

**To:** Keith Avis[Keith.Avis@ofgem.gov.uk]  
**Cc:** Mary Smith[Mary.Smith@ofgem.gov.uk]  
**From:** Matthew Harnack  
**Sent:** 2012-12-01T19:09:59Z  
**Importance:** Normal  
**Subject:** RE: NIRHI: Monday Telephone Conversation - Paul Heseltine view on Audit and short supporting brief  
**Received:** 2012-12-01T19:10:01Z

Thanks for the information Keith. It looks like we don't have a magic solution to this.

Two things...

I would like you or Mary to join the discussion that I have with Fiona. No doubt she will have Joanne with her, and probably one or two others as well (she has had every other time I speak with her). I will send through a meeting request once I line up the call.

Also, I will not be able to ask Fiona whether she wants us to implement the IT changes at the end of January or delay until the end of March, until I can tell her how much each option will cost. If you haven't already done so can you please forecast the additional cost of processing manually for February and March (recognising that volumes may be lower than we previously forecast, and also recognising that it is unlikely that we will need to make any payments before the end of March, though we *may* need to accept generation data manually during March *if* anyone applies for accreditation during December). If you have already sent this through to me then I'm sorry I've missed it, and could you resend it please.

Thanks

Matthew

---

**From:** Keith Avis  
**Sent:** 30 November 2012 17:10  
**To:** Matthew Harnack  
**Cc:** Mary Smith  
**Subject:** NIRHI: Monday Telephone Conversation - Paul Heseltine view on Audit and short supporting brief

Matthew cc: Mary

As discussed yesterday, I have spoken to Paul Heseltine on the question of audit arrangements between Government Departments. HM Treasury issue internal audit rules for Government Departments entitled Government Internal Audit Standards. Paul has had a look and there doesn't appear to be any specific reference to guidance relating to one department auditing another. The only document he did find relates to the benefits of co-operation between internal and external auditors. The guidance highlights the benefits of co-operation such as:

- more effective audit based on a clearer understanding of respective audit roles and requirements
- a reduced audit burden resulting in less disruption
- a better informed dialogue on the risks facing the organisation leading to more effective focussing of audit effort and consequently to more useful advice to management
- better co-ordinated internal and external audit activity based on joint planning and communication of needs
- a better understanding by each group of auditors of the results arising from each other's work which may inform respective future work plans and programmes
- increased scope for use by both internal and external auditors of each others work

So the point does remain that we are not able to meet DETI's Audit Committee's request for detailed auditing. As you have mentioned we cannot share personal information and to undertake the collection of information to this degree would require additional resource on our part increasing costs.

Resolution of this issue does rest with DETI, we have made our position clear, it will be for Fiona to decide whether she is prepared to give direction to her Audit Committee that this level of Audit is not appropriate in this instance. I am not sure that we would be able to offer up anything more than our consistent offer of letting DETI have all the information that they need within the boundaries of what we are legally able to do.

If it helps, further supporting background for your conversation with Fiona is as follows:

#### **Relationship between ourselves and DETI**

- Remains the key sticking point and all other issues pretty much flow from this (e.g audit).
- DETI believe that they have legal support for their view that they have a customer/supplier relationship with us. Our legal steadfastly believe that the regs and admin arrangements set out that where DETI have asked us to administer the regulations we do this under our own governance.
- The only way to resolve this fully would be to start a formal legal exchange. This would be costly (DETI would have to pay our legal costs and their own legal costs) so this provides weight behind the argument of finding a working solution at policy team level. Joanne and I have endeavoured to do this, which is where we are with the latest drafts.

#### **LATEST UPDATES TO DOCUMENTATION**

Since providing DETI with drafts of the supporting three documents I have offered clarity to Joanne in a number of areas, on which she was content, and have made amendments to the text as follows:

##### Letter

- At DETI's request, only one small change made to say We will agree additional costs in advance with DETI.
- We have made clear that performance measure are internal which we decide are appropriate.

##### Admin Arrangements

- Only changes are to paras 6.4 and 8.3 covering data available to DETI on termination and ensuring that DETI are told when we share data with third parties. **[while we still have a difference of opinion on the question of data ownership, these points are intended to put us in a position where we can at least agree the Admin Arrangements. The wording has been cleared by legal.]**

Baseline Scope

- Have changed the wording in the Exec Summary at DETI's request to make clear the £5k increase in legal budget has been reallocated from another line item
- Have included wording around the risk of the GBRHI not taking place in January [***If it is possible to get a steer from Fiona on her preference here (e.g Manual without contingency or January automated using contingency) that would be really helpful***]
- Wording added (not at DETI's request) to make clear that for operational application handling costs we will review the percentage of applications against GBRHI and associated costs. [***DETI should be happy with this***]
- For dispute resolution we have made clear in new wording that the intention is for discussions to take place at a working level between DETI and NSD first before escalating to senior officials.

I hope this helps. The updated documents were sent to DETI this afternoon. I will leave printed copies on your desk on Monday morning. Of course, I am available on Monday morning to pick up on anything else as you need.

Keith

**Keith Avis**

Senior Manager

New Scheme Development

9 Millbank

London

SW1P 3GE

Tel: 020 7901 3077

[www.ofgem.gov.uk](http://www.ofgem.gov.uk)