

To: Jacqueline Balian[Jacqueline.Balian@ofgem.gov.uk]
Cc: Robert Reid[Robert.Reid@ofgem.gov.uk]
From: Ade Obaye
Sent: 2013-10-21T11:18:10Z
Importance: High
Subject: FW: Review: Note from non compliance categorisation mtg with Karen and discuss with Jacqueline re: next steps
Received: 2013-10-21T11:18:12Z
Assurance Categories - Technical Audits.docx
Note of meeting on categorisation of non compliances.docx

Hi Jacqueline

Please see below and attached regarding the categorisation of non-compliances found at audit across E-Serve schemes.

As Rob has mentioned below, the key agreement is that the financial threshold has moved back up to £50k for the 'unsatisfactory' category.

Could you please let me now if you are happy with the proposed categorisations? Karen will be discussing them with Matthew this week and is keen that team heads are okay with them before this happens. Once agreed, audit contractors (R-AEA and B&V) will be asked to apply the categorisation on a trial basis.

Please let me know if you wish to discuss.

Regards

Ade Obaye

RHI Fraud and Compliance Manager
 New Scheme Development
 9 Millbank
 London
 SW1P 3GE
 Tel: 0207 901 7400
www.ofgem.gov.uk

Have you read the following documents which will assist you in submitting a properly made and high quality RHI application: The Renewable Heat Incentive Application Process – An Overview and Key Guidance: [Applicant Guidance Note 3](#); Ofgem E-Serve's Guide to the RHI Application Form: [Applicant Guidance Note 2](#). Further supporting information can be found on Ofgem's [How to Apply for Accreditation](#) webpage.

From: Robert Reid
Sent: 21 October 2013 09:18
To: Ade Obaye
Subject: Review: Note from non compliance categorisation mtg with Karen and discuss with Jacqueline re: next steps
Importance: High

Hi Ade,

I met with Karen, Mark (RO) and Dan (FIT) on 16th Oct to discuss the use of assurance categories on retrospective non compliances and whether any changes need to be made before implementing going forward. I attach a note of the meeting that was structured around specific points for discussion I raised beforehand. The key agreement related to the following:

Dan, Mark and Rob agreed that the existing threshold for unsatisfactory ratings was potentially too low, particularly when taking into account the relative infancy of the RHI and the fact that potential losses identified will need to be extrapolated over a 20 year period resulting in average potential losses from non compliant installations often being in excess of £10k.

Dan and Mark stated that applying a percentage threshold based on average payments rather than an absolute figure may prove difficult to apply consistently across all schemes given the scale of payments. All agreed that the threshold should be raised to £50k on a trial basis until March 2014. Karen stated that the final threshold would need to be future proofed to account for DRHI

Increasing the upper threshold to £50k will result in approximately half of all non compliances categorised as unsatisfactory being re-categorised as weak for the RHI. When I met with Matthew before EPC, he thought a £10k threshold was appropriate for unsatisfactory categorisation, however he agreed that using an absolute figure across all schemes may not be appropriate.

Karen is due to meet with Matthew early this week to finalise the categorisation process to be implemented on a trial basis. We need to reach agreement with the scheme leads, including Jacqueline beforehand. Can you discuss with Jacqueline and let me know if she is happy to proceed on this basis or if she wants to meet with us before reaching agreement.

Many thanks,

Rob

From: Daniel Murray
Sent: 16 October 2013 16:22
To: Robert Reid; Mark Downham; Karen Boyle
Received from OEGEM on 17-06-2017
 Annotated by RHI Inquiry

Subject: Assurance Categories - Updated

Hi All,
As discussed please find attached the revised assurance categories for the technical audits which has adjusted the upper threshold of the unsatisfactory category for financial implications to £50,000.
Can you ensure this is cascaded to your teams and, as requested by Karen, discussed with heads of team.
Any questions let me know.

Thanks,

Dan

Daniel Murray

Fraud Prevention and Audit Manager - FITs

Environmental Programmes

9 Millbank

London

SW1P 3GE

Tel: 0207 901 1882

www.ofgem.gov.uk

ofgem e-serve

Ofgem E-Serve Technical Audit Assurance Categories

Assurance Rating	General Description	Trigger Point(s)	Description*
Unsatisfactory	Audit found major issues of non-compliance.	General: Major issue with eligibility. OR Financial: Impact on scheme considered to be in excess of £50,000. OR Fraud: There are suspicions of abuse, misuse or fraud	This assurance category will indicate that an audit has found one of the following; <ol style="list-style-type: none"> 1. The audited station/measure has been incorrectly accredited for scheme participation resulting in the receipt of incorrect payments/savings which will need to be recovered and an assessment made on the possible removal of accreditation. This will include issues that have a significant impact on the wider scheme and/or Ofgem. 2. The impact of the audit findings indicates a large potential loss to the scheme (in excess of £50,000). 3. There is a suspicion of abuse, misuse, or fraud.
Weak	Audit found moderate issues of non-compliance.	General: Moderate issue with eligibility. OR Financial: Impact on scheme considered to be in excess of £1,000, but not exceeding £50,000.	This assurance category will indicate that an audit has found one of the following; <ol style="list-style-type: none"> 1. The audited station/measure has issues with eligibility which can be rectified within a reasonable timescale to ensure compliance with scheme legislation. This may result in payments/measures being suspended or withheld until this happens. 2. The impact of the audit findings indicates a moderate potential loss to the scheme (in excess of £1,000 but not exceeding £50,000).
Satisfactory	Audit found minor issues or has recommended introduction of best practice.	General: Minor issues found on site. OR Financial: Impact on scheme considered to be less than £1,000 or has no impact.	This assurance category will indicate that an audit has found one of the following; <ol style="list-style-type: none"> 1. The audit has identified areas of poor practice and/or the station/measure has not complied with certain ongoing obligations. The impact of this will have a minor or no impact on the wider scheme and/or Ofgem. 2. The impact of the audit findings indicates a minor potential loss to the scheme (less than £1,000).
Good	No issues found during audit.	N/A	There were no issues noted during the audit.

* Note: It will be down to audit managers to judge the rating on a case-by-case basis and potential financial losses are calculated over the total lifetime of the scheme.

Annex 1: Scheme Examples**Ofgem E-Serve Technical Audit Assurance Categories (Examples)**

Assurance Rating	General Description	FITs	RO/CCL/REGO	RHI Non-Domestic	ECO
Unsatisfactory	Audit found major issues of non-compliance.	Audit found installation was not eligible or was issued an incorrect tariff rate.	Audit found installation was not eligible under one or more schemes or was incorrectly banded for the RO.	Audit found installation was not eligible or did not comply with ongoing obligations that have a significant impact on payments and potentially results in revocation.	Audit found installation was not eligible as it was not installed in line with PAS and / or building regulations and could not be rectified.
Weak	Audit found moderate issues of non-compliance.	Audit found that an error in the meter caused overpayment of around £5,000.	Audit found that generation data had been inaccurately reported resulting in incorrect issue of certificates.	Audit finding leads to notification of non-compliance that may have an impact on payments but can be rectified so that payments can continue to be made.	Audit found that the installation or original SAP/RdSAP inputs were incorrect, therefore affecting the carbon score.
Satisfactory	Audit found minor issues or has recommended introduction of best practice.	Audit found that the schematic diagram was not correct.	Audit found that Declared Net Capacity/meter serial number was stated incorrectly in the accreditation application	Audit found minor discrepancies between audit findings and application responses with any non compliance not having an impact on payments	Audit found areas of best practice that could be improved.
Good	No issues found during audit.	N/A	N/A	N/A	N/A

Note of meeting on categorisation of non compliances – 16 October 2013

Attendees: Karen Boyle; Dan Murray; Mark Downham; Rob Reid

Weighting of eligibility vs. potential losses

Dan, Mark and Rob agreed that severity of eligibility issues should be given equal weighting with estimated potential losses. By adopting this approach would ensure that major eligibility issues for installations below the unsatisfactory potential losses threshold were not overlooked, or minor eligibility issues above the potential losses threshold were not given too much emphasis. Karen stated that the methodology provided audit managers discretion in applying either eligibility and/or potential losses as well as suspicions of abuse, misuse or fraud.

Action - Karen agreed to speak with Matthew regarding the weighting of eligibility issues and potential losses and how we intend to apply them equally (25/10/13).

Threshold for potential losses

Dan, Mark and Rob agreed that the existing threshold was potentially too low, particularly when taking into account the relative infancy of the RHI and the fact that potential losses identified will need to be extrapolated over a 20 year period resulting in average potential losses from non compliant installations often being in excess of £10k. Dan and Mark stated that applying a percentage threshold based on average payments rather than an absolute figure may prove too complicated to apply consistently across all schemes. All agreed that the threshold should be raised to £50k on a trial basis until March 2014. Karen stated that the final threshold would need to be future proofed to account for DRHI. Rob stated that Matthew may have a different view on the threshold that should be applied, based on SMT acceptance regarding the risk of potential losses.

Action: Dan to circulate revised categorisation table including the £50k threshold (16/10/13).

Action: Audit Managers to discuss the use of the increased threshold with scheme leads and report back to Karen Boyle with feedback (18/10/13)

Calculating potential losses / protected sums

Rob stated that the RHI has based RHI calculations on year 1 estimated payments extrapolated over 20 years, applying a percentage based on the type of non compliance(s) to determine total potential lifetime losses. Mark has applied percentages using a set of assumptions to estimate potential losses. Karen stated that it is important that a simple methodology for calculating potential losses/protected sums can be applied for all schemes where possible. Barney is currently completing his work and is due to report back shortly.

Action: Karen to ask Barney to circulate to Audit Managers his timescales for completing this work (18/10/13)

Categorisation of site audits by contractors

Mark and Rob stated a preference for site audit contractors to determine categorisation of an audit on the basis of eligibility issues, only estimating potential losses where they are sufficiently confident to be able to provide an estimate on that basis. Dan stated that on FITs, the site audit contractor does estimate potential losses where possible. Karen stated that the new Procurement Manager (David Madden) will need to consider how calculating potential losses can be incorporated in the site

audit contract for April 2014. During the pilot, it is planned that B & V and R-AEA will start applying categorisation using the methodology using £50k threshold subject to agreement from scheme leads and Matthew.

Action: Karen to meet with Matthew regarding sign-off for methodology (25/10/13)

Action: Audit Managers to speak with Audit Contractors regarding use of methodology on trial basis including use of box markings on audit report coversheet (01/11/13)

Action: Audit Managers to speak with David Madden regarding scope of work for site audit contract including method for categorising non compliance (08/11/13)

Timing of categorising non compliances

All agreed that there was likely to be lag for complex cases between audit closure and Fraud & Compliance investigation completing, particularly where Legal review was required. All agreed that for these cases, they should be categorised as pending/provisional categorisation until internal investigations were completed. Dan stated that this may create issues where audit reports are sent to the participant at audit closure including category. What happens if the category changes after investigation; what impact will this have if the contractor changes and we need to modify previously finalised reports. How do we communicate this category change to the participant. Rob stated that this is not currently an issue for the RHI as we do not share the audit report, only an executive summary. However, this would be expected to include a category box marking going forward. Karen stated that as part of the new procurement process Audit Managers need to balance the level of the detail to be provided to the participant at audit closure with ambitions to be transparent.

Action: Audit Managers to consider the implications of sharing summaries/full details of audit reports with participants for the new tender process (08/11/13)

Action: Audit Managers to consider the implications of categorisation changing between audit closure and F & C investigation completing on site audit contractor and scheme participant by (25/10/13)