

**From:** [Clydesdale, Alison](#)  
**To:** [McCormick, Andrew \(DFE\)](#)  
**Cc:** [Marten, Lucy](#); [Wightman, Stuart](#); [Woods, Michael \(DfE\)](#); [McCann, Brendan](#)  
**Subject:** FW: PwC review and PAC [OFFICIAL ]  
**Date:** 23 September 2016 12:38:27  
**Attachments:** [image002.png](#)  
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[Interim Report - extract - Process and Controls DRAFT.PDF](#)

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Andrew

Ahead of your call with Chris Poulton later today see below from Ofgem, following my call with them yesterday evening. I suspect that Chris Poulton will want to cover much of this in the call with you.

The readout of my call with Gareth John focused around Ofgem's concerns around the need to provide balance. The concerns he highlighted to me are.

- (i) Ofgem have a concern that PWC have made assumptions on what they have seen and not looked fully at the process – Ofgem maintain that they are not being given sufficient time to provide enough evidence.
- (ii) Ofgem feel there is a reluctance on the part of PWC to change their assumptions/ conclusions even when more evidence is provided.
- (iii) A particular issue raised was that Ofgem asked for sight of the methodology used to classify things as P1 P2 etc. They were not provided with that methodology – instead PWC said the methodology was based on their professional judgement.
- (iv) Ofgem have a concern around the wording of recommendations – e.g not defining what proportionate actually means.
- (v) A general concern that the PWC focus is on making statements based on assumptions not a fully examined evidential end to end process and a tendency to say what is wrong but not wanting to recommend what would be right.

Ofgem have asked for sight of the final report today as well if possible.

Happy to discuss. On x 29428 today.

Alison

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**From:** Gareth John [mailto:[Gareth.John@ofgem.gov.uk](mailto:Gareth.John@ofgem.gov.uk)]  
**Sent:** 23 September 2016 11:41  
**To:** Clydesdale, Alison  
**Subject:** PwC review and PAC [OFFICIAL ]

Alison,

As discussed we have a few concerns regarding approach to the review ensuring the findings are balanced and want to get a clear understanding of what is being shared with PAC/ is expected to enter the public domain in terms of publishing the report – noting that we have yet to see a draft of the full report that the process and controls extract is part of. This is important for us to review and assess the full context and I appreciate you are looking to share this with us as soon as it is available.

We are committed to continuous improvement and independent assurance/scrutiny of our processes and system can be invaluable in identifying where improvements are required. PwC's draft report has highlighted a number of areas where we intend to take action to further strengthen our systems and controls. However, as we have discussed, there are a number of findings which do not appear to take account of the evidence and which we would therefore view are not factually accurate.

Hopefully this background will enable Andrew and Chris to focus on any key points in terms of their dialogue.

I've highlighted some of the remaining concerns below but note that following further dialogue and exchanges with PwC yesterday we have just received at 10am this morning a revised version of the draft extract relating to the NI Scheme Process and Controls. This revised report does address some of the points we have fed back to ensure the report findings are based on attained facts and is balanced and proportionate. I have attached the report for your reference

- As highlighted above following dialogue with Chris Poulton and Andrew McCormick we were expecting to get early site of a draft of the full report and have reasonable time to review this and respond with any comments ahead of the report being released to PAC. I appreciate this is Work in Progress but it does now appear we will have limited time to review and provide comments ahead of it being sent to PAC.
- It does appear from the latest draft and following a week of dialogue with PwC some of our concerns have been addressed, however I have concerns that in a number of instances PwC have not provided evidence and full detail in order for us to validate the findings which has made it difficult to confirm the facts and accept findings.
- We have been asked for a lot of follow on evidence where we have challenged the finding in terms of being factual, balanced and proportionate. We have played this back several times but this information has not always been included for balance. For example:
  - section 4.11 pre accredited audits the report says we note there has been limited use of pre accreditation audits . We have fed back to PwC that of the 26 audits performed in 2015/16 , 10 were in fact pre accreditation audits. This has not been capture in section 4.11 and therefore as it stands the reflection on process and controls in realtion to this is misleading.
  - 4.29 does not include the numbers of audits that have taken place so far this year or the number planned for the whole year.
  - 4.30 is inaccurate, the audit strategy is an central part of DfE's annual discussions with Ofgem as part of the Change Control Process

- 4.31 should be clear that we are required to administer the scheme in line with the regs and therefore the primary purpose of our site audits is to identify non compliance with the scheme's rules – it would be inappropriate for us to discuss behaviours in the reports where they are in line with the regulations. DfE are aware of issues such as use of multiple small boilers and wood chip drying, and we have regularly discussed these over the lifetime of the scheme.
  - 4.34: we have provided evidence of our process and screenshots regarding post code identifiers
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- The whole process of information exchange on evidence is of concern in terms of PwC's overall approach. Where we have asked for evidence to support the findings we have often not been provided with the detail to support it . For example a number of findings as expected point to what has been reported from the site visits, however when we have asked for further clarity and detail to enable us to validate we have not received this. We have yet to receive any of the rumbold site inspection report to enable us to do this. So far we have only received limited information / themes from these site visits.
  - We have pointed out that some information in the report is sensitive in terms of the way we approach compliance and some of the patterns emerging . We have fed back a concern that if this information gets into the public domain there is a risk that the scheme will be exposed to potential mis use and ability for participants to change behaviours and achieve higher payments than they would under normal running.
  - We note that this work was carried out at considerable pace, but as we have stated previously, we do feel that some of these issues could have been resolved if PwC has visited our operational office in Glasgow so that they could take a view on our end to end accreditation processes. We remain happy to host such a visit.

We remain committed to supporting this piece of work to its completion and are very happy to discuss further.

Regards  
Gareth

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