

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 2018-19. These amounts are collected by us for payment into the consolidated fund¹¹.

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 2018-19.

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 regulated party (e.g. licence-holders) has contravened or is contravening any relevant condition or requirement, or has failed or is failing to achieve any prescribed standard of performance.

No penalty imposed by the Authority may exceed 10% of the turnover of the regulated party. Any sums imposed by the Authority by way of a statutory penalty are paid into the consolidated fund. In 2018-19, this amounted to £2,400,000. The Authority gives notice to the regulated party that it proposes to impose a penalty and consults on this publicly.

¹¹ We collect the fines, penalties and fossil fuel levies for Scotland, England & Wales. This was reviewed by the auditors and signed off for 2018-19.

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 fund¹².

Npower

On 17 September 2018 we issued a notice confirming our decision to impose a single joint penalty of £2.4 million on npower Direct Limited, npower Limited, npower Northern Limited and npower Yorkshire Limited, following an investigation by Ofgem into npower's compliance with Standard Licence Conditions (SLCs) 12.18 and SLC 12.21 of the Electricity Supply Licence.

Our Standard Licence Condition 12.18 required suppliers to replace electricity meters only with "Advanced Meters" at 'relevant premises' (defined in SLC 12.17) from April 2009. We found that npower replaced electricity meters at defined relevant premises with meters which were not advanced meters, in contravention of SLC 12.18.

SLC 12.21 requires that as from 6 April 2014, a licensee must not supply electricity to any relevant premises other than through an advanced meter except in any instances where the licensee was unable to install or arrange for the installation of any advanced meter at the relevant premises in question despite taking all reasonable steps to do so. We also found the npower had failed to take all reasonable steps to install or arrange for the installation of an advanced meter at relevant premises.

¹² 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 HM 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 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 the Government Financial Reporting Manual, 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 financial statements;
 - prepare the financial statements 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 the [name of entity]'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.

Governance statement

Ofgem's governance statement, covering both the resource accounts and the trust statement, is on pages 40 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 Office of Gas and Electricity Markets Trust Statement for the year ended 31 March 2019 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 Office of Gas and Electricity Markets Trust Statement as at 31 March 2019 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.

Conclusions relating to going concern

I am required to 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 Trust Statement's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the audit of the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, 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.

- 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, but does not include 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.

Gareth Davies

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

1 July 2019

Statement of revenue, other income and expenditure for the year ended 31 March 2019

		2018-19	2017-18
	Note	£000	£000
Revenue			
Fines and penalties			
Penalties imposed	2.1	2,400	-
Fossil Fuel Levy			
Fossil Fuel Levy (England and Wales)		1,818	2,583
Fossil Fuel Levy (Scotland)		540	850
Finance Income			
Interest on penalties		-	-
Interest on bank deposits (England and Wales)		183	75
Interest on bank deposits (Scotland)		253	100
Total revenue and other income		5,194	3,608
Expenditure			
Administration of the Fossil Fuel Levy		(11)	(38)
Total expenditure		(11)	(38)
Net revenue for the consolidated fund		5,183	3,570

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

The notes at pages 98 to 99 form part of this statement.

Statement of financial position as at 31 March 2019

		2018-19	2017-18
	Note	£000	£000
Current assets			
Receivables and accrued revenue receivable	3	307	440
Cash at bank – UK consolidated fund		31,671	32,500
Cash at bank – Scottish consolidated fund		43,352	42,610
Net current assets		75,330	75,550
Current liabilities			
Payables and accrued expenditure liabilities	4	(2)	(2)
Total net assets		75,328	75,548
Represented by:			
Balance on UK consolidated fund account		31,884	32,895
Balance on Scottish consolidated fund account		43,444	42,653
	5	75,328	75,548

Dermot Nolan
Accounting officer

21 June 2019

Statement of cash flows for the year ended 31 March 2019

	2018-19	2017-18
	£000	£000
Net cash flow from operating activities	2,917	4,149
Cash paid to the consolidated funds	(3,003)	-
Increase in cash in the period	(86)	4,149

Notes to the cash flow statement

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

		2018-19	2017-18
	Note	£000	£000
Net revenue for the consolidated fund		5,183	3,570
Decrease in non-cash assets	3	134	579
Non-cash outflow to consolidated fund		(2,400)	-
Net cash flow from operating activities		2,917	4,149

B: Analysis of changes in net funds

	2018-19	2017-18
	£000	£000
Increase in cash in the period	(86)	4,149
Net funds at 1 April 2018	75,110	70,961
Net funds at 31 March 2019	75,024	75,110

The notes at pages 98 to 99 form part of this statement.

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 IFRS 15. 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 2018-19 only nominal penalties were received by Ofgem other than the £2.4m fine for Npower disclosed in Appendix II.

3. Receivables and accrued revenue receivable

	Accrued revenue receivable at 31 March 2019	Total as at 31 March 2019	Total as at 31 March 2018
	£000	£000	£000
Fines and penalties	-	-	-
Fossil Fuel Levy	307	307	440
Total	307	307	440

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 2019	Total as at 31 March 2019	Total as at 31 March 2018
	£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

	2018-19	2017-18
	£000	£000
Balance on the consolidated fund accounts	75,548	71,978
Net revenue for the consolidated fund accounts	5,183	3,570
Less amount paid to the consolidated funds	(5,403)*	-
Balance on consolidated fund accounts as at 31 March	75,328	75,548

*Includes £3,003 paid from trust statement and £2,400 fine into paid to Ofgem Resource account which was paid directly to Consolidated fund.

