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# Verification.

Voluntary carbon markets

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# Overview - Verification and assurance.

- Types of Audit
- Auditing standards
- Practical considerations
- Other observations
- Expectation gaps
- Summary

# Types of Audit.

- Assurance provided over
  - Carbon inventory reports
  - Carbon neutral assertions
  - Projects to reduce emissions (carbon credits)
- Form of assurance ?
  - Positive (audit)- high but not absolute assurance/reasonable assurance
  - Negative (review) – moderate/limited assurance
  - Agreed procedures – report factual findings

# Audit Standards ■

- NZ – Auditing Standards and Guidance issued by the Institute of Chartered Accountants of New Zealand
  - No restriction on subject matter
  - Members are obliged to comply
- International
  - ISO 14064-3- Specification with Guidance for the validation and verification of greenhouse gas assertions
  - ISAE 3000-3699 - Assurance engagements other than on historical financial statements
  - GHG Protocol – Chapter 10
  - Attest Engagements on Greenhouse Gas Emissions Information (A ICPA)
  - Voluntary Carbon Standard Framework

# Practical considerations ■

- Contracting parties ?
  - Assurance on a report for public use – contract with the organisation reporting
  - Assurance in relation to a certification and third party involvement
    - Who is engaging the auditor ?
  - Reporting expectations/obligations
- Audit criteria
  - Audits provide assurance that information is fairly represented in accordance with set criteria
  - Criteria are well defined for emission trading scheme requirement and corporate footprints for inventory reporting
  - Still substantial scope for judgement and subjectivity in criteria for carbon neutral statements and concepts of additionality for projects

# Expectation gaps ■

- Requirements of standards
  - Written acknowledgement of responsibilities/engagement letter
  - Planning
    - identify likely users,
    - Materiality
    - risk assessment
    - Understanding the business
    - Understanding the systems
  - Work required
    - Inherent assurance
    - Control assurance
    - Substantive assurance/detection
  - Representations
  - Subsequent events
  - Quality control
  - Documentation
  - Fees

## Other observations from audit processes ■

- Information gathered from a variety of manual sources
- Insufficient rigour in comparison of business systems data to manual data
- Often delegated to low level staff and/or lack of clarity over management responsibility
- Limited experience in preparation of audit files/audit evidence
- Often a number of adjustments required

# In Summary

- Verification of standalone corporate carbon footprints is relatively well defined in standards
- Verification of carbon neutrality statements for corporates and products is currently higher risk as they require more judgement in the absence of well defined criteria and standards
- There are large expectation gaps regarding the level of work required to comply with the audit standards
- There is some level of uncertainty as to who the contracting parties are and reporting responsibilities in relation to certification audits.

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