

RHI Audit Update for DECC Project Board and DECC / Ofgem Joint Action Plan

1. Introduction

This paper is aimed at updating DECC on the current position with both the site verification outcomes and initial findings from the full site audits.

It also makes a recommendation with regards to improving the quality of RHI applications received such that significantly less issues are found during audits.

2. Background – Site Verification Checks

57 site verification checks, which at the time of site selection represented over 25% of applications received, were carried out from January to April 2012 by AECOM. 55 out of 57 of these were undertaken at non accredited sites. Non compliances were found at around 80% of sites. The issues included;

- Meters not been installed according with manufacturers' guidance e.g. meter orientation incorrect, meter installed too close to a bend, meter installed in flow pipe when it should have been installed in return;
- Meter location means that ineligible heat losses from external pipework have been included in metered heat measurements;
- Schematic diagrams provided by applicants show considerably less detail than is required to accurately reflect the situation on site;
- Difficulty in determining the MID 2 accuracy class of meters and ineligible meters installed;
- Inconsistencies in the standard of Independent Metering Reports, some are considered accurate, however in many cases clear errors and omissions were identified.

A Lessons Learnt Report was produced by AECOM. The principal aim of the Lessons Learnt was to provide case studies, as learning points, on common errors. It also contained a number of suggested actions. These are currently being actioned or are under consideration.

3. Background – Full Site Audits

AEA are due to undertake 142 site audits in 2012/13. When selecting installations for audit, we take into account the audit sample size recommended by Deloitte, which was based on the monetary unit sampling method, materiality and application volumes (forecast as 1,896 in 2012/13). In addition, we follow criteria to ensure that installations are selected against key risk areas. These include:

- Installations close to the maximum eligibility threshold and tariff bands
- Potential size of RHI payments
- Periodic data submission anomalies

- Increases in capacity which are inconsistent with the previous installation
- Increases in installed capacity from the original application

We also select installations on the basis of suggestions from the RHI Operations Team regarding potential eligibility and compliance issues. Examples include potential fraud risks, independent metering report inaccuracies and uncertainty regarding the complexity of metering arrangements that necessitate a site visit.

From quarter 3 onwards we will also select sites where commissioning dates are during the notice period before any Interim Cost Control suspension period commences.

Nine audits were allocated for the first quarter (April to June). Site visits have now been completed and the results are being analysed. Early indications suggest that the **proportion of issues which will be uncovered via site audits is considerably less** than that found during the site verification checks, with only two non compliances found in the nine. This indicates that the proportion of issues being picked up during the full accreditation process may be higher than previously estimated.

41 sites have now been selected for the second quarter (July to September).

4. Differences between Site Verification Checks and Full Site Audits

The site verification checks programme, due to a shortage of accredited sites at the time of site selection, selected unaccredited installations (55 out of 57), some of which were at an early stage in the accreditation review process. This meant that auditors identified a high volume of issues that would have been raised and resolved during the accreditation review process.

The site audit programme mainly selects accredited sites and now only selects unaccredited installations for audit after the accreditation review has completed and when a detailed understanding has been gained of the installation.

The site audit programme will increasingly be looking at installations which have been developed with the benefit of clarity from the publication of the RHI Regulations and the Ofgem Guidance. This should be gradually beginning to improve quality.

5. Reducing Audit Issues – Review Audit Sample Size

Initial advice received from Ofgem's internal auditors, Deloitte, based on the very high level of issues uncovered by the site verification programme, was that our initial presumption regarding the effectiveness of our overall checks and controls may not have been realistic. Therefore they suggested additional assurance may be required via an increased audit sample size.

However they have now considered the early indications from the first quarter of nine full site audits which suggest that a considerably lower proportion of issues which will be uncovered. As a result now they have changed their advice to suggest the **audit sample size is maintained**, although kept under review as more audit outcome data becomes available.

It worth noting here that the objective of the audit programme should be to pick up errors and attempts at fraud. It cannot ever be a cost effective or efficient mechanism for improving the quality of installations and metering regimes.

47 accredited sites have now been visited or are planned to be visited in quarter 2. With a total of around 100 accredited sites in late June, at the time of quarter 2 audit sample selection, this gave an audit rate of around 47% for accredited sites. As a practical concern, with such a high percentage of audits it becomes difficult to increase the audit sample size and maintain a reasonable level of consistency with our audit selection criteria. This situation is exacerbated during the summer period when sites which carry out space heating (possibly around 20%) are not expected to be operating and so cannot sensibly be audited.

It should be noted that the benefit to auditing such a high percentage is that we are confident site audits are finding, and should continue to find, a very high proportion of the issues which exist in RHI installations.

6. Reducing Audit Issues - Ongoing Activity

In order to improve the quality of RHI applications, and thereby reduce the volume of issues found at audit, Ofgem are looking into continuing and expanding a programme of planned communications, stakeholder engagement and training activities all aimed at improving the level of understanding of the requirements of the RHI in the renewable heat industry and by RHI participants. This is expected to include the following activities;

- Working with third parties to publish a code of practice and training pack on metering installation in line with regulations and guidance. AECOM Lessons Learnt material will also be will be used to help create training materials;
- An Ofgem consultation to improve competence in independent metering reports;
- Publishing a joint letter to industry on the issues with RHI installations;
- Improvements to the Ofgem RHI website to improve the clarity and quantity of guidance available to applicants;
- Continuing to speak regularly at outside events;
- Continuing to engage regularly with the Ofgem Industry Advisory Group.

Comment [MD1]: Rob, is it 46 now with the reduction from 42 to 41?

Comment [MD2]: As above, may be 46

7. Reducing Audit Issues – Additions to Accreditation Process

Additions to the accreditation process could be made such that more of the errors found at audit are picked up during the process. An indicative impact of adding additional checks could be as follows, and addresses two aspects:

- 1) The suitability of the meter / integrator for the heat transfer medium
- 2) The correct installation of the meter according to manufacturer’s instructions (e.g. attitude of the flow meter)

Additional metering checks	FTE required 2012-13	FTE required 2013-14	FTE required 2014-15	FTE required 2015-16
1) Transfer medium	0	0.4	0.9	1.1
2) Installation	0	0.6	1.3	1.7
3) resolving issues from 1) and 2)	0	0.3	0.7	0.9

The following assumptions are required;

- That these checks come into force in line with any “Regulation fixes” for metering and that these additional checks only take effect from 2013/14. This reduces the incidence of an IMR being required from ca. 60% to ca 30% of installations;
- The IMR is enhanced to make explicit that a detailed review of metering in terms of the above two issues is required and so the ca. 30% of installations with this need no additional checks (as the IMR is already reviewed as part of accreditation)
- For the 70% of installations with no IMR, the additional checks and work involved will include requesting and resolving issues with information on manufacturer’s instructions
- The check for issue 1) will be a simple check (estimated at 5 minutes) vs. the heat transfer medium, but will need a detailed schematic review (estimated at 15 minutes) even in simple metering scenarios to establish the heat transfer medium at the point of metering. So total impact is 20 minutes on 70% of applications
- The check for issue 2) will be vs. the manufacturer’s instructions for installation, and will entail a moderately detailed check (15 minutes on reviewing the instructions and 15 minutes on assessing the evidence) between these instructions and photographs (which it should be noted could be fraudulent – i.e. of another installation) or similar information. So total impact is 30 minutes for 70% of applications
- That existing text based answers and generic document uploads can be used when the process is properly mapped such that there are no additional IT costs
- The additional processing for item 3) will involve summarising the issue, communicating with the applicant, and reviewing any amendments made in order to confirm modifications have been actioned. Assuming an additional 1 hour per application with issues identified, and 25% of applications having one or more issues arising from checks 1) or 2), total impact of item 3) will be 1 hour on 17.5% of applications

Therefore two additional checks and their related follow up could add as much as an approximate average of around an hour to each accreditation. This would require approximately an additional 1.5 of an Administrator grade member of staff costing around £45,000 per annum.

Comment [MD3]: Check with Edmund

8. Reducing Audit Issues – Desk Top Audits

The desk top audit programme has not yet commenced as the main audit focus to date has been on the site verification check and site audit programmes. However we now plan to develop and implement a pilot desk top audit programme. This will allow us to begin to learn what audit checks can effectively be carried out via this method and is intended to have a particular focus on periodic data checks. These are currently carried out on an 100% basis on first receipt of data, however this is planned to reduce significantly over time.

In addition the value of checks such as the two checks referred to section 7 above can be tested and their subsequent implementation into the accreditation process can be evaluated.

We plan to introduce a desk top pilot around autumn 2012.

9. RECOMMENDATION - Allow time to analyse current activity & introduce desk top audit pilot

We recommend maintaining the current site audit sample size for the already planned quarter 2 (July to September) and quarter 3 (October to December).

During this time the RHI Team will;

- review the findings of the audits from quarter 1 and quarter 2 to establish with more certainty;
 - the level and nature of the issues in the industry;
 - issue types which are uncovered by the initial accreditation process;
 - issue types which are only likely to be revealed via a site audit;
- develop our audit sample selection methodology and criteria to reflect these findings, this is expected to involve further advice and input from Deloitte;
- develop and commence the pilot desk top audit programme to begin to learn what audit checks can effectively be carried out via this method;
- continue the ongoing programme of planned communications, stakeholder engagement and training activities aimed at improving the quality of applications received and analyse the outcomes;
- assess the outputs of the accreditation process in relation to improving the quality of applications.

Then in late autumn 2012 The RHI Team will recommend a longer term audit sample size to commence immediately in quarter 4 (January to March 2013), along with a longer term audit sample selection methodology and criteria.

This approach has the added benefit of allowing accreditation volumes to ramp up to give a far larger pool of accredited sites for audit.