

Senior Officers – Does your CRC Internal Audit stand up to scrutiny?

September 2011



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Executive Summary

Challenge

The aim of this whitepaper is to provide a guided summary of all the requisites to keep your CRC Evidence Pack adequate and updated in case your organisation is chosen by the Environment Agency (EA) for an external audit in the coming months. It has been confirmed by the EA that 25% of participants will be checked this year.

This whitepaper will be useful for all the CRC participants who have successfully completed their first CRC year, submitted their Annual and Footprint Reports and are now looking forward to the internal audits and preparation of the Evidence Pack. It is a mandate that the participant's senior officer must sign the audit and confirm that all records are true. Ultimately, it is the senior officer who is legally responsible for the accuracy of the Evidence Pack and the CRC Reports and who personally faces potential financial penalties and reputational damage should the organisation fail an external audit. Thus the question every senior officer should ask themselves is – will our Evidence Pack stand up to scrutiny by the Environment Agency?

The following is a guideline for achieving accurate and efficient completion of your CRC audits.

Opportunity

We have put together some questions along with their answers often posed by our clients when carrying out CRC Internal Audits. We recommend that when undertaking an internal audit participants should avoid taking a short-term perspective, and instead seize the opportunity to ensure data accuracy, adequacy and streamline your carbon management efforts as a whole. There are going to be many changes to carbon reduction legislation in the future; here is a chance to be prepared and respond to each new demand with confidence. With the help of our detailed answers and survival tips, we hope you will find this useful as you prepare for the next stage of the CRC process

Benefits

Since this is the first year of CRC audits, it is very important to get it right. While the process can seem a bit daunting at first, a lot of participants choose to do it themselves. Others enlist the help of external consultants. Either option can give the desired result providing you have the right approach and technique to auditing. The primary benefits are a reduction in the risk of fines and reputational damage; as well as an actual reduction in costs by eliminating estimated data submissions.

Overview: Carbon Reduction Commitment Internal Audits

The CRC Energy Efficiency Scheme requires all of its participants to carry out regular (suggested annual) internal audits. The Environment Agency (the administrator) regulate the scheme and will carry out external audits of various participants' Evidence Packs to ensure that the participants' reported emission figures fall within a tolerance band of 95% from the actual emissions figure. Outside of this band penalties of £40 per tonne of carbon will accrue.

If you are a participant of the scheme, you have to start thinking about getting your CRC internal audit done now, as the administrator has already started conducting external audits of random organisations. The purpose of an internal audit is to demonstrate rigorous self-verification. This is a fundamental aspect of the scheme. There is a mandatory requirement that the audits are then signed off by an officer of the company and it is expected that this person is the participant's registered 'Senior Officer'. The signatory confirms that the records in the participant's Evidence Pack are complete, correct and adequate.

Why do you have to do internal audits?

The Environment Agency is initially expected to request sight of an internal audit from those companies that it elects to audit in this first year. Failure to produce a signed off internal audit may render your organisation as non-compliant under the scheme and will lead to a more rigorous site based audit.

The administrator is selecting organisations on a risk-assessed basis. In other words, the administrator wishes to ensure that all participants who appear to be at greater risk of non-compliance are audited as a priority this year. However, they are also selecting organisations on a random basis to fulfil part of their plans to audit every participant at least once during the whole course of the scheme. In carrying out the external audits, the administrators begin by conducting a desk-based audit which then determines whether there are sufficient issues to pursue a site based audit.

An external audit leads to one of three outcomes: pass, pass with improvement action and fail. The results of the external audits will be published annually, so organisations should try to avoid the reputational damages of being named and shamed as non-compliant. This is why it is essential to prepare an internal audit so as to minimise the risk of failing your compliance requirements.

Apart from the above mentioned compliance requirements for carrying out an internal audit, the process should be embraced as an opportunity to improve your organisation's carbon management. In an era of ever changing environmental legislation, it is worthwhile to set strategies in place now so that your organisation can respond to new policies effectively. Investing time in the successful completion of your internal audit will help streamline your organisation's approach to carbon management for the future.

Who is responsible for the internal audit?

As the representative of the compliance account holder within the CRC scheme, the administrators require that the Senior Officer (or representative) must sign off the internal audit. This means the Senior Officer will ultimately be held responsible if the CRC participant fails an external audit, and could therefore face enforcement issues. For this reason, it is essential that the internal audit is prepared to a standard such that the Senior Officer feels confident that it will stand scrutiny.

Whilst the Senior Officer has the legal responsibility for the internal audit, the audit will most likely be prepared by the participant's registered primary and secondary contacts and should involve any other members of staff whose roles are relevant to CRC policies and procedures. For example, a representative from the participant's finance department may be able to contribute to the internal audit section covering carbon disclosure, whilst an engineer could assist in preparing the section covering special events on meter failures. The more people brought together when preparing the internal audit, the better the chances are of it being more accurate.

Why is it important to get it right?

CRC Participants, and primarily its senior officer, should feel confident in the knowledge that their internal audit can stand up to examination by the administrators. The consequential losses of submitting an incomplete internal audit are not only financial but reputational. Successful internal audits reduce the risk of financial penalties for non-compliance and energy consumption misstatements. They also reduce the risk of participants being exposed as lacking sustainability initiatives. This is why the internal audits are an issue for the Board, and should be treated with the same merit given to financial audits.

Where do I start?

1. A great starting point when preparing the internal audit is to figure out how the CRC sits within your organisation. Can you prove your organisation's commitment to CRC policy and procedures? The types of things which would satisfy this requirement could be
 - Documents showing in-house processes and responsibilities for achieving compliance
 - HR involvement in CRC policy and procedures
 - Company integrated CRC policy manuals.

If your evidence pack is lacking such documents then make a note in your internal audit that there is room for improvement with regards to fulfilling this requirement.

2. Look at your organisation's registration documents. Think about any changes which may have taken place to your organisations structure since 2008. If there have been changes and they have not already been noted in your Evidence Pack then highlight them in your internal audit. When carrying out the internal audit, think of it as a question and answer process. Don't be afraid to ask too many questions! It's better to ask questions during the internal audit than to face the prospect of answering more questions at an external audit stage.

3. A large part of your internal audit should be dedicated to looking at data. It is imperative to make sure that your energy consumption data is as accurate as possible to avoid facing problems during an external audit. Obvious factors leading to inaccurate data reporting are
 - Human error
 - Typographical error
 - Excel spreadsheet formula error
 - Inaccurate conversion factors
 - Use of unapproved estimation techniques
 - Inaccurate building portfolio data (new buildings not included, old buildings still included!)

These obvious pitfalls can be solved by carrying out gap-analysis on your data systems and are an important reason why many organisations choose to co-source their internal audit preparations to third party consultants who can review their data with “fresh eyes”.

4. Studies have also shown more stagnant factors leading to inaccurate data which are less obvious. For example
 - Not knowing what to include and exclude in your consumption data due to incorrect company structure records (Organisational boundary issues) or
 - A lack of knowledge about all meters on all sites tends to be a common pitfall in data accuracy

We recommend you take the opportunity in your internal audit to address these issues by asking questions about your data collection procedures and any data management systems you may be using. If you bear the following questions in mind you will increase the likelihood of your internal audit meeting external audit standards:

- Are the procedures clear and identifiable?
- Are data systems regularly updated?
- If you have complex data management systems are these technologies being used correctly?
- Are your data records easily accessible?

The last point is very important. Remember that if called upon for an external audit, the administrators will request access to your Evidence Pack. Don't make the mistake of leaving it all in the hands of one person, who then happens to be on holiday when the Evidence Pack is requested. Show your organisations collective commitment to the scheme by showing that your records are accessible to all.

There is no definitive right or wrong structure for an internal audit; it should be tailored in relation to your organisation's specific CRC compliance and other supporting audits and standards. However, all successful internal audits share the same aim: to break down your Evidence Pack, identify any problems, find the route of the problems and set the path for improving them.

Make a skeleton structure for your internal audit outlining the contents of your Evidence Pack and then start asking yourselves questions.

What we found by helping our clients with their internal audits

We understand that environmental legislation relating to energy, carbon and sustainability pose new challenges for organisations and can be quite daunting at first. The best way to deal with these challenges is by addressing them systematically and comprehensively. It is important to look beyond the data and identify other energy efficiency potentials. Try to break down the CRC reporting process into manageable chunks whilst identifying improvement opportunities. Having a timeline and associated tasks also helps in getting an Evidence Pack ready for inspection. In our experience, a thorough and rigorous audit process including gap analysis and data source spot checks proves to be very useful and helps prioritisation of actions to improve the system. This not only helps in preparation of a transparent report, but also in facilitating a complete identification and verification process of any non-conformity in CRC compliance.

Completing an internal audit saves you money – both in identifying errors in data (usually overpayments to suppliers) and in reducing estimated figures for next year thereby reducing the required 10% uplift in the Carbon Levy.

We believe that it is vital to get structured systems in place as soon as possible. By undertaking an internal audit, participants gain the confidence they need in their systems and processes to ensure that their CRC reports are accurate and can stand up to external scrutiny.

We have provided internal audit services to various types of organisations and have used our expertise and experience to help them set up reliable and lasting systems, allowing them to meet their CRC compliance year after year.

Conclusion

The decision whether to do the internal audits by yourself, outsource fully to a domain expert or partner with an expert and carry out the audits in collaboration with your internal auditing team is crucial. Bringing experts into the picture has its own advantages in terms of expertise and a systematic approach to the task. They also offer reassurance that the process will be aligned to the guidelines provided. Co-sourcing or partnering with an expert helps organisation's auditors to learn best practices and alternative approaches, which they can then apply in the future. From the perspective of the legal regulators, regardless of who provides the internal audit service, it should be performed in accordance with the standards. Your organisation could find it beneficial to invest in some expert assistance for the first year of CRC audits, learn the techniques and methods for an effective completion of the report, and take it forward yourselves in the coming years.

Finally, it is important to realise that it is not just about the data. It is important to have the right people come together with all the right information they can provide. It is not the task or responsibility of one person to manage all aspects related to audits. The collaboration of environmental managers, energy managers, facility managers, engineers and internal auditors is essential to create an accurate and verifiable report.

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About Carbon Credentials

Carbon Credentials Energy Services Ltd is committed to supporting organisations and businesses fulfil their carbon reduction commitment. We can help organisations meet corporate energy goals of reducing carbon emissions and cutting energy costs. The company offers specialised, yet simple carbon management software and services that will not only reduce energy costs and generate higher savings but also accelerate corporate sustainability and environmental efforts.

Rising energy prices, compliance pressure and increasing corporate social responsibility requirements represent a large business challenge. Correctly managed however, these challenges can become a business opportunity to reduce costs and help organisations move towards a more sustainable operating model.

Leading UK and multinational companies choose Carbon Credentials' software and services to help them measure, manage, reduce and report their energy usage and carbon footprint. Their clients span key industry sectors including manufacturing, healthcare, hospitality, financial services, education and media. To learn more about Carbon Credentials' CRC Internal Audit services, visit our [CRC Audit](#) page.

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