

Strategy for the audit of Renewable Heat Incentive (RHI) installations

This paper sets out the means by which Ofgem will fulfil its responsibility to audit accredited RHI installations to ensure compliance within the Renewable Heat Incentive Scheme. It is presented to the Implementation Board for information and any comments in advance of submission to Audit Committee

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1. Introduction

- 1.1 Ofgem is responsible for administering the Government's Renewable Heat Incentive scheme (RHI).
- 1.2 Ofgem's roles and responsibilities under the RHI scheme can be summarised as:
 - Administering the scheme, including application, accreditation, making payments and ensuring compliance;
 - Producing detailed guidance outlining how the scheme works and approach to ensuring compliance;
 - Implementing a risk-based approach to monitoring compliance;
 - Implementing a range of measures to ensure compliance, including inspections and imposing sanctions when required.
 - Collecting data to monitor effectiveness of the scheme; and
 - Referring cases of fraud for prosecution
- 1.3 Plants will be accredited for the RHI based on information and declarations/statements provided by their owners. Participants will be required to submit annual declarations confirming that they continue to fulfil RHI eligibility criteria and obligations.
- 1.4 RHI support payments are calculated by multiplying the appropriate tariff (depending on the technology and type and size of the installation) by the eligible heat use. The eligible heat use will be the actual metered amount and will be submitted to Ofgem by the participant on a monthly basis.
- 1.5 It is projected that approximately £860million will be paid out under the RHI scheme by 2020. With a scheme of this size it is important that measures are put in place to protect available funds from fraud and ensure that payments are only made to those that are entitled. An on-going cycle of RHI installation audits is a key tool in ensuring this.
- 1.6 The purpose of the RHI audit strategy is to ensure that Ofgem has in place a robust and fit for purpose audit regime to monitor participant compliance with RHI eligibility criteria and obligations, detect fraud and non-compliance and, also act as a deterrent to participants that might be tempted to break the rules of the scheme.

2. The Audit Approach

2.1 Inspections of RHI Installations is permissible under Regulation 53(1) of the Renewable Heat Incentive Regulations 2011¹ as follows:

The Authority may request entry at any reasonable hour to inspect an accredited RHI installation and its associated infrastructure to undertake any one or more of the following—

- (a) verify that the RHI accredited installation satisfies the eligibility criteria and ongoing obligations;
- (b) verify meter readings;
- (c) take samples and remove them from the premises for analysis;
- (d) take photographs, measurements or video or audio recordings;
- (e) ensure that there is no other contravention of these regulations

2.1. The overall objective of the audit process is outlined below:

- Check that participant information provided during accreditation is correct and that the installation is entitled to be accredited.
- Confirm on-going compliance with eligibility criterion and obligations.
- Check that meter reading/output volumes/fuel measurement data notified to Ofgem are correct and are such that the right amount of RHI support payments are being made.
- Check plausibility of eligible heat claims given capacity of installations.
- Detect fraud and/or non-compliance with RHI eligibility criteria and obligations, and where appropriate, make recommendations for prevention of future occurrences.

Selection of audit sample

2.3 RHI installations will be subject to audit both at the accreditation stage and throughout the duration of eligibility for incentive payments. In order to make best use of resources and be cost effective, the audit sample will consist of installations targeted due to:

- reasonable concerns raised by staff while processing accreditation applications or monthly output data;
- risk-based selection; and
- by random selection.

2.4 Table 1 shows some of the risk-based selection criteria and associated risks.

¹ Draft Renewable Heat Incentive Regulations 2011

	Selection criteria	Risk
1.	Potential size of RHI payments (determined by capacity of installation x number of hours it is used for): Large biomass used for 40hrs/wk – 500kW Large biomass used for 84hrs/wk – 250kW Heat pump used for 40hrs/wk – 500kW	Undetected non-compliance could lead to significantly large RHI payments being made for installations that do not meet eligibility criteria.
2.	Non-standard heat pumps	The manufacturer's COP rating may not be set correctly (and may affect eligibility).
2.	Installations that deliver heat by steam	RHI payments for steam installations are larger as energy contained in steam is greater than that contained in hot water.
3.	Data anomalies and exceptions: <ul style="list-style-type: none"> Declared heat output is inconsistent with the size of the installation Submitted meter readings are the same month on month or are rounded numbers. Submitted meter readings are regularly outside of the tolerance threshold Total installation capacity is slightly within tariff thresholds New installations that are replacing old ones and where the declared capacity of new equipment inconsistent with the previous equipment's capacity 	Participants may deliberately provide false information or place their meters incorrectly leading to higher RHI payments than would have normally been made.
4.	Installations with complex metering arrangements and/or schematic diagrams	The more complex the metering arrangements and/or schematic diagrams, the greater the risk of participants making errors when applying for accreditation. There is also a greater risk of not detecting fraud and non-compliance by operational staff.
5.	Biomass boilers	Participants may falsely declare that their installation is a stove with a back boiler when in fact it does not have a back boiler (which would render it ineligible for RHI).
6.	Participant identified as high risk following data-matching/joint working with law enforcement agencies	Risk of infiltration by organised crime gangs.

Table 1

2.4 We will seek the advice of Deloitte when determining the appropriate audit sample size that will enable us to make a reasonable decision on the level of participant compliance and effectiveness of anti fraud measures in place within the RHI.

Level of auditing required

2.5 Depending on the size and type of installation, there will be significant differences in the skill set and knowledge base required for audit. This is demonstrated in table 2:

	Experience required	Knowledge of Metering requirements	Installation capacity / complexity	Knowledge of eligible use
Small Hot Water	Basic	Basic	Low	Basic
Medium Hot Water	Competent	Competent	Medium	Competent
Large Hot Water	Competent	Competent	Medium	Competent
Steam	Experienced	Experienced	Complex	Competent

Table 2

2.6 Installations at the smaller scale will require minimal technical expertise. In order to achieve Value for Money and best use of resources, majority of audits at this level would be conducted as desk-based reviews. A typical desk-based review would involve telephone and/or written contact with the participant to:

- Ascertain whether information that has been provided for accreditation is correct and that the installation is entitled to be accredited (including requesting that relevant documentary evidence be submitted for review).
- Confirm installation details against MCS, installer (up to 45kWth) and manufacture records.
- Check plausibility of eligible heat claims given capacity of installations.
- Review schematic diagrams, check meter readings/output for consistency or any anomalies.

2.7 However, smaller scale installations that are identified due to reasonable concerns raised by staff while processing accreditation applications or monthly output data, or selected due to their risk category will be subject to site visits as part of Ofgem’s risk-based approach to detecting fraud and non-compliance.

2.8 Larger installations would be subject to site visits and the auditors conducting such visits would need a significantly higher level of technical expertise and experience (for very large installations and biomass installation in particular for example, a background in chemical or mechanical engineering, chemistry or combustion/fuel science and experience of working on biomass plants would be desirable). A typical large installation site visit audit would include:

- Ascertaining whether information that has been provided for accreditation is correct and that the installation is entitled to be accredited (including reviewing relevant documentary evidence)
- Ascertaining whether accurate and reliable fuel measurement data is being submitted to Ofgem (where applicable).
- checking plausibility of eligible heat claims given capacity of installations

- Confirming that metering arrangements, and meter readings/output volumes notified to Ofgem are correct and are such that the right amount of RHI support payments are being made quarterly.
 - Confirming metering arrangements, meter numbers, position, installation date calibration date, uncertainty etc
- 2.9 The lists above are not exhaustive and only serve to give an indication of the type of audits that will be required. A more detailed list of audit requirements will be included in the Audit Invitation To Tender (ITT) as part of the process for procuring audit services.

Audit time-frames

- 2.10 All accredited RHI installations will be subject to inspection throughout the duration of eligibility for RHI payments. Audits will be conducted throughout the year with new audit 'cycles' commencing each quarter.
- 2.11 As participants will be able to both apply and be accredited for RHI from September 2011, the first round of audits will commence in December 2011.

3. Procurement of specialist auditors

- 3.1. The RHI team (in conjunction with Corporate Procurement), will appoint independent technical auditors to conduct inspections of installations on its behalf². This will ensure that we have the right level of technical expertise available and is also more cost effective and less resource intensive than using in-house staff for this function.
- 3.2. Due to the wide variance in the level of skills, knowledge and technical expertise required to conduct audits depending on the size and type of installation, we realise that any one organisation may not be able to provide the appropriate level of resource across the board. Therefore, the contract to supply technical auditors will be tendered in three lots:
- Desk based audits – for smaller scale installations that do not require a site visit and require a lesser level of technical expertise/knowledge (as detailed in 2.6 above).
 - Site visit audits – for larger more complex installations where physical inspection is required. These audits will require a significant level of technical knowledge/expertise (as detailed in 2.8 above).
 - Large biomass installation site audits – these will require physical inspections and specific level of expertise and technical knowledge eg a background in chemical or mechanical engineering, chemistry or combustion/fuel science and experience of working on biomass plants.

² currently not included in draft Regulations

- 3.3 This approach has been discussed with the Corporate Procurement Team and has been endorsed by the RHI Procurement Review Group. In order to achieve the widest response and ensure the delivery of value for money, we will approach suppliers under Ofgem's Technical Consultancy and Economic & Financial Services Procurement Frameworks and also the Buying Solutions Procurement Framework.
- 3.4 The preferred contract option is for a 4-year call-off contract with a yearly option to extend.
- 3.5

Proposed timetable for the procurement RHI specialist Auditors	
Strategy signed off by RHI Implementation Board	March 2011
Audit Volumes agreed and Strategy presented at Audit Committee	May 2011
RHI Team draft Pre-Qualification Questionnaire and Invitation to Tender (questions/scoring)	July 2011
Pre-Qualification Assessment	August 2011
Issue Invitation to Tender	August 2011
Supplier Presentations	October 2011
Supplier selection and award of contract	November 2011

4. Securing Value for Money (VFM)

- 4.1 Due to constraints on Government resources and the continuing emphasis on cost effectiveness, it is important that Ofgem can demonstrate that the resources we are responsible for are being used appropriately.
- 4.2 In order to attribute a value to the deterrent effect of audits, we will assess the quantifiable value in terms of instances of non-compliance and fraud that are detected within the scheme and the value of potential RHI support payments that would otherwise have been made.

5. Next steps

- 5.1 This strategy will be reviewed by Deloitte, as auditors of Ofgem's internal processes, to give an opinion on its adequacy and effectiveness.
- 5.2 We will review this audit strategy annually to gain assurance that this document remains effective.
- 5.3 This strategy will be used to help write the Terms of Reference for the specialist auditors.

5. Conclusion

- 5.1 Ofgem are committed to putting in place a robust approach which will enable us to detect fraud and/or non-compliance as well as assessing the level of participant compliance with the RHI scheme. The outlined strategy for auditing RHI installations will contribute significantly to achieving this.