





Financial review

Ofgem's Statement of Outturn against Parliamentary Supply is set out on page 69.

During the year, Ofgem used its budget to support its 2021-22 Forward Work Plan with total operating expenditure of £129.9 million against total operating income of £142.8 million. Ofgem therefore ended the year with an overall resource outturn of £12.9 million net income, which is reconciled to resources outturn in SOPS note 2.

This mainly comprises a net operating income of £13.0 million for Green Gas Levy.

This outturn is an underspend of £88.5 million on resource budget estimate of £78.6 million, mainly due to the value of financial provisions being significantly lower than estimated and Green Gas Levy income being higher than estimated.

The Green Gas Levy places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments, to fund the Green Gas Support Scheme. Both commenced in November 2021, but Support Scheme payments did not begin until 2022-23. Set up costs were funded by a budget transfer from BEIS. Income and expenditure for Green Gas is shown in a separate line of Ofgem's Statement of Outturn against Parliamentary Supply. Levy income is based on several estimates, and Support Scheme payments will be demand driven so the future net income will be inherently uncertain.

Ofgem's main source of income is licence fees payable by the sector. Any surplus (over recovery of fees, where spend is less than budget) is repaid to the sector. There is a £6.9 million surplus from the 2021-22 licence fee charged to the sector (2020-21 was a £0.7 million surplus).

The majority of Ofgem's costs are staff costs. Overall Ofgem expenditure was £8.8 million (7%) higher in 2021-22 (£129.9 million) compared to 2020-21 (£121.1 million), primarily due to increased staff numbers and consultancy spend to respond to the gas markets crisis and deliver new renewable energy schemes.

Capital spend mainly consisted of IT equipment and the development of bespoke software to support Ofgem administered schemes, and net spend was £3.6 million compared to a budget of £3.8 million (including the capital income transferred from BEIS).

Corporate Governance Report

Directors Report

There are no company directorships or other significant interests held by members of the management board which may conflict with their management responsibilities.

No personal data related incidents were formally reported to the Information Commissioner's Office (ICO) during the year.



Statement of the Accounting Officer's responsibilities

Under the Government Resources and Accounts Act, HM Treasury has directed Ofgem to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofgem and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis;
- and confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed the Chief Executive as Accounting Officer of Ofgem. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Ofgem's assets, are set out in Managing Public Money published by the HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that Ofgem's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.



The Ofgem Board

The key focus of the Board, and its sub-committees, in 2021-22 has been to protect customers during an unprecedented cost of living crisis.

In particular: security of supply, supplier of last resort and the gas crisis response.

Role of the Board

The Gas and Electricity Markets Authority (GEMA) is Ofgem's Board. The Authority is referred to as the Board in this document. It is currently made up of six non-executive members, including a non-executive Chair, and one executive member in the Chief Executive. The members of the Ofgem Board are provided on the [Ofgem website](#). Three further executive members also attend all Board meetings, and other Ofgem staff attend for specific items, as required.

The Board's powers and duties are largely provided for in statute. The statute speaks of Ofgem as 'the Authority' and when it refers to the Authority it means the Chair and the other members of the Ofgem Board. This means that whenever legislation gives Ofgem a particular power, it is the Board of Ofgem who must exercise that power, unless there is a valid delegation in place.

How appointments are made

The Secretary of State for Business, Energy and Industrial Strategy appoints the non-executive members of the Authority after consulting the Chair. The executive members of the Authority are appointed by the Secretary of State in line with the Civil Service Management Code. They hold their positions for as long as they hold their senior posts at Ofgem, subject to maximum periods of tenure.

No appointments to the Board were made to the Board in 2021-22. One non-executive Board member, Paul Grout, stood down from the Board.

Division of responsibilities

The Board has reserved certain decisions for itself. These are set out in a schedule to the Board's Rules of Procedure and are known as the 'Reserved Functions'.

Decisions relating to any of these Reserved Functions must be decided by the Board, unless the Board specifically delegates that decision to an employee of Ofgem, or to one of the Committees of the Board. A delegation by the Board may be subject to any conditions. Any additional Board delegation is recorded in the Board's minutes. The only exception to this is the making of a Statutory Instrument, which – by law – the Board cannot delegate.

All functions of the Board which are not Reserved Functions, delegated to a Committee of the Board, or delegated by HM Treasury to the Accounting Officer, are referred to as 'General Functions'.

In March 2022, the Board updated its Reserved Matters, to reflect best practice in corporate governance, as well as to codify existing Ofgem custom and practice. As a result, the following were added to the Board's Reserved Matters:

- Approval of proposals for new functions to be performed by Ofgem
- Approval of overall Ofgem organisational strategy, strategic aims or objectives
- Approving the response to any consultation on a draft Strategy and Policy Statement to be designated by the Secretary of State under the Energy Act 2013
- Approval of any Ofgem organisational purpose statement or values
- Approval of any significant change to Ofgem's funding arrangements
- Approval of Ofgem's risk management framework
- Approval of Ofgem's risk appetite statement
- Approval of the appointment of the internal audit provider, following a recommendation from the Audit and Risk Assurance Committee.



In addition, to reflect the organisation's new grading structure, the Board also passed an ordinary resolution which authorised its General Functions to be delegated to any Ofgem employee at Level 2 or above. Two particular enforcement functions remain delegated to all employees.

During 2022-23, further work is also planned to update the regulatory and policy matters that are reserved to the Board.

The Board's Rules of Procedure, including its Reserved Matters, are published on the [Ofgem website](#).

Board Committees

The Board has established a number of sub-committees to support its work. These are: the Audit and Risk Assurance Committee, the People and Remuneration Committee, the RIIO-2 Committee, and the Enforcement Decision Panel.

Further information about the responsibilities and work of the Audit and Risk Assurance Committee and the People and Remuneration Committee are provided in a later section of this report.

The RIIO-2 Committee met five times during the year to ensure that the Board's decision-making process in respect of RIIO-2, which sets price controls for the companies that operate the gas and electricity networks in Great Britain, runs efficiently and effectively. It considers the policy detail and makes recommendations on specific issues before they are put to the Board for decision. It benefits from the independent advisors to the committee, gives additional guidance to the RIIO-2 team and engages with stakeholders at appropriate times during the price control delivery process.

The Enforcement Decision Panel is a committee of the Board, which has been in place since June 2014 to take enforcement decisions on the Board's behalf. It was established to take decisions in enforcement cases by dedicated specialists so that there is a visible separation between the investigation and decision-making functions. The Panel's members and its secretariat are employees of Ofgem who are independent from the case team. The Enforcement Decision Panel publishes its own annual report, which is available on the [Ofgem website](#).

The terms of reference for the Board's Committees are published on the [Ofgem website](#).

Board meetings

The Board meets approximately ten times a year for formal meetings. In addition, over the autumn and winter of 2021-22, the Board met more frequently in order to oversee and support the organisation in responding to the global gas price crisis, and to approve specific decisions.

In its meetings, the Board typically considers a range of matters. This normally includes updates from the Chair and Chief Executive, updates from the Chairs of its Committees on any recent meetings, discussions on Ofgem's strategy, strategic objectives and the wider landscape, organisational matters, including diversity and inclusion, and decisions on specific matters that have not been delegated.

In the last year, the matters the Board has considered included the following:

- Ofgem's response to the gas crisis
- Reviewing Ofgem's strategic risks and risk appetite statement
- Approving Ofgem's Forward Work Programme
- Reviewing organisational performance, including considering a new organisational performance dashboard
- Undertaking a number of deep dives, including into diversity and inclusion, data and digitalisation, and cyber security
- Taking a number of significant regulatory decisions, including in relation to the the default tariff cap and a number of measures to protect consumers in the energy market.

In addition, and normally preceding each formal meeting, the Board has a less formal briefing session. This provides the Board with an opportunity to discuss emerging issues, to have briefings on particular aspects of Ofgem's work, and to hear from stakeholders on topical issues. This year the Board was pleased to welcome a number of stakeholders to its meetings, including National Energy Action, the Centre for Sustainable Energy, the Financial Conduct Authority, and the Department for Business, Energy and Industrial Strategy.

Following the integration of Delivery and Schemes within the same governance process as the rest of Ofgem, its activities and work have begun to be reviewed more regularly by the Board itself. This now includes a monthly information report on Delivery and Schemes' activities, as well as a new quarterly deep-dive, where the Board has an opportunity to discuss strategic issues relating to Delivery and Schemes.

The Board minutes and agendas are published on the [Ofgem website](#).

Board attendance

The Chair and other members play a full part in Board business. They attended full Board meetings and Committee meetings as follows:

| Members | Gas and Electricity Markets Authority | Audit and Risk Assurance Committee | People and Remuneration Committee | RIIO 2 Committee |
|-------------------|---------------------------------------|------------------------------------|-----------------------------------|------------------|
| Barry Panayi | 10/10 | - | 4/4 | - |
| Christine Farnish | 10/10 | - | 4/4 | 4/5 |
| John Crackett | 10/10 | - | - | 5/5 |
| Jonathan Brearley | 10/10 | 4/5 | 4/4 | 4/5 |
| Lynne Embleton | 10/10 | 5/5 | 4/4 | 5/5 |
| Martin Cave | 10/10 | 5/5 | 4/4 | 5/5 |
| Myriam Madden | 10/10 | 5/5 | - | 5/5 |
| Paul Grout | 7/7 | - | - | 3/3 |

Notes:

1. Paul Grout stood down as a Board member in November 2021
2. Paul Grout stood down as Chair of the RIIO 2 Committee in November 2021. John Crackett was subsequently appointed as Chair of the RIIO 2 Committee.

Board evaluation

The effectiveness of the Board is reviewed annually. It is good practice in corporate governance to undertake an externally facilitated Board Effectiveness Review at least once every three years. Last year, following a competitive procurement process, Campbell Tickell was appointed to undertake a Board Effectiveness Review. Their report is published alongside the annual report and accounts.

Identifying and Managing Conflicts of Interests

Ofgem has a conflict of interest policy, which is published on the Ofgem website. This policy was reviewed and updated in 2021-22. Further guidance to staff is also available on the Ofgem staff intranet. Under the policy, all staff are required to notify us of any potential conflicts when they join the organisation and of any changes thereafter.

The policy applies to all staff, whether they are permanent, casual, fixed-term, agency or contractor.



Any potential conflicts are assessed by the Finance, Procurement and Risk team, who consider whether a conflict exists - and if there is one, what to do about it, and a timescale for action. The policy also states that disciplinary action will be taken against any member of staff who is found not to have complied with these arrangements. In line with good practice, for regular policy reviews, this policy is currently in the process of being reviewed and is expected to be updated shortly.

A register of interests for our Board members is published on the Ofgem website.

When staff leave the organisation, we have a process in place to consider whether an application under the Business Appointments Rules is required before they accept a new appointment outside the Civil Service.

This is to ensure that when a former member of staff takes up an outside appointment or employment there should be no cause for justified public concern, criticism or misinterpretation.

This year we have reviewed and updated our arrangements for considering applications made under the Business Appointment Rules.

The Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) comprises three non-executive members of the Board, namely Myriam Madden (Chair), Lynne Embleton and Martin Cave. It has four substantive meetings a year, as well as a dedicated meeting to review the draft annual report and accounts. The Chief Executive, Director of Corporate Services, General Counsel, Deputy Director of Finance, Procurement and Risk, and Head of Assurance are invited to attend Committee meetings, as are other staff as required.

Representatives of Ofgem's External Auditors, the National Audit Office, and representatives of Ofgem's Internal Auditors, Mazars, are also invited to attend all meetings of the ARAC. As is good practice, the non-executive members of the Committee generally have a private session with the auditors at the end of each meeting. In addition, both the Internal Auditors and External Auditors have regular discussions and direct access to the Chair of the ARAC.

Role and responsibilities

The ARAC has terms of reference, which are published on the Ofgem website. They were updated in 2021-22, to align with good practice in corporate governance.

Its key responsibilities are to advise the Accounting Officer and Board in relation to the effectiveness of Ofgem's internal controls, risk management and governance. It will examine the manner in which Ofgem ensures and monitors the adequacy of the financial control systems and recommend any necessary improvements.

The ARAC advises the Board and make recommendation in relation to the programme of audit reviews covering key financial and control processes, taking into account risks facing Ofgem. This includes advising on the accounting policies, the accounts, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.

This year the ARAC has continued to focus on embedding in the organisation good practice in assurance and compliance. As part of this, the ARAC has continued to monitor closely the completion of audit recommendations.

In addition, the ARAC has continued to oversee a programme of improvements to Ofgem's risk management framework and, in particular, how this has been embedded in the organisation.

Activities during the year

During the year, the ARAC's main areas of activity were:

- Monitoring the progress of Internal Audit plan for 2021-22, including considering and approving in-year changes to the programme of audits
- Reviewing Internal Audit reports, and other assurance reports commissioned by management, and management responses on topics including: the Transformation programme, network price controls, risk management and external communications
- Reviewing the Internal Audit plan for 2022-23
- Reviewing Ofgem's risk management framework, considering actions to strengthen practices, monitoring progress against the plan to improve maturity



- Undertaking a number of thematic deep dives into areas of Ofgem's work or strategic risks, including governance arrangements put in place to manage the response to the gas crisis, security of supply and a review of the Supplier of Last Resort (SoLR) levy claim process, as well as the assurance framework in Delivery and Schemes
- Scrutinising information security, reviewing the Data Protection officers annual report and considering a deep dive into Cyber Security risk.

Reporting

The minutes of the Committee are shared with the Board at its next meeting, and the Chair of the Committee is provided with an opportunity to update the Board on any matters she wishes to raise.

The People and Remuneration Committee

The People and Remuneration Committee (PRC) comprises three non-executive members of the Board, namely Christine Farnish (Chair), Lynne Embleton and Barry Panayi. Martin Cave, the Chair of the Board, also attends. It has four substantive meetings a year, and during 2021-22 it generally held meetings every month to support the ongoing organisational Transformation Programme.

The Chief Executive, Director of Corporate Services and Deputy Director of People and Estates are also invited to attend the PRC, as are other staff as required.

Role and responsibilities

The PRC has terms of reference, which are published on the Ofgem website. They were updated in 2021-22, with a number of minor amendments made, including in relation to the PRC's responsibilities in respect of applications made under the Business Appointment Rules.

The key responsibilities of the PRC are to advise the Board and Chief Executive in relation to Senior Civil Service remuneration, and strategic approaches to and policies on people-related issues that impact Ofgem's performance and success.

Activities during the year

During the year, the PRC's main areas of activity were:

- Approving the Ofgem executive team's annual objectives
- Reviewing the performance and remuneration of the Ofgem executive team
- Monitoring and advising the Ofgem executive team on the ongoing organisational Transformation Programme
- Reviewing the annual People Survey results and considering areas for improvement
- Undertaking a number of thematic deep dives on people issues, including diversity and inclusion
- Reviewing a refreshed HR dashboard, with key metrics on people issues.

Reporting

The minutes of the Committee are shared with the Board at its next meeting, and the Chair of the Committee is provided with an opportunity to update the Board on any matters she wishes to raise.

The Executive Committee

Role and responsibilities

ExCo supports the Chief Executive in the running of the organisation and is not a formal Committee of the Board. It is chaired by the Chief Executive and meets monthly. It also has an informal weekly catch-up. The members of the ExCo are listed on the Ofgem website. Other Ofgem staff are invited to attend ExCo as required.

Activities during the year

ExCo provides a single management forum to discuss both regulatory issues and organisational matters. During the year, ExCo's main areas of activity were advising the Chief Executive in respect of:

- Set up of temporary governance arrangements with twice-weekly meetings of relevant directors to coordinate work, stakeholder engagement and shaping of policy in response to the energy crisis.



- Consideration of management responses to, and monitor progress in implementing recommendations from, Internal Audit and other assurance reports
- Reviewing strategic risks creating a risk sub-group to advise on the appropriateness of risks, the mitigation actions and improvements needed to the wider risk management framework
- Consideration of significant people-related issues, and the organisation's diversity and inclusion strategy and policies
- Reviewing significant or crosscutting policy or regulatory proposals, or significant matters relating to Ofgem's delivery of environmental and social schemes
- Reviewing management papers to be submitted to the Board or one of the Board's sub-committees.

Reporting

The CEO provides a monthly report to the Board, summarising high-profile and topical issues facing the organisation, including the activities of ExCo as appropriate.

Ofgem's presence in Wales and Scotland

Ofgem's presence in Scotland continues to grow with over 500 members of our team working from our Glasgow office. As we move into a new hybrid way of working following the pandemic, the office refurbishment was completed in autumn 2021 to provide our Glasgow based colleagues with a new, modern workplace. Many of our colleagues in the Glasgow office work to deliver sustainable energy and environmental schemes to consumers across Great Britain as part of our Delivery and Schemes division. We frequently engage with stakeholders across Scotland, and helped the Scottish Parliament's Committee on Net Zero, Energy and Transport form some of its initial thinking of the new Parliament following the May 2021 elections. On top of that, Ofgem's leaders often meet with energy experts, industry, innovators and consumer groups across Scotland, whilst we continue to maintain a strong working relationship with a number of divisions of the Scottish Government.

Our presence in Wales continues to strengthen. We are pleased to have secured additional capacity in the new Tŷ William Morgan civil service hub offices in central Cardiff which has helped us to widen our recruitment in Cardiff and increase the numbers of colleagues we employ from across Wales.

Building strong collaborative relationships is central to understanding our stakeholders' needs and in his role as senior board level point of contact for Wales, our Chair, Martin Cave has continued to engage with a diverse range of stakeholders across Wales to listen to Welsh consumers voices, as well as hearing the perspectives of energy experts and influential figures - including Welsh Government, industry, innovators, and community groups. One of the direct outputs of this enhanced partnership work is that Ofgem's Chief Engineer, Peter Bingham is collaborating with Welsh Government and network companies in Wales to develop a long-term plan for energy networks in Wales.

Risk Management

Our Risk Management policy sets out how risk management should be embedded across Ofgem: how we should identify, administer, and manage risks. We recognise that exposure to risk can bring negative outcomes but also positive ones: our task is to manage not only the risks which lead to consumer detriment but also those opportunities which could expose consumers to the positive outcomes from better competition and regulation.

The Board draws on advice and support from the ARAC to meet its overall responsibility for the Risk Management Framework and to set our risk appetite. Our Audit, Risk and Assurance Committee examines our strategic risks and identified mitigations at each meeting. Our Board approved a revised Risk Appetite Statement in April 2022.

In late 2021 we established an Executive Committee Sub Group on risk to meet monthly to review our strategic risks and challenge their quantification and the identified mitigations to ensure consistency in scoring and that emerging strategic risks received the appropriate level of scrutiny.

On a monthly basis ExCo reviewed our strategic risks and issues and considered the quantification

of these and whether the identified mitigations were sufficient to manage our risks within the risk appetite tolerances set by the Board. During the year they participated in horizon scanning workshops which allowed them to identify emerging risks and to consider what mitigations Ofgem should own and which had to be transferred to other parties to ensure effective management.

During 2021-22 we established a Risk Managers Network which meets monthly to ensure consistency in our approach and to share best practice. We have delivered a targeted training programme for this cohort and have identified ongoing professional development opportunities to increase their confidence and competence to lead our risk management work in individual business units.

Internal audit conducted two reviews of the Risk Management and Assurance Framework during 2021-22. Part 1 was completed in June 2021,

focusing on the design of the controls in respect of the risk management framework, whilst Part 2 was completed in January 2022 and focused on the effectiveness of the risk management control framework, as well as a review the design of the controls in relation to the Assurance Framework.

The first review secured Moderate assurance and confirmed it was evident that Ofgem had made positive progress with regards to the design of its risk management framework. The second review secured Limited assurance and concluded that there was more work needed to embed risk management practices throughout Ofgem. This assessment was accepted and Ofgem has committed to strengthen its risk management practices.

Our risk assessment

During the year, the most significant strategic risks identified and mitigated were as follows:

| Risk | Response |
|--|--|
| <p>Further disruption in the energy market because of geopolitical forces and wholesale price volatility. Resulting from the Russian invasion of Ukraine, including high and volatile gas prices and the possible impact of sanctions, leading to further exits from the UK market.</p> | <p>We are part of a cross-government task force looking at this issue. We are engaging with the market where an exit strategy is required to ensure there is a managed exit causing minimal disruption. We are encouraging preparedness of critical institutions and European regulators.</p> |
| <p>Energy price increases worsen vulnerable customers' ability to afford energy</p> | <p>We are regularly engaging with network companies, suppliers, Energy UK, consumer groups and charities to fully understand the issues affective vulnerable customers and to explore and assess what more can be done by industry and government to support customers at risk from rising prices.</p> |
| <p>Inadequate Financial Resilience & Governance of regulated parties, leading to customer disruption, increased cost to consumers, contagion effects on other energy companies/networks, potential security of supply issues.</p> | <p>We also regularly discuss affordability issues with Government, including in relation to Government support for consumers.</p> <p>We are building on the monitoring already in place to identify other measures which can be introduced across the industry to identify and respond to potential issues earlier. These include ringfencing customer credit and applying financial resilience and control requirements for new and existing suppliers.</p> |



| Risk | Response |
|---|---|
| <p>Threats to security of supply. This is a complex risk with multiple components and causes including whether there is enough supply to meet demand, whether the pipes and wires are functioning properly and geopolitical factors.</p> | <p>We engaged with BEIS and system operators on identifying specific concerns and options for mitigation.</p> <p>Options included:</p> <ul style="list-style-type: none"> ▪ Minimum storage requirements ▪ Joint European gas supply contracts ▪ Alternative gas imports ▪ Review of critical infrastructure ownership ▪ Increased production of biogas and acceleration of hydrogen ▪ Roll out of renewables |
| <p>Cyber incident causes a localised, multi-regional or national supply outage.</p> | <p>This material risk has been subjected to a deep dive by our ExCo, ARAC and examination by GEMA during the past year.</p> <p>Critical organisations in the electricity and gas sub-sectors are legally required to have appropriate and proportionate measures to manage security risks. Ofgem is a joint-Competent Authority with BEIS, which grants enforcement rights. Similar requirements exist for Smart Metering organisations.</p> |
| <p>Increase in the frequency and severity of weather events caused by climate change resulting in increased disruption to energy supplies.</p> | <p>We used Ofgem's RIIO process to fund a sub-set of the energy sector organisations' cyber security activities. With BEIS, we set the benchmark for organisations to meet on cyber risks and provide guidance on the regulations.</p> <p>We pro-actively engaged energy sector organisations, at all levels of seniority, to ensure that they recognise their regulatory requirements and to keep-up the pace of change.</p> <p>We undertook an inspection programme to assess the suitability of cyber controls in the sector.</p> |
| <p>Net zero transition is slower and/or higher cost than necessary.</p> | <p>We worked with BEIS and Cabinet Office to develop standards for the resilience of critical national infrastructure against climate change, and are engaging with networks on ways to drive improvements in network resilience.</p> <p>We undertook a number of actions, including:</p> <p>a) ensuring we understand how to deliver a least cost transition, and that it is embedded in Ofgem strategy and programmes of work - decarbonisation at lowest cost is explicitly part of our strategic priorities, and our strategic change programmes.</p> <p>b) engaged with HMG and Devolved Administrations (DA) where we can help them to deliver least cost transition, or we require their support (e.g., legislation) for Ofgem to deliver a least cost transition - good engagement with HMG on the key net zero policy issues, need continued investment (e.g., in REMA) to ensure alignment on long term reforms/destination and further engagement with DAs.</p> <p>c) ensured CO2 impacts and transformative change was routinely covered in relevant policy papers and IAs.</p> |

| Risk | Response |
|--|---|
| <p>Misalignment between Ofgem’s independent regulation and scheme delivery, and wider Government policy or actions, leading to negative outcomes for consumers or scheme users.</p> | <p>We worked closely with Government and industry bodies at all levels, ensuring that we met regularly with Ministers and officials at BEIS, HMT, No 10 and others.</p> |
| <p>Insufficient resource to deliver key work.</p> | <p>We continued to deliver on an ambitious transformation programme, including a simpler structure and a more diverse and inclusive workforce.</p> <p>We requested and secured additional budget in 2021-22 and 2022-23 to respond to market events. We are recruiting additional staff to ensure sufficient internal expertise.</p> |
| <p>Aged or not fit-for-purpose IT systems and hardware leading to IT service interruption for Ofgem staff and external parties using our systems.</p> | <p>We undertook a comprehensive refresh and replace programme to deliver predictability and stability in our core infrastructure services, finance system and government scheme registers. We have replaced the majority of older user devices with new hardware and are on track to migrate server based applications to the cloud.</p> |
| <p>Information/Data Stewardship and Regulatory Compliance. Unauthorised and/or inappropriate control or exposure of information or data bringing adverse impact on Ofgem, consumers, and other industry stakeholders.</p> | <p>We have implemented strong policies and practices for data handling and support these with clear roles, responsibilities and training. We have enhanced monitoring of data handling activities to identify and address areas of vulnerability. We have established a network of Senior Information Asset Owners for each directorate and reviewed our information assets. We report monthly on data breaches and their root cause to drive down instances.</p> |



Internal Audit Assurance Opinion

Our Internal Auditor, Mazars LLP, completed an agreed schedule of reviews throughout the year. These were identified through risk based Internal Audit planning and interviews with Ofgem management and the Audit and Risk Assurance Committee.

The Internal Audit programme comprised 8 audits, and delivered 3 reports providing 'Moderate Assurance', 4 with 'Limited Assurance' and 1 with 'Unsatisfactory Assurance'. The reviews recommended a total of 8 high priority recommendations and 57 other recommendations. We monitored implementation of the resulting actions and all of the actions open during the year had either been satisfactorily addressed by 31st March 2022 or remained within due-dates agreed in the audit reports.

Mazars' Annual Audit Opinion provided moderate assurance over the overall adequacy and effectiveness of the framework of governance, risk management, and control. Overall, some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

Certain weaknesses and exceptions were highlighted by the audit work, where Mazars raised Priority 1 and 2 recommendations. There was one unsatisfactory assurance opinion (Network Price Controls) and Mazars noted that Ofgem will need to ensure it continues its positive trajectory in implementing recommendations to ensure known risks are mitigated, particularly where fundamental/significant recommendations have been raised.

However, they noted that the rate of implementation of Ofgem's recommendations has improved this year, and they have been provided with detailed information in relation to planned transformation activity relating to risk management. Mazars also confirmed that fundamental recommendations raised within their report have since been implemented during the year.

Similarly, project management controls remain a key theme for improvement at Ofgem and Mazars had the opportunity to review and discuss plans with Ofgem relating to what changes will be made in this area.

Whilst Mazars agreed with Ofgem for the scale of their assurance activity to be amended to reflect additional significant assurance activity sought by the organisation in relation to the supplier energy crisis, they were satisfied with the coverage performed.

They also had the opportunity to review the scope of the assurance work performed and were able to assess key areas of risk via ARAC papers, such as procurement risk relating to single tender actions.

All recommendations have been or are in the process of being addressed.

Additional sources of assurance

In addition to the Annual Assurance Opinion from Internal Audit, we perform an internal assessment of Ofgem's control environment. Each Director is responsible for completing an annual Statement of Assurance, providing assurance that Ofgem's management systems are being applied consistently and effectively across their respective departments.

The Statement of Assurance assessment covers 38 key internal controls. This year, the main conclusions of the review included:

- Substantial improvement in Ofgem's approach to information management, recognising a surge towards the end of the year. Further work needed to maintain and build on this foundation, particularly to try to be more proactive rather than reactive
- The well-designed risk management framework and related tools, which have been implemented across all directorates – but in some cases were still a minimum viable product to be built on
- The gas crisis led to significant work pressure on many Ofgem teams, which meant that there was not always a consistently high standard of compliance with corporate processes
- Corporate teams carefully managed work supporting fast deployment of resource where required to respond to the gas crisis, whilst maintaining an adequate level of control.

Overall, adequate mitigations were in place to identify and control risk across the organisation.

In addition, the Ofgem Board commissioned a review into the root causes of the supplier failures that occurred in the autumn and winter of 2021-22 and specifically, into how regulation of the industry played a part.

Following a competitive procurement process, Oxera, the economics and finance consultancy, was appointed in January 2022 to conduct and deliver the review at pace, with a commitment from the Board that as soon as it was finalised it would be published.

The final report and recommendations were presented to Ofgem and published in May 2022.

The Board has accepted the recommendations in the report, many of which were already being implemented. The Board will also ensure all recommendations are carried out to further strengthen the regulatory regime, building on work by colleagues across the organisation.

The National Audit Office also undertook a study into the energy supplier market, following the large number of supplier failures that occurred in the autumn and winter of 2021-22. Its report was published in June 2022. It concluded that while Ofgem and BEIS ensured that the vast majority of consumers faced no disruption to their energy supply when their provider failed, Ofgem's historic approach to the financial regulation of energy suppliers increased the risk and cost of them failing, and allowed a market to develop that was vulnerable to shocks. It recommended a number of measures to Ofgem and BEIS to ensure that the supplier market works effectively for consumers which we are now taking forward.

Whistleblowing

Ofgem internal whistleblowing policy is a process for staff to raise any whistleblowing concerns and supports a culture where employees feel confident to speak up about issues of concern. It aligns with the recommendations and good practice published by the Civil Service and Public Concern at Work.

No issues were raised under this policy during the year.

Complaints to the Parliamentary Ombudsman

No cases were referred to the Parliamentary Ombudsman during the year.

Conclusion

Significant work took place over the year to transform the organisation whilst also responding to an unprecedented gas crisis, and I am pleased that we have managed to maintain a moderate Internal Audit Assurance Opinion in challenging circumstances.

However, the prioritisation required across the organisation to respond to the crisis meant that less progress was made on corporate objectives than planned. The policies, processes and tools are improving but there is further work to do to, particularly on risk and programme management, to communicate some of the changes and embed a culture of compliance, demonstrating evidence of embedding controls across the organisation. Further progress will be necessary to maintain, and then improve upon a Moderate Assurance Opinion in future years. I am confident that the planned improvements will ensure we continue to strengthen our capability to deliver value for money for, and protect the interests of, consumers.



Jonathan Brearley
Chief Executive

11 July 2022

