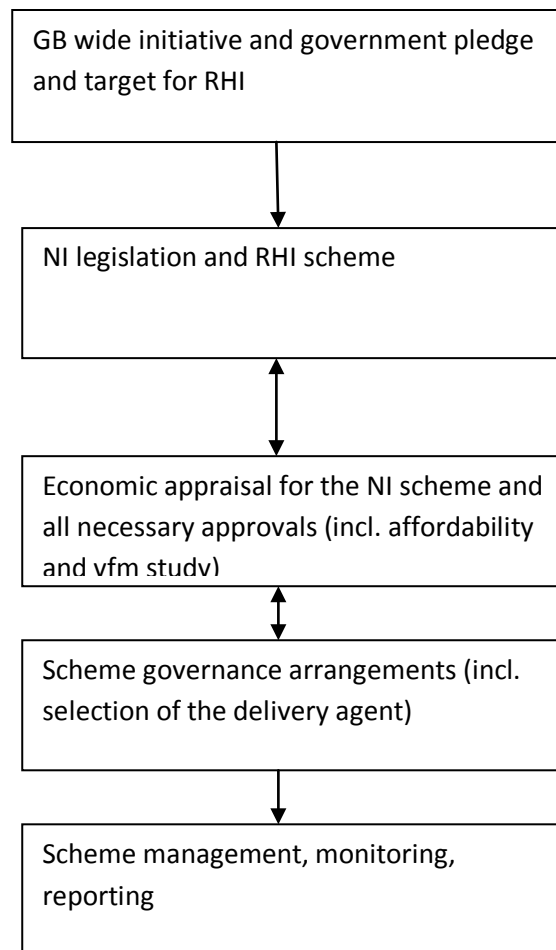
Non domestic RHI – system QA

	How is the possible long term impact on the departmental finances managed? Is there a formal budgetary cover for the life of the scheme? Have risks to department’s finances been assessed? What are the mitigating strategies developed?	
Control Objective 4		
Governance		
	What are actual roles and responsibilities of DETI and Ofgem in this arrangement?	
	What are the performance targets Ofgem has to deliver and how are these monitored in the department? What action is taken if performance falls below standard?	
	What is energy branch’s involvement in delivery and monitoring of the scheme?	
	How the department is getting assurance that Ofgem are performing as agreed (internal/ external audit)	
Payment from DETI to Ofgem		
	The process of making payments to Ofgem	
	Is there guidance/procedure available in the branch re financial management?	
	Audit trail complete?	
	Back up documentation, invoice from Ofgem?	
	Payments vouched for validity and authorised in accordance to the levels of delegations?	

Non domestic RHI – system QA

Part 1 of the review

Non domestic RHI Scheme NI



Questions to be answered include:

Budgetary cover

Budgetary control (bi-annual assurance statement)

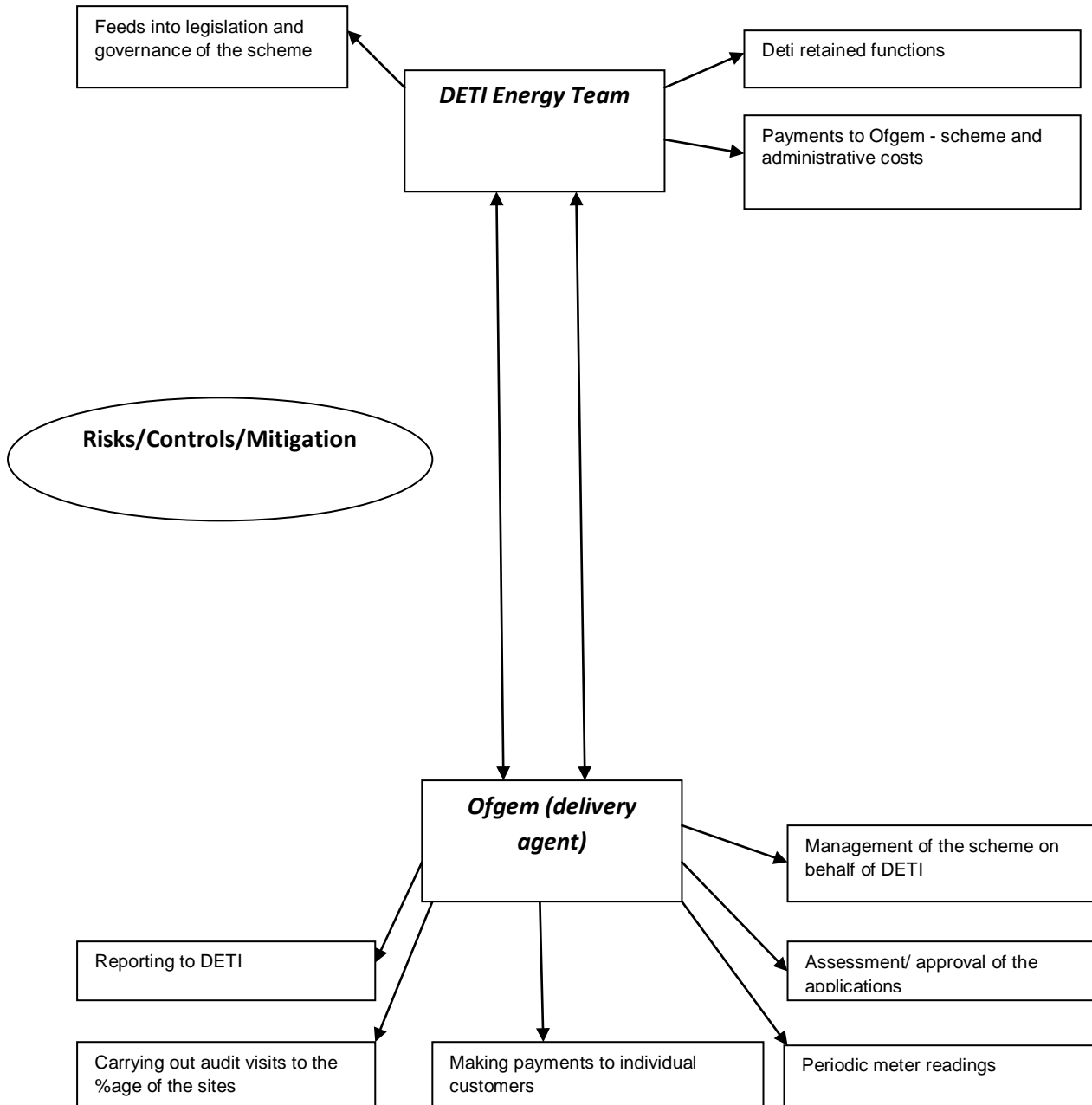
Risk identification and escalation (via departmental risk register)

Legislative monitoring function within the department

Handover arrangements when staff move on esp. staff change over large programmes

Part 2 of the review

Scheme management (Ofgem – delivery agent)



Operational risks –

Ofgem – how DETI are getting assurances the scheme is managed well by the agent

DETI – payments to Ofgem (controls in place)

Strategic risks

DETI – long term financing of the scheme; scheme governance arrangements; amendments to legislation (consultation with DECC and timeliness) etc.

Non domestic RHI Timeline

	Date and Event	Detail	IAS note/comment
	Mar 12 Response from Ofgem to DETI casework Committee comments and queries.	Agency Services agreement (ASA) is proposed to be used as format of agreement with DETI. (it has been used before between Ofgem and DETI when administering NIRO and NI REGO environmental schemes. Ofgem also recommended that DETI hold a £1mil in legal contingency.	Is the £1mil contingency fund held and budgeted for? Have the department agreed to this recommendation?
	Oct 12 DSO comments on the proposed agreement received	DSO commented on certain paragraphs of the proposed agreement between DETI and Ofgem.	Have the comments been incorporated into the finalised agreement?
	Oct 12 Letter from Ofgem re increase in the costs for 2012/13	Details reasons why the costs of the scheme have increased and proposes to launch the scheme from Nov 12.	
	1 st Nov 12 Feasibility Study by Ofgem updated	Feasibility Study updated to reflect changes due to the scheme being delayed. Changes in admin costs also presented. This feasibility study was based on the assumption that the scheme will launch on 1 st Nov 2012.	Was this the date of the official launch of the scheme? If launched later were there more changes in costings?
	Nov – Dec 12 Involvement of IAS	IAS was involved providing advice over vouching requirements (receipt of bank statements from Ofgem to verify that the payments by organisations to the recipients had actually been made and etc. <i>Note</i> Ofgem agreed to provide these); right for audit to access Ofgem’s financial information and information they keep on grant recipients – IAS pressing that this is built into contract; IAS also expressed the necessity for the department to view internal audit reports and ask for specific reviews or separate controls related to NI scheme to be added to the scope of the internal audit	Is Ofgem considered an EDO by DETI? Any EDO specific controls? It can be seen from exchange of correspondence that Ofgem are not willing to agree to give DETI of NIAO the right to enter their premises and carry out reviews of the Ofgem systems and information. Ofgem also was not agreeing to allow DETI to have any input to the TOR’s of the internal audit reviews

	Date and Event	Detail	IAS note/comment
		<p>reviews (for e.g. if there was an allegation of fraud etc.). Ofgem is identified as an EDO by the HIA and certain sponsor control requirements in relation to it.</p> <p>DETI staff involved: Energy – Fiona Hepper, Joanne McCutcheon, Peter Hutchinson; Finance – Trevor Cooper, Elaine Dolan, Mark Cardwell.</p>	<p>(Deloitte – internal auditor of Ofgem). It was considered not unreasonable for DETI to pay Deloitte for additional audit coverage should it be deemed necessary.</p>
	<p>19 Dec 12 Advice from F Hepper to TMT on budgetary issues re NIRHI</p>	<p>Sent to D Sterling, D Thompson and C Lewis an update on the position with the agreement between Ofgem and DETI on the delivery of the NIRHI scheme.</p> <p>This notes that the development and operating costs have risen from the level initially planned by approx £50k due to the delays in launching the scheme (planned for April-June 12) resulting from the delays caused by securing state aid and assembly approvals.</p> <p>Also includes details of how that NI expenditure on the scheme is forecasted for the 2012-2015 period.</p>	
	<p>21 Dec 12 Update from F Hepper to the RHI Committee members (T Cooper, S Murphy) on scheme administrative costs</p>	<p>Similar information to the Noxx above provided explaining that these figures are forecasted costs which would only be paid on the basis of the actual expenditure.</p>	
	<p>21 Dec 12 NIRHI scheme baseline scope from Ofgem</p>	<p>Update to the feasibility study incorporating amendment to the operational costs (reduced from £759,844 to £730,084) and development costs remained the same as per 1st Nov version.</p> <p>Para 5.19 also enhanced to explain how the periodic payments to customers will be made and what evidence Gema will produce to DETI</p>	
	<p>21 Dec 12 Arrangements document signed by DETI and Ofgem</p>	<p>This is the main agreement document between the two parties setting specific roles and responsibilities.</p>	

	Date and Event	Detail	IAS note/comment
	12 Dec 14 Arrangements document signed by DETI and Ofgem	Reference to Domestic RHI regulations (NI) 2014 was included at paragraph 1.2	What else has been changed since the last version was signed?
	9 th Feb 2015 Data sharing protocol signed between DETI and Ofgem	This protocol sets out what information will be shared by Ofgem with DETI including frequency of the information shared (Annex A). It also details the information that DETI is prepared to share with Ofgem (Annex B). Details such as names and addresses incl. planned use of heat, technology type, total installed capacity, etc.	To check – applicants estimated hours of operation each week Why annex B of the data sharing protocol includes Ofgem requesting to see domestic RHI data.
	1 Dec 15 Arrangements document signed between DETI and Ofgem	Reference to RHI Schemes (Amendment) regulations (NI) 2015 was added at paragraph 1.2.	Any other change?
	2 Dec 15 DAC paper on issues with RHI schemes produced by Energy		
	21 Dec 15 DFP response to DETI re retrospective budgetary approval	Refusal to grant retrospective funding	

