



Fraud Prevention Strategy for the Northern Ireland Renewable Heat Incentive (NI RHI)

This paper sets out the means by which Ofgem will fulfil its responsibility to manage fraud, non-compliance and abuse within the Northern Ireland Renewable Heat Incentive Scheme.

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1. Introduction

1.1 This document describes the key elements of The Northern Ireland Renewable Heat Incentive (NI RHI) Fraud Prevention Strategy. It has been reviewed by Deloitte as part of the review of NI RHI Systems and Processes, which took place in July/August 2011.

2. Background

- 2.1 The NI RHI is designed to promote the widespread uptake of renewable Heat generation technologies in Northern Ireland at the domestic, commercial and industrial scales. Initially, only installations at the commercial and large scales will be eligible for support payments. Domestic installations will be eligible for the separate Premium Payments Scheme and will be included in the NI RHI from 2013.
- 2.2 DETI estimates the NI RHI will deliver an additional 5,423 heat generation installations by 2015 rising to 25,371 by 2020. Dealing directly with and making payments to such large numbers of consumers will be challenging for Ofgem and does not fall within its normal core area of business.

3. Scope

- 3.1 This Fraud Prevention Strategy is a high-level overview of the NI RHI fraud threats and seeks to provide assurance on the adequacy of the measures in place to prevent the opportunity for fraud and non-compliance, detect fraudulent or non-compliant activity and enforce sanctions when appropriate.
- 3.2 This Fraud Prevention Strategy has a wider scope than activities that fall within the strict definition of fraud. Gaming opportunities and abuse of the system by participants are also considered.

4. Definition of Fraud

- 4.1 For the purpose of this document, the act of fraud is as stated in Ofgem E-Serve's Fraud Policy (Ref. FRM5/2010):

'...activity aimed at securing a gain, causing a loss, or exposing somebody to the risk of a loss, through false representation, failing to disclose information, or through abuse of position...'

- 4.2 For the NI RHI, examples of fraud would include falsifying meter readings/periodic data submissions, submitting applications for bogus, non-existent installations or an Ofgem member of staff diverting NI RHI support payments to their own bank account.

5. Fraud Response (including Enforcement)

- 5.1 The action taken when we discover fraud or non-compliance within the NI RHI will depend on the seriousness of the fraud or non-compliance.

- 5.2 Ofgem have recourse to a range of sanctions that we can enforce including temporary suspension of payments under the scheme, reducing or withholding payments and exclusion from the scheme. Any sanction applied would be in accordance with the NI RHI Regulations¹.

- 5.3 Due to limitations in our statutory powers, we are not able to conduct criminal investigations. It is expected that majority of breaches that will occur in the NI RHI will be dealt with via the compliance route while the more serious and deliberate attempts to cheat the system will be referred to the appropriate authorities for criminal prosecution. When referring a case to the police, this referral will be made to the police command that covers the geographical location of the relevant NI RHI installation/person committing the breach. This will not prohibit Ofgem from also enforcing any of the sanctions detailed in the NI RHI sanction policy (Appendix 2).

- 5.4 Fraudulent cases involving Ofgem staff will be dealt with in accordance with Ofgem E-Serve's Fraud Policy (Ref. FRM5/2010).

6. Stakeholders/agencies

- 6.1 The main stakeholders/agencies associated with NI RHI fraud prevention and the outcomes of the association are:
- 6.2 National Fraud Authority (NFA): Had an input in developing the NI RHI fraud risk register and provided advice on government best practice on fraud prevention/detection, including providing useful contacts within the Serious Organised Crime Office (SOCA) and the Department of Works and Pensions. An NFA representative has been present at all NI RHI Fraud Prevention Workshops held with SOCA.
- 6.3 Kaplan Hawskmere: We engaged the services of Kaplan Hawskmere to provide fraud awareness training to staff during June/July 2011.
- 6.4 Serious Organised Crime Agency (SOCA): We are working jointly with SOCA to put measures in place to prevent infiltration by organised criminals and money launderers. We have held three workshops with them and outcomes include changes made to the NI RHI IT system to strengthen our fraud controls, an agreement to allow us access to both the Amberhill database (details of known fraudulent

¹ Northern Ireland Renewable Heat Incentive Regulations 2011

identities) and the Fraudulently Obtained Genuine (FOG) database so that we can periodically check both against our NI RHI applicant details.

6.5 Department for Work and Pensions (DWP): we consulted with the DWP regarding risks associated with making payments directly to a large number of participants. In particular, the DWP gave valuable advice on how to approach the issue of identity and bank account validation.

6.6 Environmental Programmes and New Scheme Development Fraud Group: This group meets bi-monthly and its purpose is to ensure that fraud prevention strategies across are consistent with each other, ensure best practice and experience is shared, help maintain relationships with other fraud prevention managers and act as a forum for discussion of common issues and barriers.

7. Threats and Prevention Measures

7.1 In accordance with best practice, Ofgem supports and maintains an anti-fraud framework across the organisation. This includes having established general anti-fraud controls, a competent internal audit programme, appropriate fraud awareness training, a fraud policy, a Whistleblowing policy and an employee Code of Conduct. With this framework in place, an anti-fraud culture already exists within Ofgem. Internal Audits have been undertaken over the last two years on the following areas that are relevant to potential fraud: Office services, Income, Payroll, Key Financial Controls and Employment Checks. None of these audits detected any evidence of fraud taking place, or highlighted any risks of fraud.

7.2 Due to the size of the scheme and the large amount of public funds involved, there is a significant risk of fraud and non-compliance both from within and outside Ofgem. Possible sources are shown in Table 1 below.

Table 1: possible sources of fraud

Internal	Participants	Contractors	Criminals
Ofgem staff	Participants	Site Auditors	Organised criminals
Call centre staff	Independent Meter Report (IMR) authors	Consultants	Opportunistic criminals
		Identity and bank validation service provider	Computer hackers
		Installers	

7.3 The GB and NI RHI Fraud Risk Register (RHI Fraud Risk Register) identifies a number of areas where the risk of fraud within the NI RHI might arise. A selection of the higher rated amongst these risks with a summary of the controls in place are:

NI RHI specific threats

- **Risk that the scheme may be targeted by organised criminals/money launderers.**

Prevention: We are working with the Serious Organised Crime Agency (M15/6?) to put in place measures to mitigate this risk. This includes holding joint workshops to get a better understanding of how organised criminals (terrorist organisations?) might infiltrate the NI RHI; establishing a process for Ofgem to be able to check NI RHI participants details against lists of known fraudulent identities (Amberhill database); and also against their of

Comment [PAH1]: Do we need to add in targeted by the IRA? If so we'd need to consulting M15/6 to see how they might infiltrate the scheme.

Fraudulently Obtained Genuine (FOG) identities database to identify high-risk participants for more in-depth review or audit as required.

- **The risk of participants providing false metering or periodic data information in order to increase the level of NI RHI support payments they receive.**

Prevention: The requirement that all installations over 45Kw provide an Independent Metering Report (IMR) as part of the accreditation process will help to mitigate the risk of accrediting both a) incorrectly designed systems and b) systems where the meters have been inappropriately calibrated.

- **The risk that participants may purposefully generate unwanted heat purely to claim NI RHI support payments, which is in breach of the NI RHI regulations.**

Prevention: Measures in place to mitigate against this risk include the functionality of the NI RHI IT system to auto-identify when the declared capacity of a new installation is inconsistent with the capacity of the equipment it has replaced, checking (during inspection audits), where installations have a heat rejection facility, that it is properly metered.

Internal threats

- **The risk that an Ofgem staff member fraudulently manipulates the NI RHI IT system to divert payments into other bank accounts or otherwise misuses confidential personal data held on the system.**

Prevention: There will be suitable controls on the NI RHI IT system including double sign-off for adding/alteration of participant details on the system and segregation of duties. A third party provider will be used to carry out identity and bank account verification for all new applications (and when we are notified of a request to change any of these details). In addition, participant bank details will be stored in a separate database and system with only key identified staff allowed access, and payments will only be made into accounts that are in the owner's name.

- **The risk of bribery or corruption of Ofgem staff, which may lead them to collude with a participant using their knowledge to set up new accounts or bypass the annual review stage whilst circumventing inbuilt controls.**

Prevention: Fraud awareness training for staff, controls such as segregation of duties and suspicious item matching are built into the NI RHI IT system. In addition, management will conduct periodic spot checks of new accounts created. ~~Deloitte, our internal auditors, have given a rating of Substantial Assurance² following their review of the systems we have in place to carry out pre-employment checks on new starters.~~

Gaming opportunities

- **Participants may generate heat for eligible purposes but which do not meet the spirit of the NI RHI Regulations (e.g. heating empty buildings or empty greenhouses, using inappropriately sourced fuel), or may waste heat in a compliant manner by using heat in a non-energy efficient way.**

² Substantial Assurance is Deloitte's highest level of assurance

Prevention: To help combat this, the NI RHI Regulations stipulate what constitutes eligible heat and give Ofgem the power to ask participants for evidence to demonstrate that the heat they are claiming NI RHI for is being used for eligible purposes. The Regulations also clearly state that participants should not generate heat purely for the purpose of increasing NI RHI payments. In addition, the tiered tariff for biomass (meaning a higher tariff rate is paid for the first 15% of annual heat generation hours) reduces the incentive to purposefully generate then waste heat.

Comment [PAH2]: Need to check this against the regs.

8. Detection

- 8.1 Despite the mitigating actions put in place, there will be instances when fraud or non-compliance will occur. In order to combat this, we will ensure that we have a range of mechanisms in place to enable us to identify fraud or non-compliance and deal with it as soon as possible. These will include:
- i. A rolling programme of on-site inspection audits of accredited installations. Installations will be subject to inspection both at the accreditation stage and throughout the duration of eligibility for incentive payments. In accordance with the NI RHI inspection audit plan, inspection audits will take place regularly throughout the year and, as mentioned above, will consist of a mix of targeted and randomly selected installations;
 - ii. In addition to site inspections, there will be an on-going cycle of desk-based audits (for smaller scale installations) which will include telephone checks and review of relevant documentation;
 - iii. Robust IT monitoring, reporting and quality management systems: in addition to standard security features, various checks are built into the NI RHI IT system such as:
 - Tolerance level checks (to help identify cases where there may be anomalies in data submitted)
 - Suspicious item matching (e.g. Matching post codes, bank details etc)
 - Functionality to identify cases for targeted inspections (eg. where the declared heat output is slightly within tariff thresholds, where there are a high number of changes to account details etc.)
 - iv. We have a Whistleblowing procedure for members of staff to report any concerns to us;
 - v. We have a fraud policy that sets out staff responsibilities with regard to fraud prevention and includes the procedure for staff to report any fraud or suspicions of fraud;
 - vi. Sharing and exchanging information with other government departments and taking part in data-matching exercises as appropriate. This is subject to any legal requirements and Ofgem's own policies/procedures regarding the exchange of information. Ofgem will only exchange personal data in accordance with the requirements of the Data Protection Act 1988³; and
 - vii. A telephone hotline for members of the public to report any concerns to us (to be considered for the future).

Comment [PAH3]: This has never happened on the GB scheme – check whether this will happen at any point or should we remove this bullet?

³ www.legislation.gov.uk/ukpga/1998/29/contents

8.2 Our Internal Auditor (Deloitte) will have a key role in designing and carrying out tests to detect fraud and highlight weaknesses in the NI RHI administration process to ensure that it is as fraud-proof as possible. They will work closely with the Senior Manager, NI RHI Operations in the development of a robust annual internal audit plan for the NI RHI. The Head of the NI RHI Team will sign-off the plan. The results of the internal audit will be presented to the Management Committee. This is consistent with practices already in place within other environmental programmes that Ofgem administers, eg the Feed in Tariff and Renewable Obligations Schemes.

Comment [PAH4]: Are we doing a separate deloitte report for NI RHI on top of that normal RHI operations?

9. Review of decisions

9.1 As stated at paragraph 5, for cases where Ofgem establish non-compliance with the scheme, Ofgem may enforce one or more of the range of sanctions that are available to us through agreement with DETI in the Administrative Arrangement.

9.2 Where Ofgem do impose a sanction on a participant, we will

- Inform the person or business concerned why we have taken the decision
- Provide details of evidence supporting the decision
- Outline the effect of the decision
- Outline the review process available including steps the participant must take to instigate the review.

9.3 Where a review takes place, the outcome could be to

- Confirm the sanction
- Amend the sanction or replace it with one or more alternative sanctions
- Remove the sanction

10. Next Steps

10.1 We will constantly continue to review and revise this strategy as details of the scheme administration requirements and IT specifications become clearer. This is to ensure that the Strategy remains relevant, fit for purpose and continues to provide assurance on the level of fraud prevention activity that is in place for the NI RHI.

11. Conclusion

11.1 We are committed to tackling fraud and non-compliance within the NI RHI and we will work hard to ensure we do this in an effective and organised way including liaising closely with other schemes within Ofgem and will rely on the principles included in this document to achieve this.

11.2 We will continue to review our rules and procedures and will make sure that this document is reviewed at least annually to ensure that it remains effective.

12. References

12.1 Ofgem IT Security Policy ([link to Ofgem Security Policy](#))

12.2 Ofgem Fraud Policy ([link to Ofgem Fraud Policy](#))

12.3 Ofgem Whistleblowing Policy ([link to Whistleblowing Policy](#))

12.4 Fraud Risk Register ([link to NI RHI Fraud Risk register](#))

13. Appendices

Appendix 1 - NI RHI Sanction Policy

Appendix 1

NI RHI Sanction Policy

NI RHI Enforcement and Sanction Policy

Principles of enforcement

In developing the sanction policy for the Northern Ireland Renewable Heat Incentive the role of sanctioning as an enforcement mechanism, the Six Penalties Principles as highlighted in the Macrory Review⁴ (see below) have been fully considered and taken into consideration.

Six Penalties Principles

A sanction should:

- Aim to change the behaviour of the offender;
- Aim to eliminate any financial gain or benefit from non-compliance;
- Be responsive and consider what is appropriate for the particular offender and regulatory issue, which can include punishment and the public stigma that should be associated with a criminal conviction;
- Be proportionate to the nature of the offence and the harm caused;
- Aim to restore the harm caused by regulatory non-compliance, where appropriate; and
- Aim to deter future non-compliance.

Given the range of participants who will be participating in this scheme, it is important that we have a variety of sanctions and enforcement tools available. This will allow enforcement and any sanction imposed to be more proportionate in accordance with the severity of the non-compliance.

Enforcement Tools

Where we uncover evidence of possible criminal conduct (for example fraud), based on the nature of the information we hold, we may refer the case to the relevant authorities for investigation. More minor infractions will be more efficiently and effectively dealt with through the imposition of sanctions as provided for in the Northern Ireland Renewable Heat Incentive Regulations 2011. These sanctions are listed below:

- Withhold NI RHI payments
 - Ofgem will be able to temporarily withhold NI RHI payments where a participant has failed to comply with one or more eligibility criteria or obligations or where it has reason to suspect they have failed to comply, but it needs to investigate further. In such cases, we do not believe it would make sense to make the payment where there is a chance that the money may have to be recouped at a later stage. Ofgem will then only be able to make the payment once it is satisfied that all eligibility criteria or obligations are being met.

Where Ofgem satisfied that there has been a material or repeated failure by a participant to comply with one or more eligibility criteria or obligations, it may permanently withhold NI RHI payments due to that participant.

- Suspend accreditation

⁴ Regulatory Justice: Making sanctions effective (2006). <http://www.bis.gov.uk/files/file44593.pdf>

- Ofgem will also have the power to suspend accreditation (or registration for a biomethane producer), for an installation where it believes there has been failure to meet one or more of the eligibility criteria or obligations. This sanction will only be used where Ofgem believes the participant could again meet the eligibility criteria or obligations (hence them not being excluded from the scheme). The suspension may be imposed where Ofgem discover non-compliance or where an operator voluntarily reports that it will be unable to meet the eligibility criteria or obligations for a period, but still wishes to use the equipment e.g. unable to source eligible fuel, or perhaps where due to staff shortages with required expertise, the participant is unable to guarantee compliance. Ofgem will only be able to lift the suspension once it is satisfied that all eligibility criteria or obligations are being met. Where the participant fails to do so within a specified period, they may lose accreditation or registration permanently.
- Reduce NI RHI payments
 - Ofgem will also have the power to reduce NI RHI payments by up to 10% of a quarterly periodic support payment. We envisage this power being used for the more serious or sustained cases of abuse, where Ofgem wants to penalise the participant. This should help deter further abuse from the participant and other participants in the scheme, who will know that they risk losing money if they fail to comply with the rules of the scheme.
- Recouping and adjusting payments
 - Where a participant has been overpaid, either as a result of non-compliance (e.g. incorrect meter reading), or due to a mistake, Ofgem will have the option of either asking the participant to repay the money as a civil debt owed to the Authority, or allow for the over-payment by adjusting the future payment accordingly.
- Withdrawal of accreditation or registration
 - There will also be the power to withdraw a participant's accreditation or registration. Where abuse has been very serious or sustained, Ofgem may take the decision that the person cannot be trusted to comply with the rules of the scheme and does not deserve to benefit from the scheme. Once excluded, the person will not be eligible for any further NI RHI payments in respect to the installation in question.
 - Ofgem will also have the power to withdraw accreditation or registration on any other installations owned by the participant, which are also receiving support under the NI RHI and prohibit them from re-joining the scheme. This will be discretionary power, which Ofgem would only use in the most serious cases, where it feels that a person cannot be trusted at all in respect to any installation.

Levels of sanctions/standards of non-compliance

In order to ensure that any sanction imposed is proportionate to the offence and apply consistency in application, it is necessary to categorise the levels of sanctions proposed and standards of non-compliance projected under the NI RHI scheme. There may be cases where we wish to take a non-formal approach in the first instance eg. By issue of an initial advisory letter highlighting issues requesting participants to take remedial action before sanctions are imposed.

The table below is not exhaustive and does not cover every possible scenario of non-compliance nor the detail (eg. timeframe, monetary amount etc) of sanctions imposed.

Final NI RHI positions have not been decided but each sanction will be decided and authorised on a case-by-case basis by a suitably experienced officer who has the delegated authority to make these decisions.

In reaching a decision on the level and type of sanction to impose, various factors will be taken into consideration including:

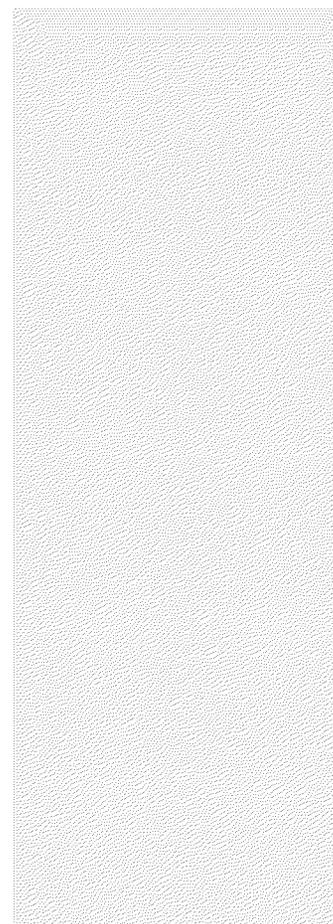
- Seriousness of the non-compliance and the duration;
- Reasons why the non-compliance occurred and any mitigating circumstances;
- Whether there is a history of non-compliance by the participant;
- Whether the participant has gained financially through the non-compliance;
- The conduct of the participant after the non-compliance has been discovered; or
- Whether the participant voluntarily reported the non-compliance.

The following table summarises the various sanctions along with examples of when and how they may be enforced.

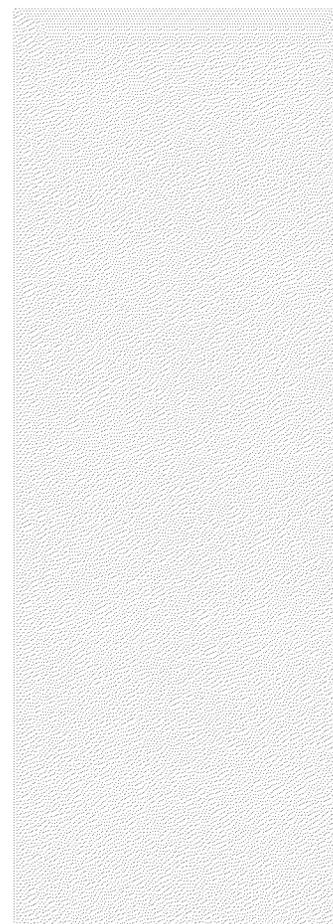


Examples of how NI RHI sanctions may be imposed

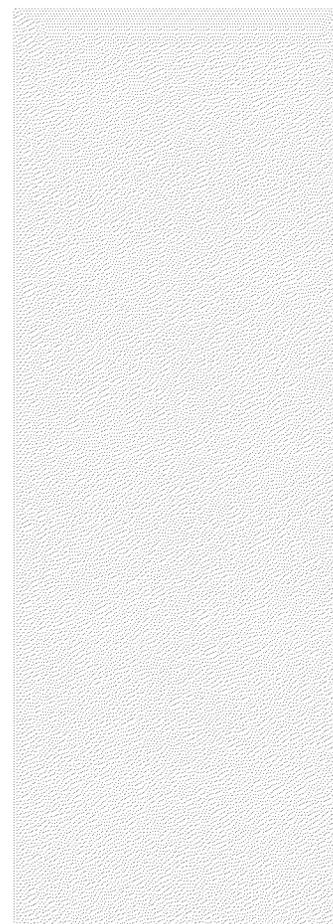
	Sanction	Non-compliance category	comments	Duration/ Amount or length etc
1	Refusal of entry to the scheme	Eligibility criteria or obligations not met (before accreditation) e.g. applicant failed the ID verification process, ineligible heat use etc	Applications must be rejected by the delegated authority.	n/a
2	Temporarily withhold periodic payments to investigate alleged non-compliance	<p>For any scenario that leads Ofgem to suspecting that a participant has failed or is failing to comply with ongoing obligations. (The aim is to avoid build up of a potential overpayment) e.g.</p> <ul style="list-style-type: none"> • Equipment no longer in use • Equipment not maintained/serviced as required • False meter readings • Heat dumping • Placing meters in 'advantageous' positions • Using fossil fuel heater to artificially inflate meter readings • Incorrect information provided during application for accreditation/registration. 	<p>Payments will continue to accrue but will not be paid.</p> <p>30-day updates to the participant to notify them of the progress of the investigation.</p> <p>Where the investigation is not concluded within 6 months, we will notify the participant that the investigation is ongoing and then within 28 days we will pay the payment that had been withheld (whilst we continue the investigation).</p>	<p>Payments may be withheld until such time as the investigation is concluded (up to a period of 6 months from the date the payments were withheld).</p> <p>Where the investigation is concluded within 6 months and we are satisfied that participant is complying with their ongoing obligations, we will repay the withheld payments within 28 days.</p>



4	<p>Suspend periodic payments – where we are satisfied that a participant is failing to comply with an ongoing obligation but could again meet criteria) for a specified period.</p>	<p>Could be imposed further to a previous sanction where, upon investigation, Ofgem is satisfied that there has been a material failure to comply with criteria (or a repeated failure)</p> <p>Will generally be imposed where the participant is capable of rectifying the non-compliance.</p>	<p>Where we are satisfied that the participant is once again complying, we will within 21 days lift the suspension.</p>	<p>Generally participants are not entitled to recover payments suspended due to non-compliance.</p> <p>There may be occasions where, within 6 months, the participant has rectified the non-compliance within 6 months where we may exercise discretion and pay all or part of the payments that had been withheld. This will be decided on a case-by-case basis and will normally apply where the non-compliance may not have compromised the generation of heat e.g. delay in submitting the annual declaration.</p>
	<p>Permanently reduce or withhold periodic payments - where Ofgem is satisfied that there has been a material or repeated failure to comply with an ongoing obligation</p>	<p>For more serious and sustained cases of abuse of the NI RHI scheme.</p> <p>Either</p> <p>permanently withhold a proportion of payments that corresponds with the portion of the quarterly period during which the</p>		



5	during any quarterly period.	<p>non-compliance occurred:</p> <p>or</p> <p>reduce by up to ten percent either the payment for the quarter during which the non breach occurred, or for the following quarterly period</p>		
6	Revocation of accreditation or registration	For material or repeated failure to comply with an ongoing obligation e.g. providing false information in order to gain accreditation/registration, repeated failure to maintain equipment according to manufacturer's instructions.	Once accreditation is revoked, the installation ceases to be eligible for payments. We may also refuse in the future to accredit/register any future installations/biomethane producing facility owned by the former participant.	
7	Recouping overpaid periodic payments	Where it becomes known that the participant has received NI RHI payments that exceed their entitlement of has received payment whilst failing to comply	Where the participant is still on the scheme, we will usually offset the overpayment against	



		with an ongoing obligation.	<p>future payments.</p> <p>In some instances (eg. where the participant is no longer in the scheme or the amount to be repaid exceeds future payments), where we may require the money to be repaid directly.</p> <p>When offsetting, this will usually be against the full amount of the participants next payment and all subsequent payments until the overpayments has been repaid, or by requesting repayment in full within 28 days.</p>	
9	Refer to prosecuting authority	For cases where Ofgem uncovers evidence of possible criminal conduct (eg fraud).	In such cases, based on the nature of the information we hold, we may refer the case to the relevant authorities for investigation	n/a

