

From: [Wightman, Stuart](#)
To: [Woods, Michael \(DETI\)](#)
Cc: [Mills, John \(DETI\)](#); [Hughes, Seamus](#); [Cardwell, Mark](#); [Saunders, David](#); [Bagdonaite, Dovile](#)
Subject: RE: Audit review of RHI
Date: 09 March 2016 09:25:33

Michael

Your initial audit findings are with John. As you will appreciate, he's also been dealing with NIRO closure so hasn't had a chance yet to respond. I'll try to get him to respond today. I hope to run through the governance question with Seamus this morning. This won't take long as it is clear that very few of the governance proposals have been implemented. But just to clarify, what is the basis for the governance questions – is it the original business case, Ofgem's Annex on Fraud Prevention (which we only received in July 15) or both?

Stuart

From: Woods, Michael (DETI)
Sent: 09 March 2016 09:20
To: Wightman, Stuart
Cc: Bagdonaite, Dovile; Cardwell, Mark; Saunders, David; Mills, John (DETI); Hughes, Seamus; Stewart, Chris (DETI)
Subject: Audit review of RHI

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Can you give me an update on when you are likely to respond to the Initial set of audit findings we have sent you on RHI and also on the additional questions on governance. The initial deadline for response was Friday 4th March 2016. I know that your team is very busy at the moment but i need to move this review forward to conclusion and would be grateful if you could let me know when you will be in a position to respond. In the interim we are moving on to look at the Domestic RHI

Michael woods
DETI IAS
ext 29892

From: Bagdonaite, Dovile
To: [Wightman, Stuart](#)
Cc: [Mills, John \(DETI\)](#); [Hughes, Seamus](#); [Cardwell, Mark](#); [Saunders, David](#); [Woods, Michael \(DETI\)](#)
Subject: RE: Audit review of RHI
Date: 09 March 2016 09:55:00
Attachments: [Governance and Relationship with Ofgem.DOCX](#)

Stuart

I've updated the paper to include the dates to the documents we refer to.

Hope this helps.

Dovile

From: Woods, Michael (DETI)
Sent: 09 March 2016 09:41
To: Wightman, Stuart
Cc: Mills, John (DETI); Hughes, Seamus; Cardwell, Mark; Saunders, David; Bagdonaite, Dovile
Subject: RE: Audit review of RHI

Stuart

Thanks, i appreciate that there are a lot of competing demands at the moment, Dovile will resend the governance questions and indicate which document we are referring to

Michael

From: Wightman, Stuart
Sent: 09 March 2016 09:26
To: Woods, Michael (DETI)
Cc: Mills, John (DETI); Hughes, Seamus; Cardwell, Mark; Saunders, David; Bagdonaite, Dovile
Subject: RE: Audit review of RHI

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Objective 3 Ofgem / DETI roles, responsibilities and processes
Scheme Governance Arrangements

	1. DAC & Business Case/Economic Appraisal for appointment of Ofgem – 2012
	<p>One risk has been identified at this stage – Ofgem may fail to deliver either at the development phase or at operation stage.</p> <p>This risk was considered to be low likelihood as Ofgem has good track record in delivering other Energy schemes.</p> <p>The risk will be managed through an ongoing performance monitoring. Administration board will be set up which will meet on monthly cycle and will be supplemented with regular contact between DETI project team and Ofgem project management</p>
	Q How was this risk monitored and managed? What was the mechanism employed?
	<p>Proposed monitoring of the outsourced relationship as per Economic Appraisal</p> <ul style="list-style-type: none"> - Clearly stated expected outputs - Targets and costs and - Evaluation of the operational part of the contract will be at the end of the first year
	Q What are the expected outputs which have been agreed by management? How are the targets agreed monitored and what is the cost management mechanism? Is there any documented evidence that these have been agreed and distributed among relevant staff? What is the monitoring of the overall project as per Economic Appraisal?
	2. Ofgem Responsibilities in the NIRHI – Ofgem Feasibility Study – 1th November 12
	Ofgem has an overarching scheme management coordination role as administrator of the NIRHI
	<p>Ofgem has direct lead responsibility for</p> <ul style="list-style-type: none"> - accreditation of generators - development and operation of the IT system - making payments to generators - auditing and assurance of all RHI systems and processes - enforcement of performance standards and reporting - ability to outsource functions (such as onsite auditing)
	Ofgem is responsible for providing DETI with all necessary information around suspected instances of non compliance
	Generator Fraud. Ofgem will execute any decision taken by DETI in relation to enforcement if they are directed to do so.
	Ofgem proposed to retain the power to put on hold any generator or installation with which they have genuine concerns.
	IAS note Management advised that there has not been any instances of fraud notified by Ofgem to date.

	3. DETI Role in NIRHI – Ofgem Feasibility Study – 1st November 2012
	Generator Fraud. DETI retains formal enforcement powers under the scheme
	DETI retains all legal risks surrounding the scheme.
	4. Key scheme administration features as proposed by Ofgem – Ofgem Feasibility Study, 1st November 2012
	<p>Accreditation of generators greater than 45kW</p> <ul style="list-style-type: none"> - central accreditation and registration system - all necessary information to determine eligibility will be assessed (registration and certification details, metering, biomass sampling etc.) - most of the above will be done via online portal but for large complex sites and technologies a more hands on approach in verifying details will be used.
	<p>Accreditation of generators less than 45kW</p> <ul style="list-style-type: none"> - use of third party certification - MCS will play a central role in certifying the installations - The installer of generator will contact Ofgem to register - Web based portal will be used for the accreditation and capture of the certification details. - Back up phone contact function to deal with queries from generators
	<p>Central register</p> <ul style="list-style-type: none"> - Central data repository - Accredited generators are entered into the register - Register will be used to verify eligibility, to ensure that accurate payments are made using the appropriate tariffs and to minimise potential for abuse - Register will include details of the site, technology and ownership to enable to unambiguously identify the generator - It will capture metering and sampling details
	<p>Contract management</p> <ul style="list-style-type: none"> - Detailed and technical accreditation queries will be forwarded to the generator enquiries team in the RHI operational team
	<p>CRM</p> <ul style="list-style-type: none"> - Software system to manage contact function with the generators - Used to record queries and complaints - Access allowed to some information for call handlers - Function to send out targeted material such as reminders that declarations are due and tariff rate announcements.
	<p>Periodic information capture</p> <ul style="list-style-type: none"> - Meter readings, sampling information or periodic information capture. - Will be done through the web portal mainly but generators may choose to call or post the information which is logged by the administrator onto the central register for payments and compliance checks
	<p>Calculation of payments</p> <ul style="list-style-type: none"> - Information collected via accreditation process will be used by the central register to calculate payments based on tariff rates (at the time of accreditation) for the lifetime of the scheme - Metering and sampling information will also form part of the calculation using the tariff rates matrix loaded onto the system
	Payments processing

	<ul style="list-style-type: none"> - Using SUN, Ofgem internal payments processing system
	<p>Fraud prevention</p> <ul style="list-style-type: none"> - Ofgem responsible for scheme auditing and compliance <p>Small scale generator fraud</p> <ul style="list-style-type: none"> - Assurance provided by MCS at installation and via on-going maintenance checks <p>Use of central register for fraud prevention</p> <ul style="list-style-type: none"> - Checks at accreditation to avoid duplicate accounts - Verification of MCS certification - Trend analysis - Checks that the meter readings are consistent with the generation capacity for the type of technology and installation size - Checking the consistency over time of meter readings (e.g. checks that generation isn't double last period's generation or that it isn't exactly the same as last period's) - Registrations and accounts audited regularly on a sampled basis - Fraud audit of the systems - Random physical verification of installations
	<p>Audit and assurance</p> <ul style="list-style-type: none"> - The NIRHI and all of the organisations, systems and processes, which form part of it, will be subject to audit to ascertain the validity and reliability of information and to provide an assessment of relevant internal controls. - The goal of audit will be to express an opinion on each of the system components based on work done on a test basis. - The audit will be risk based with areas of greatest risk subject to greatest testing, to provide reasonable assurance that the RHI payments are free of error. - The onsite audit function will be outsourced to protect the scheme against generator fraud.
	<p>Q Has DETI Energy requested and received any of the assurances from Ofgem to satisfy themselves over the operation of Ofgem's internal controls? Has DETI requested that NIRHI specific systems are included in Ofgem's internal audit programme? Have DETI received copies of relevant internal audit reports/ assurance statements from accounting officers in Ofgem? Has DETI been shared with Ofgem's risk management strategy in relation to operation of the NIRHI scheme?</p>
	<p>Reporting</p> <ul style="list-style-type: none"> - Ofgem will make regular public reports on NIRHI - Additional reporting will be provided internally to DETI in accordance with their needs and the performance of the scheme functions. <p>Reports Ofgem provide DECC</p> <ul style="list-style-type: none"> - Accreditation report (statistics around accreditation process to identify adjustments needed in the systems and to track the applications submitted) - DECC Extract Report – provide DECC with statistical data they want to be built into the system for their own research and reporting purposes. - KPI management report – internal reporting on performance against targets for reviewing applications and granting approvals - Payment forecast report – forecast for payments a month in advance. - Public reporting
	<p>Q Has DETI received/requested for any additional NIRHI specific reports?</p>

	Are the reports such as Ofgem's described DECC reports regularly presented to DETI?
	Project governance: <ul style="list-style-type: none"> - Joint NIRHI administration board (top level meeting monthly) - RHI implementation board (operational meeting fortnightly)
	Q Do these meetings regularly take place? What is discussed in these meetings? Are any of them documented and results escalated to relevant senior staff?
	5. Payment of operational/admin costs – Ofgem Feasibility Study – 1st November 2012
	Gema invoice DETI for costs incurred to date on a monthly basis for the operational costs incurred in the immediately preceding calendar month
	DETI will pay Gema within 30 days of the date of the invoice
	6. Drawdown of funds. Incentive payments – Ofgem Feasibility Study – 1st November 2012
	Monthly returns of receipts and payments into the special bank account including bank reconciliations will be done by Gema
	A request for top up of bank balance will be made monthly by Gema to DETI if required. The request will be provided no later than 5 working days prior to the beginning of the calendar month
	DETI will transfer the money no later than by the 27 th of the calendar month.
	Gema will not use the funds transferred to the account other than for the purpose of making periodic payments.
	7. Agency Services Agreement – 21st December 2012
	Ofgem will administrate the scheme on behalf of DETI. Conferred and deferred functions agreed between the partners. DETI retains enforcement function, function to ensure that no other public grants have been received by the installations applying for RHI or that these have been repaid. (cf. agreement and regulation references). DETI was given the right to audit as described in Annex. Clear that DETI retains all the risk for the success of the scheme.
	8. Agency Services Agreement (Annex) – 21st December 2012
	1. DETI will be immediately notified if any financial irregularity (fraud, theft or other impropriety, mismanagement, or use of funds for purposes other than that approved) in relation to NIRHI is suspected.
	2. Ofgem will communicate with DETI regarding the ToR for audit activity undertaken by both Deloitte and Ricardo AEA
	3. Ofgem will endeavour to ensure that DETI concerns are adequately addressed
	4. Upon completion of the audits Ofgem will share outcomes where these relate to NIRHI.
	5. Ofgem will provide any records, information, or explanations which may reasonably be required to enable DETI to follow scheme payments, including information relating to accredited installations, calculation of payments and transfer of funds from Ofgem to the installer.
	6. Ofgem will provide DETI or the NIAO with access rights relating to the payments made to accredited installations.

	<p>Q Has DETI ever requested to exercise these rights and received information? Has any following up of the payments been carried out by management? Sample tests carried out?</p> <p>In regard to any information that DETI actually does receive from Ofgem, how, does DETI use this information to discharge its' responsibilities to oversee and manage the NI scheme?</p>
9. Addendum to Ofgem Feasibility Study – 21st December 2012	
	<p>Q Independent risk assessment of the NIRHI scheme was deferred by Ofgem? Has it been carried out since?</p>
	<p>Q Ofgem proposed to discuss and agree appropriate KPI's with DETI (pg 24 feasibility study). Had this been done? What is DETI's involvement in setting/agreeing NIRHI specific KPI's.</p>
	<p>Ofgems proposed internal RHI performance measures Dec 12:</p> <ol style="list-style-type: none"> 7. 90% of all enquiries answered within 10 working days 8. Follow up outstanding issues or forward them to the next level of internal review – 90% within 10 working days 9. 95% of payments paid within 30 working days of quarterly periodic data submission 10. On-line application system available for a minimum 99% of the supported business hours.
	<p>Q Has DETI received any of this information from Ofgem specifically relating to performance of NIRHI scheme?</p>
	<p>Ofgem RHI operations team check all applications to ensure installations meet all the criteria and stratify them according to complexity as either 'standard' or 'intense'. More stringent checks are performed on intense applications.</p>
	<p>IAS note In relation to identification of risks to the NIRHI project Ofgem only lists risks that would impact them but not the NIRHI scheme or DETI.</p>
	<p>Admin costs calculated:</p> <p>DETI costs= Total RHI operating costs * value of NI tariff payments / value of the total (NI+GB) tariff payments.</p>
	<p>Q Has DETI management been making sure that the admin costs paid were accurately presented as per formula agreed? Have any assurances been received from Ofgem accounting officers in relation to regularity of the figures presented?</p>
11. DETI Business Case for NIRHI – original business case for NIRHI 2012	
	<p>The risk of failure in administration of RHI was identified as part of the risks to the scheme identified in the business case. In particular – delays with applications, accreditations and payments leading to customers complaining and how it will be mitigated.</p>
	<p>Q Other risks to administration were not assessed such as the risk that the payments are not regular, risk to IT and data security etc. Why?</p>
12. Change Control Document from Ofgem – proposed change in calculation of administrative costs – October 2014	
	<p>Proposed to change the method the cost is calculated - 3% of total operating costs less</p>

	GB specific costs.
	Q Has any evaluation been carried out by DETI to determine the impact of this change? Any assessment done on the actual difference in the cost after the change in comparison to the earlier method?
13. Feasibility study for phase 2 of the RHI – July 2015	
	Q It was issued by Ofgem in July 2015. Has DETI paid for it? How much? Has it been approved and is it currently in operation? Stage 1 currently in operation?
	The document refers to Fraud and Compliance (page 26) and Appendix 3 (page 37) refers to Fraud Prevention Strategy. Q Has DETI been issued with one for the phase 1 of the scheme (cf. the document refers to the Strategy updated in Aug 12 to include NIRHI)? Has DETI been consulted and were able to input to it?
14. Fraud prevention Strategy - Appendix 3 – July 2015	
	Definition of fraud: 4.3 (page 37) For the RHI, examples of fraud would include falsifying meter readings/ periodic data submissions, submitting false documentation in support of an RHI application, submitting applications for bogus, non-existent installations or an Ofgem member of staff diverting RHI payments to their own bank account.
	RHI specific risk threats (page 39)
	1. Scheme may be targeted by organised criminals/money launderers. Prevention – work with serious crime agency; check participant’s details against lists of known fraudulent identities and fraudulently obtained genuine identity
	2. The risk of participants providing false metering and periodic data information in order to increase the level of RHI payments. Prevention – Independent Report on Metering Arrangements (IRMA) for multiple installations larger than 45 kW. Exceptions report signalling generation of heat above capacity or spikes; photographic evidence of opening meter reading; uploading of meter photographs annually from March 14.
	3. The risk that participants may be purposefully generate unwanted heat purely to claim RHI support payments, which is in breach of the RHI regulations. Prevention - RHI IT system capable to identify when the declared capacity of a new installation is inconsistent with the capacity of the one that it has replaced; checking metering; tiered tariffs for biomass reduce the incentive to purposefully generate then waste heat.
	4. The risk that an Ofgem staff member fraudulently manipulates the RHI IT system to divert payments into other bank accounts or otherwise misuses confidential personal data held on the system. Prevention – segregation of duties; 3 rd party provider involved in carrying out Authorised Signatory Identity and bank account verification for all new applications; password

	controls; physical controls over the physical information containing bank account details; payments are only made to accounts where the name of the owner matches bank account number; all requests for bank account changes are processed by the Fraud and Compliance team who contacts the Authorised Signatory before any change is made.
	Other: Creation of Fraud Management Group and Fraud & Audit Managers Forum; mandatory fraud awareness training to staff; development of dedicated website; 10% delegated authority sample checks of all periodic data submissions; 10% delegated authority sample checks of all approved payments; permanent staff at Periodic Data Submission account manager's positions
	Q Was DETI offered an opportunity to have presence in the above, or receive minutes/action points for their information? Does DETI receive copies of Ofgem's internal audit reviews or ask for NIRHI specific internal audit reviews?
	5. The risk of bribery or corruption of Ofgem's staff which may lead them to collude with the participant using their knowledge to set up new accounts or circumventing inbuilt controls. Prevention – staff training; segregation of duties and suspicious item matches; sample check; whistleblowing policy
	6. Participants may generate heat for eligible purposes but which do not meet the spirit of the RHI Regulations (eg heating of empty buildings etc) or may waste heat in a compliant manner by using heat in a non-energy efficient way. Prevention – RHI regulations stipulate what constitutes eligible heat; Ofgem ask to for evidence that the heat is generated for eligible purposes; tiered tariffs for biomass reduce the incentive to purposefully generate then waste heat
	7. Oversizing of boilers to ensure high proportion of heat is generated at a higher tariff rate; undersizing of boilers/ installing multiple separate boilers in order to maximise the applicable tariff rates. Prevention – no remedy available. Regulatory amendments needed. Q States that regulatory amendments are being considered by DECC, what about NI?
	Q In light of all the above risks described, what was DETI's strategy to ensure that these risks are appropriately managed by Ofgem and that the NIRHI scheme is sufficiently safeguarded against scheme gaming risks?