

Audit Committee series

*The benefits of assuring
greenhouse gas emissions:
Why it is important and how
to get the most value from it*





**Institute of
Chartered Accountants
Australia**

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The benefits of assuring greenhouse gas emissions:

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Foreword

Globally, we are increasingly seeing governments and private and public organisations working towards addressing the need to reduce greenhouse gas emissions as part of critical long-term sustainability strategies.

There has been the implementation of emissions trading schemes and the capturing of data through reporting mechanisms. These have all contributed to the international community's approach to addressing environmental issues with appropriate targets being set between countries of varying economic and social development.

The Institute of Chartered Accountants Australia has developed this concise guide to raise awareness of the importance of integrity in the reporting of greenhouse gas emissions. The guide can also assist directors in understanding the key factors to consider when deciding on and assessing the value of assurance for reported greenhouse gas emissions.

This is the sixth guide in the Institute's audit committee series. I trust that it will provide useful information for organisations wishing to obtain assurance in relation to their greenhouse gas emissions reporting, as well as an update on the latest legislative developments.

A handwritten signature in black ink, reading "Tim Gullifer". The signature is fluid and cursive, with a long horizontal stroke at the end.

Tim Gullifer FCA
President
Institute of Chartered Accountants Australia

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Introduction

Over the past few years, governments around the world have recognised the need to reduce greenhouse gas (GHG) emissions. Some nations have set up GHG reporting mechanisms and emissions trading schemes (ETSs) with this in mind. The carbon market (trading in GHG emissions measured as carbon dioxide equivalents, hence the focus on 'carbon') is becoming increasingly significant, with a total value of \$176 billion traded worldwide in 2011.¹

With this market growth, reporting of GHG emissions has received increasing attention. In Australia, GHG emissions from large organisations are currently reported through the National Greenhouse and Energy Reporting Scheme (NGERS). These reported emissions will form the basis for assessing any reduction or increase in emissions. As and when there are financial impacts imposed on the reduction or increase in emission, the accuracy of this reporting is essential.

With this in mind, organisations may wish to consider obtaining assurance in relation to their GHG emissions reporting. Assurance means appointing an independent

person to undertake a selection of procedures to enable them to provide an assurance opinion over an organisation's reported statements. If undertaken in accordance with established standards, this opinion is designed to enhance the degree of confidence of the intended users over the matters reported by the responsible party.²

This guide, which builds on the Institute of Chartered Accountants Australia's 2008 thought-leadership paper, *The benefits of assuring carbon emission disclosures*, looks at key issues to consider when determining whether to obtain assurance over your organisation's reported GHG emissions.

But first it will be helpful to gain a wider picture and legislative background to GHG emissions reporting and assurance.

LEGISLATIVE DEVELOPMENTS

GHG emissions have been a focus for many years as organisations have come to see the importance of reducing their emissions and incorporating GHG emissions reporting into their regular procedures. The historical timeline of developments in this space is as follows:

2007 – MANDATORY REPORTING SET UP	The federal government introduces the <i>National Greenhouse and Energy Reporting Act 2007</i> (NGER Act). This mandates reporting by major GHG emitters in Australia.
1 JULY 2009 – CARBON EMISSIONS REPORTING BEGINS	Major GHG emitters must report their carbon emissions annually to the government under NGERS. Many other organisations start to report GHG emissions voluntarily.
2011 – CARBON PRICING MECHANISM SET UP	The government introduces the <i>Clean Energy Act 2011</i> , setting up the Carbon Pricing Mechanism (CPM). There is bipartisan commitment to reducing Australia's emissions from 1990 levels by 5% by 2020.
1 JULY 2012 – FIXED PRICE PHASE FOR CARBON BEGINS	The three-year fixed-price phase of the CPM commences. Major emitters must pay \$23 for every tonne of CO ₂ -e (carbon dioxide equivalent) they emit. The fixed price will increase to \$25.40 over three years.
1 JULY 2014 – DIRECT ACTION PLAN TO BEGIN	Subject to the passing of legislation, the CPM is to end and the Direct Action Plan to commence. The centrepiece is an Emissions Reduction Fund designed to purchase low-cost abatement.

1. The World Bank 2012.

2. Auditing Standard Quality Control 1: *Quality control for firms that perform audits and reviews of financial reports and other financial information and other assurance engagements*. Aus12.1

Hence under current legislation, major emitters must report their GHG emissions to the federal government. Major emitters are organisations that reach certain thresholds for:

- Greenhouse gas emissions
- Energy production, and/or
- Energy consumption.

Currently several hundred organisations reach these thresholds (either for individual facilities or as a corporate group). This emission data is made publicly available.

Other organisations are increasingly reporting their GHG emissions voluntarily. Reasons for voluntary reporting were highlighted in a recent European study³, which included the following possible benefits of GHG emissions:

- Reduced profit exposure
- Enhanced market value and increased brand value
- Improved customer reputation
- Reduced insurance premiums
- Improved credit ratings
- Supply chain requirements.

WHAT TO CONSIDER IN RELATION TO ASSURANCE

When considering whether to obtain an assurance report over their reporting of GHG emissions, directors should ask the following key questions:

1. Why should we assure our reported GHG emissions?
2. How do we assure our reported GHG emissions?
3. If we already assure our reported GHG emissions, are we getting value from it?

3. ERM (2010) *GHG emissions reporting – a study of methods and initiatives*, Report for European Commission, Directorate-General Environment, ENV.G.2/ETU/2009/0073, October.

Q1: Why should we assure our reported GHG emissions?

Assurance of GHG emissions reporting is not mandatory under the NGERs legislation. However, the Clean Energy Regulator (CER), the government body to which the major emitters report their GHG emissions, can initiate its own post-submission audits of NGERs reporting.

DRIVERS FOR ASSURANCE OF GHG EMISSIONS REPORTING

A strong driver for assurance is the desire to increase the confidence that can be placed on GHG emission reports for decision-making purposes.

Many organisations have been voluntarily conducting assurance of a standalone GHG emissions report or as part of a sustainability report, or to international entities such as the Carbon Disclosure Project⁴. In Australia, approximately 75% of organisations reporting under NGERs voluntarily assure their GHG emissions data.⁵

Assurance by an independent expert also aids in improving the quality of the information.

The assurer adds value to the information to be reported by identifying material departures or omissions from the suitable reporting criteria and suggesting corrections to the person who is responsible for the GHG emissions report. If this report is not amended, they will clearly communicate the fact of material departures or omissions to interested parties by appropriate modifications or comments to the assurance report which accompanies the GHG emissions report.

MISSTATEMENTS IN GHG EMISSIONS REPORTING

A study⁶ on Australian companies' reporting of GHG emissions found that in 2009–2010 the regulator identified nearly 75% of reports contained misstatements, with 17% of reports containing significant errors. The most common errors related to:

- Gaps in own-use electricity
- Missing or incorrect sources
- Errors in facility aggregates
- Problems with energy production figures
- Omitted corporate entities and facilities.

DIRECTORS' RESPONSIBILITY FOR GHG EMISSIONS REPORTING

Under the NGER Act executive officers of a body corporate must take reasonable steps to prevent contravention of the Act by the body corporate.⁷ While reasonable steps are not specifically outlined, external assurance could be considered a reasonable step towards compliance with the Act.

4. An independent not-for-profit organisation.

5. Green, W. & Li, Q. (2012) 'Evidence of an expectation gap for greenhouse gas emissions assurance', *Accounting, Auditing and Accountability Journal*, vol 25(1), 146-73.

6. Australian National Audit Office (ANAO) (2012) *Administration of the National Greenhouse and Energy Reporting Scheme*, performance audit report commissioned by the Department of Climate Change and Energy Efficiency.

7. Part 5, Division 4 of the *National Greenhouse and Energy Reporting Act 2007*.

Q2: How do we assure our reported GHG emissions?

Directors may play a role in engaging the auditor/s to provide assurance of the GHG emissions and therefore need to be aware of what to look for in an auditor, and the standards governing assurance of GHG emissions.

WHO CARRIES OUT GHG EMISSIONS ASSURANCE?

GHG emissions assurance is carried out by greenhouse and energy auditors, who may be from the accounting or other professions (e.g. environmental engineers). For a GHG emissions assurance engagement to be recognised by the CER, the auditor must be on the Register of Greenhouse and Energy Auditors, available on the CER website⁸.

Sections 73 and 74 of the NGER Act define the circumstances under which a greenhouse and energy audit may be initiated, and allow for the appointment of registered greenhouse and energy auditors to undertake engagements.

THE REGISTER OF GREENHOUSE AND ENERGY AUDITORS

The Register of Greenhouse and Energy Auditors lists only individuals, not firms as a whole, though it does indicate which firms these individuals work for.

There are three categories on the Register:

- **CATEGORY 1** (technical or non-technical) – Must demonstrate knowledge of the NGER Act and its methodologies. Category 1 Carbon Farming Initiative (CFI) technical auditors must also demonstrate knowledge of the CFI legislation and at least one approved CFI methodology
- **CATEGORY 2** – Must demonstrate knowledge and experience in audit team leadership and the provision of assurance
- **CATEGORY 3** – Need to be currently registered as category 2 auditor, and have participated in at least two greenhouse and energy audits.

All registered auditors must have an appropriate degree and must follow a Code of Conduct outlined in the Greenhouse and Energy Auditor Registration Guidelines, available on the CER website.

A MULTI-DISCIPLINARY TEAM IS BEST

A multi-disciplinary team combines a mix of experiences and expertise. The team will need experts in emissions measurement as well as those experienced in managing multi-disciplinary teams and assurance.

Ideally the team leader should be registered as Category 2 or 3. The team should also contain relevant experts in the specific areas of emissions relevant to your organisation, particularly if the organisation is a direct emitter (that is its activities release GHG emissions directly into the atmosphere, rather than indirectly through the use of electricity).

GHG EMISSIONS ASSURANCE STANDARDS

The auditing team you engage should use an appropriate assurance standard.

In 2003 the International Auditing and Assurance Standards Board (IAASB) issued *ISAE 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, a general standard for assurance of non-financial information; this was revised in 2008.⁹ Its Australian counterpart, ASAE 3000,¹⁰ is used by auditors as a guide to conducting assurance of GHG emissions.

In 2012, the IAASB introduced a more specific standard: *ISAE 3410 Assurance on Greenhouse Gas Statements*.¹¹ The Institute, which played a role in the development of this standard, recommends it as an appropriate standard for GHG emissions assurance as it is:

- Internationally recognised
- Approved by the International Federation of Accountants (IFAC)
- Specific to greenhouse and energy auditing
- Applicable to both simple audits (e.g. electricity used in an office) and complex audits (e.g. emissions by several entities in a supply chain).

There are also several other standards which have been, and continue to be, used around the world, including:

- *ISO 14064* and *ISO 14665* – issued by the International Organization for Standardization¹²
- *IETA guidelines* – issued by the International Emissions Trading Association¹³
- *EA-6/03* – issued by the European Co-operation for Accreditation¹⁴
- *AA1000* – issued by an international not-for-profit group, AccountAbility.¹⁵

8. <http://www.cleanenergyregulator.gov.au>

9. International Auditing and Assurance Standards Board (IAASB) (2004) *ISAE 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, IAASB: New York.

10. Australian Auditing and Assurance Standards Board (AUASB) (2007) *ASAE 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, AUASB: Melbourne.

11. International Auditing and Assurance Standards Board (IAASB) (2013), *ISAE 3410 Assurance on Greenhouse Gas Statements*, available at [http://www.ifac.org/sites/default/files/publications/files/B010%202012%20IAASB%20Handbook%20ISAE%203410%20Final%20\(revised%20IFAC%20logo%20placement\).pdf](http://www.ifac.org/sites/default/files/publications/files/B010%202012%20IAASB%20Handbook%20ISAE%203410%20Final%20(revised%20IFAC%20logo%20placement).pdf)

12. See <http://www.iso.org>

13. See <http://www.ieta.org>

14. See <http://www.european-accreditation.org>

15. See <http://www.accountability.org>

Q3: If we already assure our reported GHG emissions, are we getting value from it?

Directors may wish to understand more about the assurance that is being provided and the value it provides. Asking the right questions of management is important and could include the following:

1. QUESTIONS ABOUT REPORTING OF GHG EMISSIONS IN GENERAL

1.1 HOW DO WE MEASURE AND RECORD OUR GHG EMISSIONS?

Measurement and recording of GHG emissions should be consistent and part of regular operations, not something that is done only once a year. It should be subject to the same internal controls over the data collection and reporting as other externally reported data. There should also be a clear understanding of the limitations of the emissions recording mechanism, i.e. where estimates have been made and the source of factors used in calculations.

1.2 HOW DO WE REPORT OUR GHG EMISSIONS?

Organisations covered under NERS will report their emissions to the government through an online system. Additionally, some organisations issue a GHG emissions report while others include it as part of a wider environmental, sustainability or annual report. Some organisations may also choose to report through other avenues such as the Carbon Disclosure Project.

1.3 WHO WITHIN THE ORGANISATION IS MANAGING GHG EMISSIONS REPORTING?

This will depend on your organisation's size and situation. Larger organisations may have a specialist team for environmental reporting and others will outsource the measurement to a consulting firm. However, whenever the data is reported outside the organisation, it is important for there to be high-level oversight from within the organisation.

2. QUESTIONS ABOUT ASSURANCE OF GHG EMISSIONS IN PARTICULAR

2.1 WHO IS CARRYING OUT OUR ASSURANCE?

Assurance engagements for GHG emissions are currently undertaken by both the accounting profession and the non-accounting profession. It is important however that your assurance provider is independent and has no involvement in the measurement of emissions within your organisation, nor is engaged to provide a review of the organisation's environmental efficiency.

Your organisation has a choice, but it is advisable if:

- It is carried out by a multi-disciplinary team combining assurance experience with GHG emissions expertise specific to your operations

- The team is led by a person particularly experienced in assurance and in running multi-disciplinary teams
- The team is led by someone on the Register of Greenhouse and Energy Auditors (see page 9).

2.2 ARE WE OBTAINING 'REASONABLE' OR 'LIMITED' ASSURANCE?

Reasonable assurance means that the auditor has collected sufficient evidence to state that in their opinion the information is not materially misstated.

Limited assurance provides a lower level of assurance, with the auditor stating that nothing has come to their attention which indicates the information is materially misstated.

2.3 HOW MUCH ARE WE PAYING FOR ASSURANCE OF OUR GHG EMISSIONS?

Research suggests that fees for GHG emissions assurance vary widely. One UK study¹⁶ found, for example, that fees ranged from €1,000 for a small company to €800,000 for a huge FTSE500-listed company. So fees clearly vary depending on organisation size.

But fees also vary depending on who is hired to do the assurance, the level of assurance and the size, nature and complexity of the GHG emissions within the organisation (i.e. variety of sources and complexity of the calculations for direct emissions). The quality of the data collection process, the controls around it and the level of estimation involved in the calculations will also impact the fee level. A reputable, skilled auditor will add confidence to the organisation and the intended users because they will be working under robust standards and governed by professional bodies. A low cost alternative may not bring the same benefit to the organisation.

3. IDENTIFYING PROBLEM AREAS

3.1 ARE THERE ANY 'WEAK SPOTS' IN OUR GHG EMISSIONS REPORTING?

Management should be aware of any weak spots in the organisation's GHG emissions reporting, such as areas where estimates must be made in the absence of reliable data.

3.2 HAVE THERE EVER BEEN ANY IDENTIFIED MISSTATEMENTS IN OUR GHG EMISSIONS REPORTING?

If your organisation has carried out GHG emissions reporting in the past, misstatements may have been identified by:

- The organisation itself, through assurance obtained before submitting its report to the CER
- The CER, through post-submission audits.

If any misstatements were found, management should be able to indicate how they are being dealt with in future reporting.

16. ERM (2010) *GHG emissions reporting – a study of methods and initiatives*, Report for European Commission, Directorate-General Environment, ENV.G.2/ETU/2009/0073, October.

Conclusion

A number of reporting and assurance mechanisms have emerged over the past decade. In particular, the recent approval of ISAE 3410 provides guidance for greenhouse and energy auditors, whether from the accounting profession or other professions, in conducting GHG emissions assurance engagements.

The NGERs legislation lays the framework for GHG emissions assurance, and the Clean Energy Regulator's Register of Greenhouse and Energy Auditors makes it possible for organisations to find a suitably qualified greenhouse and energy auditor to undertake an assurance engagement.

Directors have a strong basis on which to make decisions about GHG emissions assurance within their organisation. This guide has described the structures supporting GHG emissions reporting and assurance, and highlighted three questions that directors should ask in relation to assurance.

The CER has not, as yet, taken a hardline approach to both the reporting and verification of greenhouse gas data under the NGER Act. The CER has so far worked with the organisations concerned to resolve any misstatements it has found, with the aim of allowing organisations to settle in to the new GHG emissions reporting regime.

This settling-in period, however, is likely to be ending, especially once the Direct Action Plan is in place. As GHG emissions reporting becomes increasingly standard across the world, GHG emissions reporting will increasingly become part of financial reporting. In this context, directors need to take a leading role in decision making around GHG emissions assurance.

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