



OFGEM Internal Audit

2014-03: E-Serve Governance and Management Report

DRAFT REPORT

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This audit forms part of the 2014/15 risk-based internal audit plan agreed with the Audit Committee in June 2014. The objective of the internal audit assignment is to provide an independent assessment of the adequacy of the governance and reporting arrangements within E-Serve.

This is a draft report, represents a work in progress, and may contain preliminary results or conclusions incomplete information or information, which is subject to change.

This report is prepared on the basis of the limitations at Appendix B.

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Contents

1.	Executive summary	1
	Background	1
	Objective	1
	Key Findings	1
	Summary of evaluation of controls	2
	Overall assessment	3
	Delivery of scope	3
	Acknowledgement	3
2.	Scope of internal audit	4
	Objective	4
	Approach	5
3.	Detailed Findings	6
	3.1 Overarching governance framework for Ofgem E-Serve	6
	3.2 Processes and controls over the establishment and ongoing maintenance of terms of references	7
	3.3 Governance related guidance documents	9
	3.4 Performance review of committees	10
	3.5 Inadequate maintenance of action logs which could affect appropriate escalation	11
	3.6 Risk Management Strategy	12
	3.7 Review over the appropriateness of delegations of authority	13
	Appendix A: Definitions of audit opinion	15
	Appendix B: Statement of responsibility	16

1. Executive summary

Background

This audit forms part of the 2014/15 risk based internal audit plan agreed with the Audit Committee in June 2014. E-Serve is a division of Ofgem which is the delivery body for some of the Department of Energy and Climate Change (DECC) environmental energy-related programmes. In addition to supporting the delivery of government consumer and environmental schemes and programmes, E-Serve also manages the regulatory regime for offshore electricity transmission networks, which was established in collaboration with DECC.

Ofgem E-Serve consists of four units with the following responsibilities:

- Offshore, which manages the commercial tender process and regulatory framework for offshore transmission;
- Legal;
- Schemes, which deliver environmental programmes on behalf of government; and
- Process Improvement, which includes the project development and improvement team.

The schemes and programmes are managed by teams working in distinct business areas:

- Renewable Electricity;
- Renewable Heat;
- Energy Efficiency;
- Social Programmes; and
- Offshore Transmission.

There is currently a review of the top level E-Serve governance arrangements in progress and the development of an E-Serve Board to whom the E-Serve Managing Director will report. As a part of this review, we have not examined or evaluated the proposed new arrangements.

Objective

The objective of the internal audit assignment is to provide an independent assessment of the adequacy of the governance and reporting arrangements within E-Serve.

Key Findings

The findings we have reported include not only control issues relating to managing risks within the governance structure, but also opportunities where supporting processes could be improved and standardised. In many areas, there are opportunities to consolidate and standardise, rolling out common supporting processes across the committees, achieving greater administrative efficiency and consistency.

As a result of our work we have raised six medium priority findings, which are summarised below, and two low priority finding related to inconsistencies across governance related guidance documents and the procedure for preparing the balanced scorecard. Our detailed findings are set out in Section 3.

- **Overarching governance framework for Ofgem E-Serve**

The structure and relationship between all the E-Serve governance structures and wider Ofgem governance structures, i.e. management committees and programme boards/committees, is not clearly defined. There is an 'Ofgem Committee Structure-Guidance Information' that serves both E-Serve and wider Ofgem. The purpose of the document is to provide a breakdown of the main committees in Ofgem and includes the terms of reference (ToR) for committees, guidance on submitting papers, meeting attendance and the structure of committees. However, it does not include all committees and is out of date in some respects.

- **Processes and controls over the establishment and ongoing maintenance of terms of references**

There are no clearly defined processes and controls in place for the establishment, approval and ongoing maintenance of ToR so that ToR include minimum levels of information and are kept up to date. Version controls over ToR are applied inconsistently and some examined were outdated.

- **Performance review of committees**

There is no process in place for the review of the performance of the committees to assess whether the committees have met their objectives as outlined in their ToR.

- **Inadequate maintenance of action logs, which could affect appropriate escalation**

Within E-Serve, various forms of action logs are used as a tool for monitoring the timely completion of actions agreed on during committee meetings. Action logs are either completed as part of the minutes or in a separate tracking log.

Discrepancies were noted in the OSMT action log where the risk ratings were not always updated appropriately, which may affect the appropriate escalation procedures.

- **The Risk Management Strategy is out-of-date**

The Risk Management Strategy document applicable to E-Serve has not been updated since September 2011, and is signed off by the former CEO of Ofgem. We acknowledge that there is currently an initiative in place to update this document to meet current needs.

- **Review over the appropriateness of delegation of authority**

The process for determining the appropriate delegation of authority is a legal process, however, it was noted that there is currently no review process in place to assess whether delegations of authority remain fit-for-purpose or whether there are any gaps in powers relating to specific parts of legislation.

Summary of evaluation of controls

Area	Evaluation of controls	Number of findings identified as:		
		High	Medium	Low
Governance and Reporting		-	2	1
Roles and Responsibilities		-	1	-
Delegation of Authorities		-	1	-
Risk Management		-	1	-
Management information, performance management and the balanced scorecard		-	1	1
		-	6	2

Overall assessment

We have concluded that **SATISFACTORY ASSURANCE** can be given on activities in this area based on the level of work and detailed testing performed. While there is a basically sound system, there are weaknesses which put some of the system objectives at risk, and/or prevent achievement of the potential value to the organisation of the resources invested in and expended.

Notwithstanding, it was apparent that, to a large degree, different approaches and processes are adopted by the various committees and project boards and this presents significant opportunities for consolidation and increased process maturity leading to more efficiency and consistency within the governance and management of E-Serve. We recommend that a team be established to consider the opportunities and drive change.

The definitions of the evaluation ratings and categorisation of recommendations are in Appendix A.

Delivery of scope

We were able to consider all areas indicated in the scope in Section 2 and can confirm that weaknesses have been identified against those objectives highlighted in the control objectives referenced above. A summary of the issues raised in this audit is set out above in the executive summary and full details are provided in Section 3.

Acknowledgement

We should like to take this opportunity to thank all staff involved for their co-operation during the internal audit.

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2. Scope of internal audit

Objective

The objective of the internal audit assignment is to provide an independent assessment of the adequacy of the governance and reporting arrangements within E-Serve.

Scope

The scope of this internal audit included:

Governance and reporting

- There is a clear and effective governance framework for E-Serve in order to set out, manage and oversee its activities.
- E-Serve related governance committees meet regularly, and receive timely information of sufficient quality to support both management decision making and an effective oversight function.
- Processes exist to inform governance bodies of significant issues identified.

Roles and responsibilities

- E-Serve governance bodies have documented mandates and roles and responsibilities; that clearly communicate purpose, composition, frequency of meetings, roles, responsibilities and authority.
- Mandates and roles and responsibilities of governance bodies are reviewed regularly.

Delegation of authorities

- There are defined and documented delegated levels of authority in place for E-Serve that are communicated to relevant individuals and followed.

Risk management

- Appropriate risk management processes are in place for the assessment, management and monitoring of E-Serve's risk exposure.

Management information, performance management and balanced scorecard

- The information to be provided to management and governance bodies has been documented and communicated, and responsibility is clear.
- There are robust procedures in place for preparation of required management information that is clear, consistent and comparable.
- Performance is monitored on a regular basis to ensure that E-Serve is delivering on their required activities.

The review focused on the following governance bodies:

- E-Serve Programmes Committee (EPC);
- Offshore Electricity Transmission Committee/ Offshore Senior Management Team (OSMT);
- E-Serve Management Committee (MC); and
- A sample of E-Serve Scheme Boards with oversight over the following three schemes: FIT, ECO, REGO. These included the following:
 - Energy Efficiency and Social Programmes Board (EESP);
 - Renewable Electricity Operational Board; and
 - Renewable Electricity Development Board.

Approach

We applied the following steps:

- Made contact prior to commencement of the audit to identify key staff, arrange initial meetings and provide details of documentation to which we will require access;
- Recorded how the various systems operate;
- Tested the selected key controls that are in operation;
- Met with responsible management to discuss the conclusions and proposed recommendations; and
- Produced and issued a draft report, prior to the issue of the final report.

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3. Detailed Findings

3.1 Overarching governance framework for Ofgem E-Serve

Rationale	Priority	Risk / Opportunity	Proposed management action	Management Response and Timeframe
<p>The structure and relationship between all the E-Serve governance structures and wider Ofgem governance structures, i.e. management committees and programme boards/committees, is not clearly defined.</p> <p>There is an 'Ofgem Committee Structure-Guidance Information' that serves both Ofgem and E-Serve. The purpose of the document is to provide a breakdown of the main committees in Ofgem and includes the terms of reference (ToR) of committees, guidance on submitting papers, meeting attendance and the structure of committees.</p> <p>The following was noted:</p> <ul style="list-style-type: none"> • The document does not provide any information on the E-Serve Programmes Committee or the Programme Boards. • The document is available on Sharepoint, but it is not evident on who maintains ownership of this document to ensure it is updated. • There is no clear version control of the document. • There are committee member names reflected in this document that are outdated. 	<p>Medium</p>	<p>Where governance documents, such as the guidance document and terms of reference, are outdated, there is an increased risk that they are no longer fit for purpose.</p> <p>There is an opportunity to establish a clearly defined governance framework across Ofgem E-Serve, setting out how E-Serve manages its activities and interacts with the wider Ofgem governance structures.</p>	<p>Ownership of the committee structure guidance document should be allocated and kept up to date. Appropriate version controls should be applied to the document.</p> <p>The structure guidance document should include all relevant governance structures within E-Serve, and how they interact with the wider Ofgem governance structures. It should be made available to ensure transparency across E-Serve.</p>	<p>Management Response:</p> <p>Responsible Party:</p> <p>Due Date:</p>

3.2 Processes and controls over the establishment and ongoing maintenance of terms of references

Rationale	Priority	Risk / Opportunity	Proposed management action	Management Response and Timeframe
<p>There are no clearly defined processes and controls in place for the establishment, approval and ongoing maintenance of terms of reference (ToR) so that ToR include minimum levels of information and are kept up to date.</p> <p>A ToR for the committees sampled during the audit was provided from various individuals; however, the following was noted:</p> <ul style="list-style-type: none"> • There are varying levels of details in the ToR reviewed. There is no centralised process that regulates the content of the ToR, e.g. <ul style="list-style-type: none"> ○ The Renewable Electricity Development (RED) Project Board ToR does not state the frequency of meetings. ○ The EESP Board, OSMT and EPC ToR do not detail deadlines for submission or the review processes for papers submitted to meetings, whereas others do. ○ Not all ToR include the responsibility for minuting meetings. <p>The Legal Department provided a template ToR to the project boards within E-Serve, however, this was not apparent from the sample of committees reviewed.</p> <ul style="list-style-type: none"> • Version controls over the documents are applied inconsistently or not at all. An instance was noted where multiple versions of a ToR was stored on Sharepoint. • There is no centralised store for the ToRs of committees once approved. 	<p>Medium</p>	<p>Where ToR are out-of-date, there is an increased risk that they are no longer fit for purpose.</p> <p>The maintenance of up-to-date ToR is impaired where there is no formal approval process from a superior Committee or centralised repository for ToR.</p> <p>There is an opportunity to improve the ToR and processes across E-Serve by utilising good practices already in existence in some of the committees, e.g. RE Development Monitoring and Reporting Framework and the OSMT Secretariat process.</p>	<p>Management should develop an agreed template for all ToR and this should be utilised across all committees and governance structures.</p> <p>All ToR should be reviewed periodically to confirm they contain the required information and remain pertinent.</p> <p>The ToR should also be updated to use job titles, rather than individual member names.</p> <p>Management should consider central co-ordination of ToR for governance structures across E-Serve.</p>	<p>Management Response:</p> <p>Responsible Party:</p> <p>Due Date:</p>

Rationale	Priority	Risk / Opportunity	Proposed management action	Management Response and Timeframe
<ul style="list-style-type: none"> The ToR for the Energy Efficiency and Social Programmes (EESP) Board, RED Project Board, Renewable Electricity Delivery Operational (REDO) Board and Management Committee (MC) contain the names of individual members, which require regular updates due to staff turnover. In the case of the MC, it was noted that the ToR contains out-of-date membership details. The ToR for the REDO Board and the EESP Board have been approved internally, but MC have not formally approved the ToR. 				

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3.3 Governance related practices and guidance documents

Rationale	Priority	Risk / Opportunity	Proposed management action	Management Response and Timeframe
<p>There are various governance-related guidance documents in addition to the ToR in place across the committees reviewed during the internal audit, such as the MC Engagement Procedures, the Secretariat Process for the OSMT and the RE Development Monitoring and Reporting Framework.</p> <p>An exception was noted where the deadlines for submission of papers for the MC differs between the MC Engagement Procedures (Friday prior the meeting) and the ToR (Thursday 5pm prior the meeting).</p> <p>This indicates need for greater control and co-ordination over governance-related guidance documents.</p> <p>It also identifies an opportunity for applying good practices currently in place for the committees/governance structures reviewed.</p>	<p>Low</p>	<p>Without adequate co-ordination and control over governance documents, there is a risk that the incorrect procedures are followed and timelines are missed.</p> <p>There is an opportunity to align the governance related documents and use good practices currently in place to strengthen governance procedures across E-Serve.</p>	<p>Management should consider central co-ordination for governance related documents, such as MC Engagement procedures, Secretariat Procedures and ToR.</p> <p>Appropriate version control should be applied to all documents and where information overlaps, they should agree.</p>	<p>Management Response:</p> <p>Responsible Party:</p> <p>Due Date:</p>

3.4 Performance review of committees

Rationale	Priority	Risk / Opportunity	Proposed management action	Management Response and Timeframe
<p>There is no process in place for the review of the performance of the committees to assess whether the committees have met their objectives as outlined in their ToR.</p>	<p>Medium</p>	<p>The effectiveness of Committees in fulfilling their duties may be limited where a full assessment of their performance is not conducted on a periodic basis.</p>	<p>Management should consider the implementation of a formal performance assessment process for Committees to ascertain whether they have met the objectives defined in their ToR. This could be included as a specific responsibility in the ToR.</p>	<p>Management Response: Responsible Party: Due Date:</p>

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3.5 Inadequate maintenance of action logs which could affect appropriate escalation

Rationale	Priority	Risk / Opportunity	Proposed management action	Management Response and Timeframe
<p>Action logs are used to list any actions resulting from a Committee meeting and to provide a tool for monitoring the timely completion of actions. Typically, these are maintained by the Secretary of the Committee who is responsible for obtaining updates or chasing overdue actions prior to the meeting.</p> <p>Within E-Serve, action logs are either completed as part of the minutes or in a separate tracking log.</p> <p>The action log for the OSMT includes a risk rating for each action, determined by how 'time critical' the actions are and the 'impact' of failure to complete the actions. It was noted from a review of the August action log that for seven of the ten items selected for testing, the action was either overdue or completed after the due date. Furthermore, for three overdue items, the action was overdue but the time critical rating had not been updated to reflect this. In the case of one item, this would have made the RAG rating into a red risk, which may have required escalation.</p> <p>In addition, it was identified that action number 678 appears twice and one action does not have a reference number.</p> <p>Furthermore, prior to the commencement of a new Secretary in August, the MC did not maintain an action log and instead recorded actions within the minutes of the meeting. As a result there is the possibility that actions may have been missed.</p>	<p>Medium</p>	<p>Where action logs are not maintained, there is an increased risk that actions may not be completed, which could limit the effectiveness of Committees in delivering their objectives.</p> <p>Furthermore, where action logs are not kept up-to-date, overdue actions may not be raised to the appropriate escalation point.</p> <p>There is an opportunity to share best practices amongst the different committees across E-Serve.</p>	<p>Management should ensure that action logs are maintained appropriately with owners and deadlines. They should be kept up-to-date, including the updating of risk ratings to the current residual risk.</p> <p>Management should ensure that action logs are mandated for all committees.</p>	<p>Management Response:</p> <p>Responsible Party:</p> <p>Due Date:</p>

3.6 Risk Management Strategy

Rationale	Priority	Risk / Opportunity	Proposed management action	Management Response and Timeframe
<p>The Risk Management Strategy document applicable to E-Serve has not been updated since September 2011, and was signed off by the former CEO of Ofgem.</p> <p>The Ofgem Enterprise Risk Management Strategy describes how Ofgem will identify, assess, manage, review and report on key risks at all levels in the organisation and is designed to be implemented in all departments and directorates.</p> <p>We acknowledge that there is currently an initiative in place to update this document to meet current needs. In particular, it was noted that a new procedure for escalating and reporting top risks to the OSMT and Offshore Authority Committee (OAC) was recently approved in September 2014.</p>	<p>Medium</p>	<p>Where policies and procedures are out-of-date, there is a risk that they are no longer fit-for-purpose.</p> <p>There is a risk that the E-Serve risk exposure is not being managed appropriately.</p>	<p>An updated risk management strategy/framework should be implemented and embedded in day to day processes and decision making to ensure E-Serve's risk exposure is being managed and appropriate risks are being escalated from scheme level upwards.</p>	<p>Management Response:</p> <p>Responsible Party:</p> <p>Due Date:</p>

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3.7 Review over the appropriateness of delegations of authority

Rationale	Priority	Risk / Opportunity	Proposed management action	Management Response and Timeframe
<p>The process for determining the appropriate delegation of authority is a legal process, however, it was noted that there is currently no review process in place to assess whether delegations of authority remain fit-for-purpose or whether there are any gaps in powers relating to specific parts of legislation.</p> <p>Delegated authority is provided either as a general authority or a specific authority. General authority is held by all senior civil servants (SCS), as befitting their job role, whereas specific authority is determined by the role requirements of the individual and the regulatory framework within which they operate.</p>	<p>Medium</p>	<p>There is an increased risk that delegations of authority do not fully match the regulatory framework to which they apply.</p>	<p>Management should consider the implementation of a periodic review and update process to assess whether delegations of authority remain fit-for-purpose.</p>	<p>Management Response: Paul to follow-up on this point with David Ashbourne.</p> <p>Responsible Party:</p> <p>Due Date:</p>

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3.8 Preparation of the balanced scorecard

Rationale	Priority	Risk / Opportunity	Proposed management action	Management Response and Timeframe
<p>A procedure document has been drafted for guidance to the preparation of the E-Serve balanced scorecard. This procedure is still subject to approval by the MC. It is acknowledged that the document will be submitted to the MC for approval during October 2014.</p> <p>In addition, it was noted that going forward the E-Serve balanced scorecard will be prepared and submitted to the MC for review on a monthly basis as per the draft procedure, rather than on a quarterly basis which was the practice prior to October 2014.</p>	<p>Low</p>	<p>There is a risk that the balanced scorecard is not prepared accurately or is not prepared within required deadlines.</p>	<p>The procedure document for the preparation of the balanced scorecards should be approved as final. The procedure should be followed monthly when preparing the balanced scorecard.</p>	<p>Management Response:</p> <p>Responsible Party:</p> <p>Due Date:</p>

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Appendix A: Definitions of audit opinion

Definitions of assurance levels

Level of Assurance	Description
None	Control is generally weak leaving the system open to significant error or abuse.
Unsatisfactory	Weaknesses in the system are such to put the system objectives at risk.
Satisfactory	While there is a basically sound system, there are weaknesses which put some of the system objectives at risk, and/or prevent achievement of the potential value to the organisation of the resources invested in and expended.
Substantial	There is a sound system of control designed to achieve the system objectives.

Prioritisation of findings

Priority	Description
High	Significant and urgent improvement(s) required to address a serious weakness which exposes the organisation to a material extent in terms of achievement of corporate objectives, financial results or otherwise impairs its reputation.
Medium	Essential improvement(s) required to address control weaknesses that may result in the failure of the process under review or improvement required to achieve efficiencies.
Low	Process improvement advised to address minor control weaknesses or align processes with good practice or to achieve efficiencies.

Management should be aware that our internal audit work was performed according to UK Government Internal Audit standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assurance levels provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards board and as such the level "Substantial Assurance" does not imply that there are no risks to the stated control objective.

Appendix B: Statement of responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Deloitte LLP
London

October 2014

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