



Future Perfect

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Obligations of GHG Verifiers

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Obligations of GHG Verifiers

Obligations of GHG verifiers in providing high levels of assurance

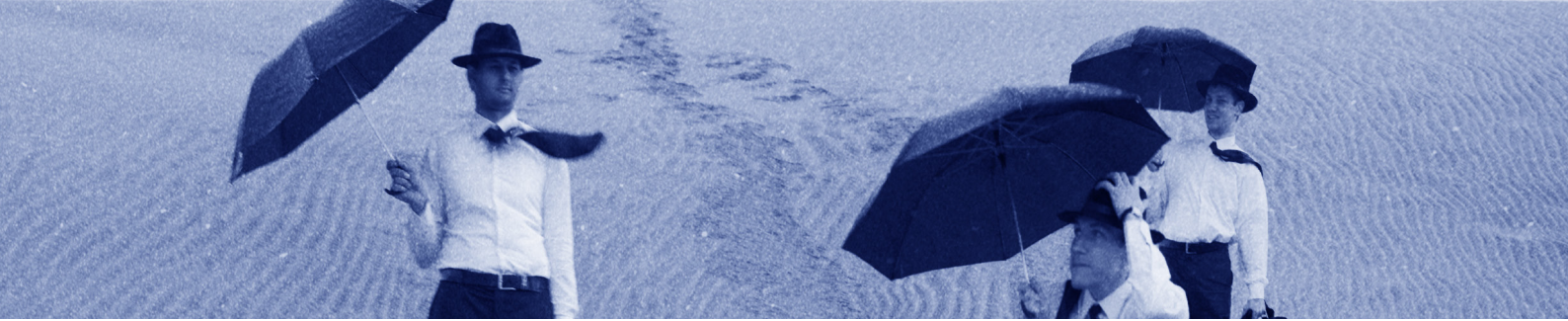
The role of the verifier in Emissions Trading Schemes is to provide assurance to the users of reported data (regulators, carbon market traders etc) that the data is a faithful representation of the reality and can therefore be used for the intended purposes of trading – i.e. no ‘dud cheques’/‘bubble shares’ etc are being passed.

Annex V of the EU Directive on Emissions Trading (2003/87/EC, as amended) requires that the verifier prepares a report on the verification including a statement that the total emissions are not materially mis-stated (clause 11). This form of words is known as a positive assurance opinion and carries with it obligations for the verifier to undertake sufficient work to enable them to make such a statement, which is akin to putting hand on heart (or religious book!) and confirming something is true.

The principles of a verifier’s obligations are outlined in generally accepted accounting practice and the guidance of the International Auditing and Assurance Standards Board in the International Framework for Assurance Engagements and related documents, which have been drawn upon in providing the more specific guidance to GHG verification organisations. This framework outlines two levels of assurance that may be given – Reasonable and Limited (and by implication a third – No Assurance).

- **Reasonable assurance** – may be provided where the assurance engagement risk has been reduced to an acceptably low level, in the circumstances of the engagement, such that the conclusions can be expressed in a positive form of words - i.e. in the verifier’s opinion the data are not materially mis-stated

The assurance engagement risk is reduced in this case by the depth and breadth of analysis and substantive testing that is undertaken; and the quality and quantity of objective evidence that is obtained.



- **Limited assurance** – is provided where the assurance engagement risk has been reduced to an acceptable level, but not to the same degree as for a reasonable assurance engagement (i.e. the risk is still greater). Therefore, the conclusions are expressed in a negative form of words to indicate the limitation of the assurance provided - i.e. based upon the work (as described in the verification opinion report or statement); nothing has come to the attention of the verifier that causes them to believe that the data are materially mis-stated. Due to some limitation, the amount, depth and breadth of work undertaken is less than would be undertaken for a reasonable level of assurance

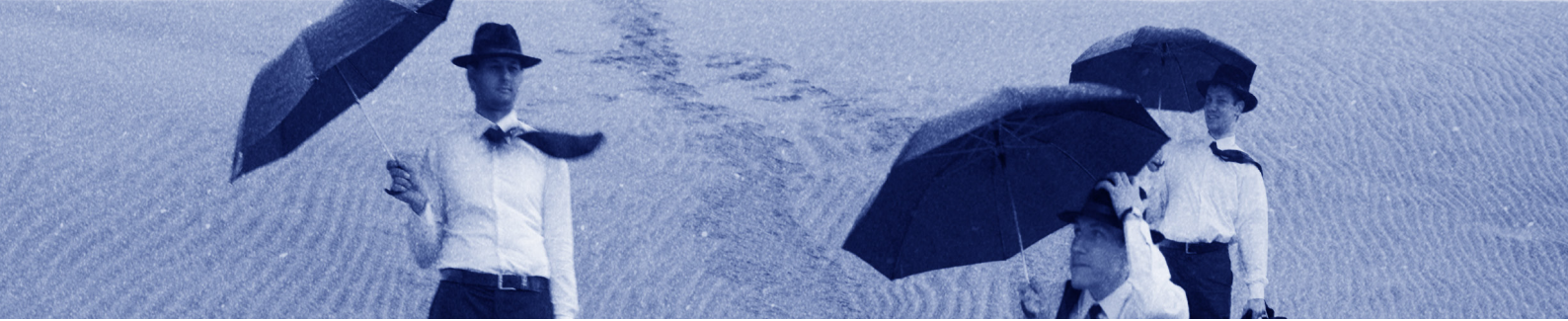
Limitations on the amount of assurance work undertaken may come from a number of sources including, but not limited to:

- The amount of time and resource available
- The availability of any required technical expertise
- The complexity of the information/process that is the subject of assurance
- The quality and availability of objective evidence
- How far back to prime source evidence can be obtained (e.g. back to central systems, documents viewed, independent inspections on the ground etc); and
- The nature of any inherent uncertainties within the information/process that are the subject of assurance

It is considered that following the generally accepted approach to levels of assurance as outlined above will act to decrease the subjectivity and variability that is likely to be applied by different verifiers. It will also control the inherent risks of assurance services.

Within both levels of assurance there are essentially three opinions that can be arrived at:

- **Verified** – i.e. there are no material mis-statements and no material non-compliances with the rules and requirements of the scheme
- **Verified with comments** – i.e. there are qualifications that the verifier wishes to make to the opinion to highlight to a user that there may be an issue that affects the data. These may be non-material non-conformances with rules and requirements, or other matters that may affect the uncertainty of data such as maintenance and calibration of metering and analytical equipment etc. Opinions have the extension “with the exception of..... (the qualification to be made)..”
- **Not verified** – i.e. it is not possible to verify the data either because there are material mis-statements, material non-compliances or insufficient evidence to corroborate information and data being reported



A key component of determining what opinion is formed is the materiality threshold selected. Materiality is considered to be more art than science. It is the professional judgement of the GHG Lead Verifier as to whether any mis-statement might impact upon the judgement and decisions of the users of the disclosed information; and whether there is the potential for other mis-statements and errors not to have been identified.

In the context of EU Emissions Trading there are three components of materiality to be judged:

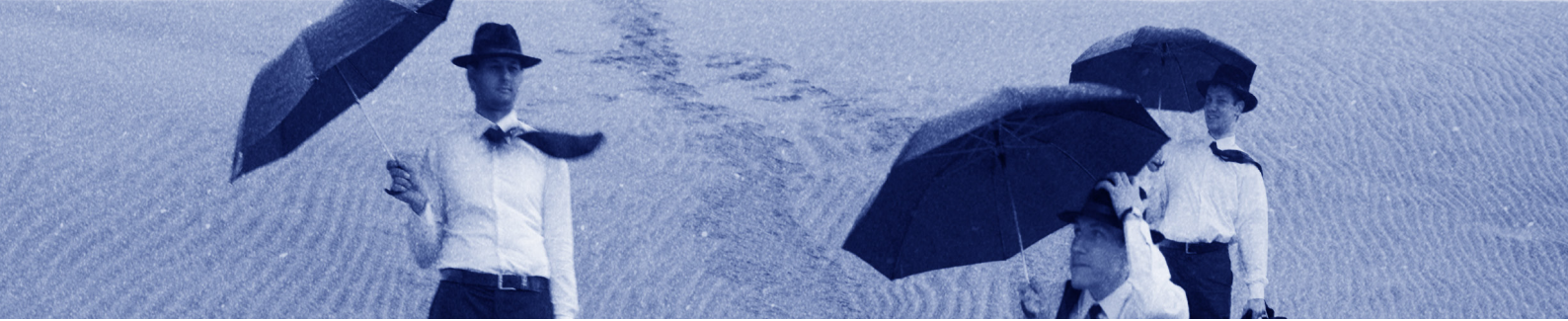
- Compliance with the rules of the scheme
- Compliance with the reporting principles; and
- The materiality of any mis-statement of the actual data (and whether there is the potential for other mis-statements and errors not to have been identified – for example, as a result of limitations on the amount and depth of sample testing that has been performed)
- These are essentially a hierarchy with each level reviewed on a sliding scale from significant to non-significant

Firstly, is any non-compliance with the rules significant?

- E.g. has the installation applied a methodology completely different to that permitted, or has a de-minimus source been omitted or has there been a technical non-compliance (such as a change in contact nominated on the permit)?
- If it is a significant non-compliance then professional judgement would say it is material and the verification would stop there (until such time as the situation is rectified, or if not a “no-verification” opinion would be expressed)
- If it is not a significant non-compliance then -

Secondly, have the accounting principles been appropriately applied. These too have a form of hierarchy:

- **Accuracy, completeness and consistency**, provide context for
- **Materiality**; which in turn determines whether
- The reported information and data is **faithful**
- All of which are underpinned by **transparency**, which make it easier to determine everything else



If there are problems in any area of accuracy, completeness or consistency, such as omissions, errors, mis-calculations, wrong factors etc, then the verifier needs to undertake sufficient work to determine the impact of these problems on the final reported emissions – this is the data materiality analysis. Ideally, all errors and anomalies etc would be corrected before completion of the verification work, such that the materiality analysis is only conducted on the remaining issues that cannot be closed out.

The European Commission’s Monitoring and Reporting Guidance (M&RG2-2007) (Decision 18/07/2007) provides a broad guide that mis-statement(s) in data, in aggregate, that amount to $\pm 5\%$ or more (or $\pm 2\%$ or more, in the case of the large installations) of the installation’s reported emissions, would be classified as a material mis-statement. Thus, in order to provide a positive opinion that states that “the total emissions are not materially mis-stated”, the verifier is obligated to conduct sufficient range and depth of work to determine to their satisfaction, on the basis of objective evidence, that there is no:

- Material non-compliance with the rules of the scheme (including the EU M&RG, the installation permit, and the approved monitoring and reporting plan etc)
- Material non-compliance with the accounting principles; and
- Material error in data

If they cannot do this to they are obligated to either provide a “no verification” opinion, or provide caveats and limitations to the opinion (verified with comments; or a limited scope assurance - which would not then meet the requirements of the EU Directive), in order to manage and mitigate the professional risks associated with the opinion and to warn the intended users of the reported data and associated opinion of the limits to the reliance that they can place on the reported data.

A “no verification” opinion cannot be overturned without evidence to demonstrate that the problem that contributed to the material mis-statement has been corrected, since it is not possible for a verifier to express a positive opinion - “the total emissions are not materially mis-stated” – unless there is evidence to prove that.

Professionalism, good practice and a standard code of ethics need to be applied to ensure that the verification opinion is objective, balanced and based on the risk assessments undertaken and the objective evidence obtained.