

To: Mary Smith[Mary.Smith@ofgem.gov.uk]
From: Keith Avis
Sent: 2012-12-06T15:49:33Z
Importance: High
Subject: NIRHI: Audit - response to DETI
Received: 2012-12-06T15:49:33Z

Mary

On the basis of Morag's comments (below) I think the response to DETI, which should also include views on Peter's email yesterday, should be:

"Peter

Picking up on your emails of last night and this morning on audits, there are some points that we can make which will hopefully satisfy you Audit Committee.

Ofgem's internal process are designed to identify and address any instance of fraud. We have a fraud prevention strategy and the assurance reports undertaken by Deloitte ensure that we have adequately addressed fraud as part of our delivery mechanisms.

Deloitte reports do provide assurance on the efficiency and robustness of our own internal procedures and processes for individual schemes.

The Terms of Reference of each report is agreed before work starts, and is targeted to ensure that we will be in the best position to operate and deliver against our objectives. Through our ongoing contact with you we will be aware of any issues that you have at the time of drafting any ToR.

On the question of how often Deloitte would carry out such audits, we would anticipate that Deloitte would carry out audits once a year, with the potential for additional audits when new areas of work are added or any changes to the scheme are made.

We anticipate that NI payments would clearly be separated out in any RHI payment process report

To be consistent with our current procedures we would be willing to share a summary of any report and any responses to them.

I hope that this helps you move forward. There may be other points that need to be agreed between Matthew and Fiona tomorrow, but would be grateful if you could flag these to Mary and myself beforehand where you are able so that we can consider before the telephone call.

Keith

From: Morag Drummond
Sent: 06 December 2012 15:17
To: Keith Avis
Cc: Mary Smith; Jacqueline Balian
Subject: RE: NIRHI: Audit
Importance: High

Keith,
Responses below in green, hope this helps.
Morag

From: Keith Avis
Sent: 06 December 2012 10:33
To: Morag Drummond
Cc: Mary Smith
Subject: FW: NIRHI: Audit

Morag cc: Mary

Grateful for a view from you on the email received (below) from DETI. In particular, key points on which I would want a view are:

Would we be willing to share the scope of how Deloitte audit our internal RHI processes? That is not something we have shared with DECC in any detail. Sharing it would not be an issue with me however the decision would have to be made by, I think, Matthew (maybe with Legal input).

How often would Deloitte carry out such audits and what sort of information would be gathered and detailed in the report produced? The RHI is only a year old and we have not yet scoped out a future plan of ongoing audits. However I would expect that these may take place around once a year, probably with additional audits when new areas of work are to be added or significant changes are to be made. Assuming Deloitte would be auditing both GB and NI how would the NI payment processes be considered (a separate report or section in overall report)? I think we could be flexible on this and so could produce a separate NI report if required, although that would probably incur some slight additional cost from Deloitte.

Could report findings be shared with DETI for their own assurance purposes? So far with DECC we have only shared a summary of the recommendations and our responses to them. Again, sharing this would not be an issue with me however the decision would have to be made by, I think, Matthew (maybe with Legal input).

If you could let me have your thoughts I'd be grateful. As auditing is now the only remaining issue stopping us from signing off the Admin

Arrangements, if you could get back to me of the next couple of hours that would be great.

Thanks
Keith

From: Hutchinson, Peter [<mailto:Peter.Hutchinson@detini.gov.uk>]

Sent: 06 December 2012 10:03

To: Keith Avis

Cc: McCutcheon, Joanne; Mary Smith

Subject: RE: NIRHI: Audit

Keith,

Our Head of Internal Audit has considered the responses you kindly provided. However, they would like further detail on your own internal audit processes (through Deloitte) that would carry out assurance checks on your processes and procedures for the administration of the RHI and checks on the payments being made.

For our own assurance purposes we would be requiring information on the Deloitte audits of your RHI team, the processes, the payments etc. In regards to those audits, would you be willing to share the scope of how Deloitte audit your internal processes re RHI? How often would Deloitte carry out such audits and what sort of information would be gathered and detailed in the report produced? Assuming Deloitte would be auditing your entire RHI team (both GB and NI) how would the NI payment processes be considered (a separate report or section in overall report?) and could this be shared with us for our own assurance purposes?

Grateful if you would consider the questions above and provide some information on the role of Deloitte and how their audit function might be able to provide the necessary assurances for our own audit team.

Note that Fiona is out of the office today but I spoke to her last evening regards being available for a conversation with Matthew tomorrow before he goes on leave so outstanding issues and be considered and next steps agreed re signing the agreement. The current issues surrounding audit are somewhat out of our hands but we are continuing to liaise with Audit/Finance staff to move this issue forward.

Thanks in advance for your help.

Peter

Peter Hutchinson

Renewable Heat

Department of Enterprise, Trade & Investment

Netherleigh

Massey Avenue

Belfast, BT4 2JP

Tel: 028 9052 9532 (ext: 29532)

Textphone: 028 9052 9304

Web: www.detini.gov.uk

The new website for the European Sustainable Competitiveness Programme for NI is now available - visit www.eucompni.gov.uk



www.ni2012.com

From: Keith Avis [<mailto:Keith.Avis@ofgem.gov.uk>]

Sent: 03 December 2012 15:44

To: McCutcheon, Joanne

Cc: Hepper, Fiona; Matthew Harnack; Mary Smith

Subject: NIRHI: Audit

Joanne cc: As above

The answers to each of your questions are below. I should say that the number of audits carried out for NIRHI will be dictated by the percentage of scheme costs that DETI is paying, and hence by the value of tariff payments made in NI as a portion of total RHI payments. In other words, if DETI were paying for 3% of total scheme costs then that would mean that 3% of tariff payments were being made to NI installations, so for both of these reasons it would be appropriate to ensure that 3% of audits were conducted on NI based installations.

Also, while our current view is that we need to take the final decision on which installations to audit, we would be happy to commission additional audits beyond those that we would normally do should your audit team need these, although this will incur additional cost as it will fall outside the scope of this work and also beyond the number budgeted for.

A response to each of your questions is as follows:

Annotated by RHI Inquiry

Would you be willing to share the terms of reference/scope of the audit exercise?

Yes we would be willing to share the scope of the audit exercise with you.

Who currently conducts the exercise – is it AEA and/or Deloitte?

Ricardo-AEA carry out site audits/inspections of RHIGB installations.

How often is the exercise carried out and when is it next due?

Audits are being carried out on an ongoing basis. We are currently trialling audit selection on a 6-monthly basis. Most recently, we selected installations in October, covering the period until the end of March. We agreed with Ricardo-AEA that this was the preferred approach as it mitigates the impact of peaks and troughs being experienced over quarterly cycles. It also allows flexibility to accommodate issues such as accessibility in rural locations during Winter and availability of auditor/applicant in Summer. We do have the option to select installations for ad-hoc audits should there be an urgent need to audit an installation.

What sort of details are included in the report produced?

For the GB scheme, an example of the details provided are:

Paper-Based Investigation

ALL TECHNOLOGY CHECKS

- Plant Overview
- Input Fuel
- Metering Inspection
- Maintenance and Calibration

TECHNOLOGY SPECIFIC CHECKS

- Biogas
- Biomass Fuel Input checks
- Biomass within Municipal Solid Waste (MSW) Fuel Input Checks
- Biomethane
- Combined Heat and Power
- District Heating
- Geothermal
- Heat Pumps
- Solar Thermal

Plant Walkdown

ALL TECHNOLOGY CHECKS

- Generating Plant Inspection
- Plant Overview
- Metering Inspection

TECHNOLOGY SPECIFIC CHECKS

- Biogas
- Biomass
- Biomass within Municipal Solid Waste
- Biomethane
- CHP
- Heat Pump
- Solar

If the contract was extended to include NI installations – would a separate report/section specific to NI be able to be produced? And would this be shared with us?

We are currently scoping the delivery of NIRHI audits. However, the expectation is that all existing checks would be carried out, taking into account any differences between the RHIGB and NIRHI Guidance/Regulations. As such, separate reports would be produced for NIRHI installations. We would be prepared to share our audit reports with you.

What sample size is used for the exercise?

We use a sample that is based on a monetary unit sampling approach. Our sample size for 2012-13 is as follows:

| Installation Size | Audit Sample Size | Desktop Audits | Site Audits |
|-------------------------|-------------------|----------------|-------------|
| Small (<=45kWth) | 186 | 149 | 37 |
| Medium (46kWth > 1MWth) | 80 | 32 | 48 |

| | | | |
|----------------|----|---|----|
| Large (1MWth>) | 57 | 0 | 57 |
|----------------|----|---|----|

I hope that this is helpful to you and your Audit Committee. Of course, do give me a call if you wish to discuss any of this further.

Regards

Keith

Keith Avis

Senior Manager
New Scheme Development
9 Millbank
London
SW1P 3GE
Tel: 020 7901 3077
www.ofgem.gov.uk

From: McCutcheon, Joanne [<mailto:Joanne.McCutcheon@detini.gov.uk>]

Sent: 29 November 2012 12:31

To: Keith Avis

Cc: Hutchinson, Peter; Mary Smith; Hepper, Fiona

Subject: Audit

Keith

Having spoken to Audit colleagues I wonder could you provide some further details:-

- Would you be willing to share the terms of reference/scope of the audit exercise?
- Who currently conducts the exercise – is it AEA and/or Deloitte?
- How often is the exercise carried out and when is it next due?
- What sort of details are included in the report produced?
- If the contract was extended to include NI installations – would a separate report/section specific to NI be able to be produced? And would this be shared with us?
- What sample size is used for the exercise?

If you can provide this information I think it might be very helpful.

As regards the vouching of the development costs, I discussed this with audit colleagues too and they are to come back to me asap. Will let you know as soon as I hear.

Regards

Joanne

Joanne McCutcheon

Renewable Heat
Department of Enterprise, Trade & Investment
Netherleigh
Massey Avenue
Belfast, BT4 2JP
Tel: 028 9052 9425 (ext: 29425)
Textphone: 028 9052 9304
Web: www.detini.gov.uk

The new website for the European Sustainable Competitiveness Programme for NI is now available - visit www.eucompni.gov.uk



www.ni2012.com

Please consider the environment - do you really need to print this e-mail?

This message may be confidential, privileged or otherwise protected from disclosure. It does not represent the views or opinions of Ofgem unless expressly stated otherwise.

If you have received this message by mistake, please contact the sender and immediately delete the message from your