

Trust Statement



Accounting officer's foreword to the trust statement

Scope

Ofgem is governed by the Gas and Electricity Markets Authority. The Authority's responsibilities are set out in the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Acts of 2004, 2008, 2010, 2011 and 2013 and related legislation.

The Authority is responsible for taking enforcement action (including imposing financial penalties) in respect of the energy companies that it regulates, and collecting the England and Wales, and Scotland fossil fuel levies.

The trust statement reports the revenues and expenditures and assets and liabilities related to fines, penalties and the fossil fuel levies for the financial year 2017-18. These amounts are collected by us for payment into the consolidated fund⁹.

This statement is also prepared to disclose any material expenditure or income that has not been applied to the purposes intended by parliament, or material transactions that have not conformed to the authorities which govern them. There was no such expenditure or income during 2017-18.

Background

Penalties

Under the Gas Act 1986 and the Electricity Act 1989 the Authority may impose a statutory penalty where it is satisfied that a licence holder has contravened or is contravening any relevant requirement or condition, or has failed or is failing to achieve any standard of performance prescribed.

No penalty imposed by the Authority may exceed 10% of the turnover of the licence holder. Any sums imposed by the Authority by way of a statutory penalty shall be paid into the consolidated fund. In 2016-17, this amounted to £2 in nominal penalties. Nominal penalties are used where cases settle and redress is provided.

The Authority gives notice to the licence holder that it proposes to impose a penalty and consults on this publicly.

⁹ We collect the fines, penalties and fossil fuel levies for Scotland, England & Wales.

Financial review

This year we imposed penalties on companies and required them to make redress to affected customers or otherwise support the interests of energy consumers. This financial review covers penalties that resulted in the distribution of funds to the consolidated fund.

British Gas

In June 2017 we issued a notice confirming our decision to impose a statutory penalty of £1, and by way of redress £9.5m (less £1) on British Gas Trading Limited (British Gas) following an investigation by Ofgem into British Gas' compliance with Standard Licence Conditions (SLCs) 7A, 7B, 14A and 21B of the gas and electricity supply licence and Regulations 3 and 7 of the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 (CHRs).

Our Standards of Conduct licence conditions (SLC 7B) require suppliers to take all reasonable steps to ensure that each microbusiness consumer is treated fairly. We found that British Gas customers experienced a drop in customer service following the implementation of a new billing system. This included failing to provide customers with quarterly bills and failing to provide information on the end date of the customers' fixed term contract on their bill. We also found that customers did not always have their complaints opened and closed properly and that British Gas did not act promptly to put things right.

British Gas agreed to pay £9,499,999 in payments to directly affected microbusiness and other non-domestic customers, and to the Money Advice Trust. The redress payments to the Money Advice Trust's Business Debt line will be used to provide debt advice services to small business customers experiencing difficulties in paying their energy bills.

E (Gas and Electricity)

In January 2018 we issued a notice confirming our decision to impose a statutory penalty of £1, and by way of redress of £260,000 (less £1) on E (Gas and Electricity) Limited (E) following an investigation by Ofgem into E's compliance with SLC 25.2 (sales and marketing objective) and 13.1 (arrangements for site access). We found that E failed to take all reasonable steps to ensure that information provided by E or its representatives did not mislead customers and was fair in terms of content and how it was presented. E also failed to ensure that its representatives who visited customers' premises could be readily identified as representatives of the licensee and were fit and proper persons to visit and enter customers' premises.

In January 2018 E agreed to pay £259,999 in voluntary redress. The redress was paid in to Ofgem's Voluntary Redress Fund¹⁰ (administered by the Energy Savings Trust) and the money will be used to benefit energy customers.

¹⁰ Companies may volunteer to pay a sum of money to the Voluntary Redress Fund in lieu of, or in addition to a financial penalty for breaches of licence conditions. Companies may also volunteer these payments to remedy any harm to consumers, in addition to compensation to those directly affected, where Ofgem has not conducted a formal investigation. Details of the fund can be found at https://www.ofgem.gov.uk/system/files/docs/2017/08/authority_guidance_on_the_allocation_of_redress_funds.pdf

Statement of the accounting officer's responsibilities in respect of the trust statement

Under section 7 of the Government Resources and Accounts Act 2000, the Treasury has directed the Office of Gas and Electricity Markets (Ofgem) to prepare for each financial year a trust statement in the form and on the basis set out in the Accounts Direction.

The Treasury has appointed the chief executive as accounting officer of Ofgem, with overall responsibility for preparing the trust statement and for transmitting it to the comptroller and auditor general.

The responsibilities of an accounting officer, including responsibility for the propriety and regularity of the public finances for which an accounting officer is answerable, for keeping proper records and for safeguarding our assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Managing Public Money.

The trust statement is prepared on an accruals basis and must give a true and fair view of the state of affairs of fines and penalties imposed by Ofgem, and the Fossil Fuel Levy for England, Wales and Scotland collected by us, together with the net amounts surrendered to the consolidated fund.

In preparing the trust statement, the accounting officer must comply with the requirements of the Government Financial Reporting Manual prepared by the Treasury and, in particular, should:

- 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 account
- prepare the trust statement on a going-concern basis and confirm that there is no relevant audit information for which the auditor isn't aware, and that the accounts are fair, balanced and understandable (as per the bullets in the disclosure in the Resource Accounts)
- confirm that, as far as he or she is aware, there is no relevant audit information of which the entities auditors are unaware, and the Accounting Officer has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the entities auditors are aware of that information
- confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he or she takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable

Governance statement

Ofgem's governance statement, covering both the resource accounts and the trust statement, is on pages 41 to 47.

The certificate and report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets Trust Statement for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office of Gas and Electricity Markets Trust Statement as at 31 March 2018 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards

require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Office of Gas and Electricity Markets in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities in respect of the trust statement, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of Gas and Electricity Markets' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office of Gas and Electricity Markets' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report and Accounting Officer's foreword to the Trust Statement, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the information given in the Annual Report and Accounting Officer's foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

27 June 2018

Statement of revenue, other income and expenditure for the year ended 31 March 2018

		2017-18	2016-17
	Note	£000	£000
Revenue			
Fines and penalties			
Penalties imposed	2.1	-	-
Fossil Fuel Levy			
Fossil Fuel Levy (England and Wales)		2,583	6,721
Fossil Fuel Levy (Scotland)		850	3,622
Other income			
Interest on penalties		-	-
Interest on Fossil Fuel Levy (England and Wales)		75	60
Interest on Fossil Fuel Levy (Scotland)		100	66
Total revenue and other income		3,608	10,469
Expenditure			
Administration of the Fossil Fuel Levy		(38)	(57)
Total expenditure		(38)	(57)
Net revenue for the consolidated fund		3,570	10,412

There were no recognised gains or losses accounted for outside the above statement of revenue, other income and expenditure.

Statement of financial position as at 31 March 2018

		2017-18	2016-17
	Note	£000	£000
Current assets			
Receivables and accrued revenue receivable	3	440	1,020
Cash at bank – UK consolidated fund		32,500	29,915
Cash at bank – Scottish consolidated fund		42,610	41,045
Net current assets		75,550	71,980
Current liabilities			
Payables and accrued expenditure liabilities	4	(2)	(2)
Total net assets		75,548	71,978
Represented by:			
Balance on UK consolidated fund account		32,895	30,268
Balance on Scottish consolidated fund account		42,653	41,710
	5	75,548	71,978

Dermot Nolan
Accounting officer

21 June 2018

Statement of cash flows for the year ended 31 March 2018

	2017-18	2016-17
	£000	£000
Net cash flow from operating activities	4,149	13,159
Cash paid to the consolidated funds	-	(8,600)
Increase in cash in the period	4,149	4,559

Notes to the cash flow statement

A: Reconciliation of net cash flow to movement in net funds

		2017-18	2016-17
	Note	£000	£000
Net revenue for the consolidated fund		3,570	10,412
Decrease in non-cash assets	3	579	2,754
Decrease in liabilities	4	-	(7)
Net cash flow from operating activities		4,149	13,159

B: Analysis of changes in net funds

	2017-18	2016-17
	£000	£000
Increase in cash in the period	4,149	4,559
Net funds at 1 April 2017	70,961	66,402
Net funds at 31 March 2018	75,110	70,961

Notes to the trust statement

1. Statement of accounting policies

1.1 Basis of accounting

The trust statement is prepared in accordance with the accounts direction issued by the Treasury under section 7 of the Government Resources and Accounts Act 2000 and in accordance with the accounting policies detailed below. These have been agreed between Ofgem and the Treasury and have been developed with reference to International Financial Reporting Standards and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The income and associated expenditure contained in these statements are those flows of funds which Ofgem handles on behalf of the consolidated fund and where it is acting as agent rather than as principal.

The financial information contained in the statements and in the notes is rounded to the nearest £1,000.

1.2 Accounting convention

The trust statement has been prepared in accordance with the historical cost convention.

1.3 Revenue recognition

Fines, penalties and levies are measured in accordance with FReM. They are measured at the fair value of amounts received or receivable. Income is recognised when:

- a fine or penalty is validly imposed and an obligation to pay arises
- a levy payment becomes due.

2. Revenue

2.1 Fines and penalties

During 2017-18 and 2016-17 only nominal penalties were received by Ofgem.

3. Receivables and accrued revenue receivable

	Accrued revenue receivable at 31 March 2018	Total as at 31 March 2018	Total as at 31 March 2017
	£000	£000	£000
Fines and penalties	-	-	-
Fossil Fuel Levy	440	440	1,020
Total	440	440	1,020

Receivables represent the amounts due from those on whom financial penalties have been imposed or a levy assessed at the balance sheet date, but where receipt is made subsequently.

Nominal penalties receivable do not show due to roundings.

4. Payables and accrued expenditure liabilities

	Payables as at 31 March 2018	Total as at 31 March 2018	Total as at 31 March 2017
	£000	£000	£000
Fossil Fuel Levy	2	2	2
Total	2	2	2

Payables are the amounts established as due at the balance sheet date, but where payment is made subsequently.

5. Balance on the consolidated fund accounts

	2017-18	2016-17
	£000	£000
Balance on the consolidated fund accounts	71,978	70,166
Net revenue for the consolidated fund accounts	3,570	10,412
Less amount paid to the consolidated funds	-	(8,600)
Balance on consolidated fund accounts as at 31 March	75,548	71,978

