

Carbon Reduction Commitment Energy Efficiency Scheme

Internal Audit Findings Report

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1.0 Executive Summary

This report presents the findings of a series of CRC EES internal audits, as facilitated by Carbon Credentials Energy Services Ltd, since early August 2011.

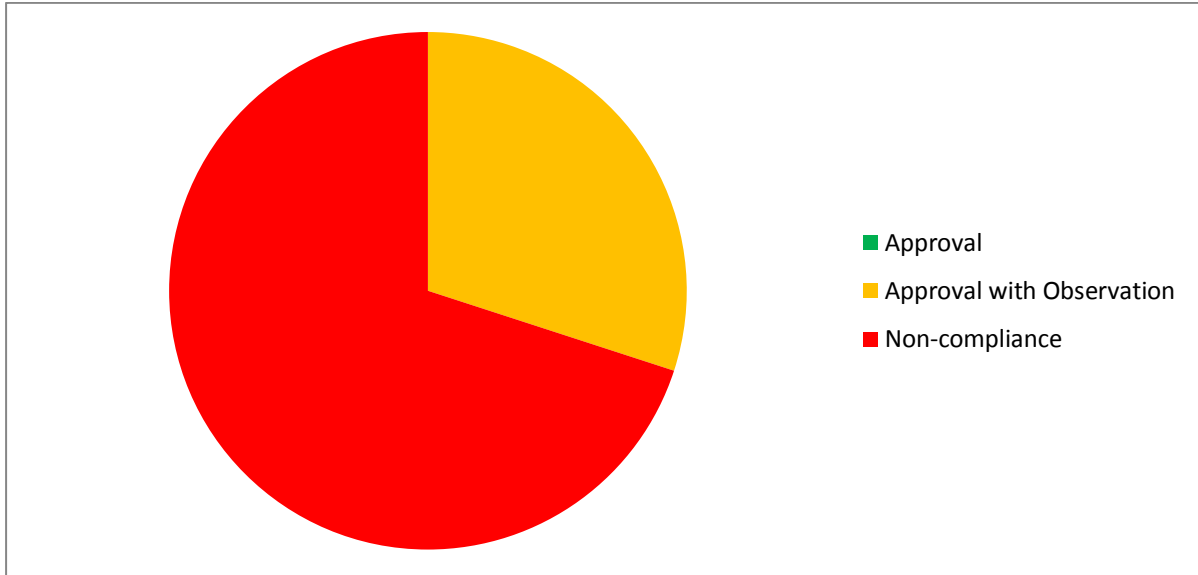
The audits and their findings cover a wide range of CRC participants ranging from Private Equity and Investment Firms through to Waste Management Services, manufacturing and Public Transport Franchises.

Each audited section has been analysed for trends of compliance and examples of typical recommendations have been provided for each.

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2.0 Internal Audit Findings

2.1 CRC Policy & Procedures Check



As can be seen above, a large percentage of participants were found to be 'non-compliant' under the policy and procedures check, whilst only a handful of participants were 'approved with observation'. There have been no participants to date 'approved' under this section.

Companies have given little to no focus around on-going CRC compliance, especially data source collation. The main focus has tended to be (depending on the date the audit was conducted) on submitting the initial Footprint and Annual reports with a strong focus there after on Evidence Pack compilation, in support of the figures.

Little thought has been given to Annual report collation for this year (2011-2012) and there were typically very few processes in place to ensure this.

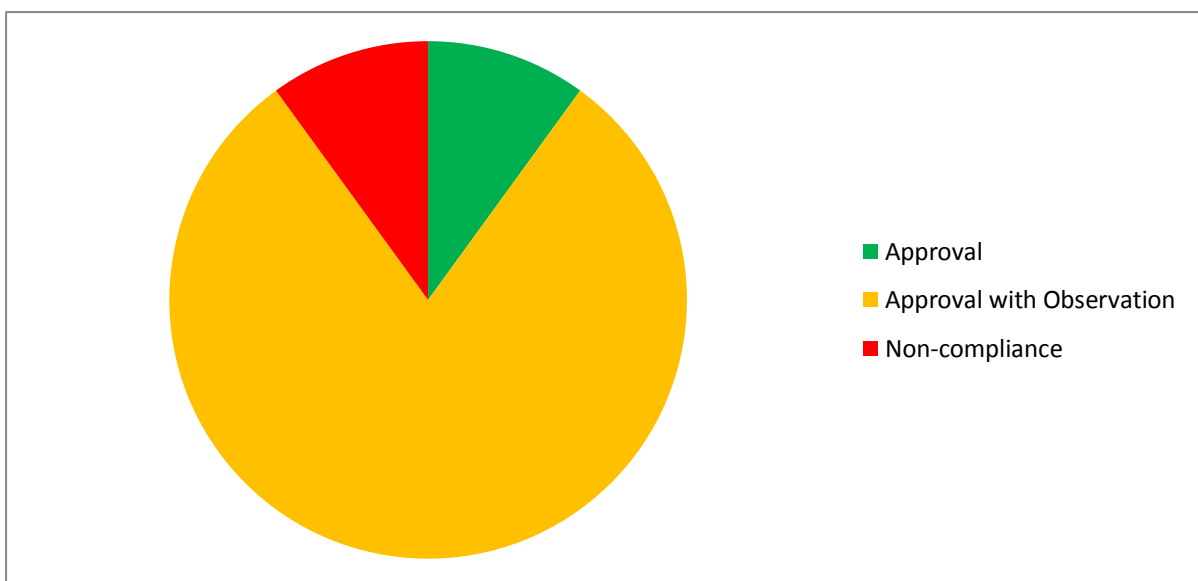
It is anticipated that due to this lack of formalised policies and procedures, the majority of participants will be retrospectively compiling data sources and special events etc. when submitting their Annual report next year.

Summary of Key Recommended Actions:

	Action
1	Develop and introduce a formalised Data Management procedure
2	Develop and introduce a formalised Special Events procedure
3	Develop and introduce an Internal Audit procedure including audit schedule and checklist

4	<p>Introduce quarterly Energy Steering Group meetings, ensuring all key responsible persons attend such as finance, environment, facilities, engineering, senior management etc.</p> <p>Include the requirement for quarterly data submission/review, special events recording/review and reporting on energy usage/ trends/reductions etc.</p>
5	<p>Introduce annual CRC reviews to be attended by Senior Officer and Primary Contact</p>

2.2 Responsible Parties Check



A large proportion of participants could only be given 'approval with observation' under the responsible parties check.

These participants' registration summaries were up-to-date and accurate. The majority of Senior, Primary and Secondary contacts were correct and aware of their roles under the CRC. However, there was little documentary evidence presented of the numerous other roles required for CRC compliance.

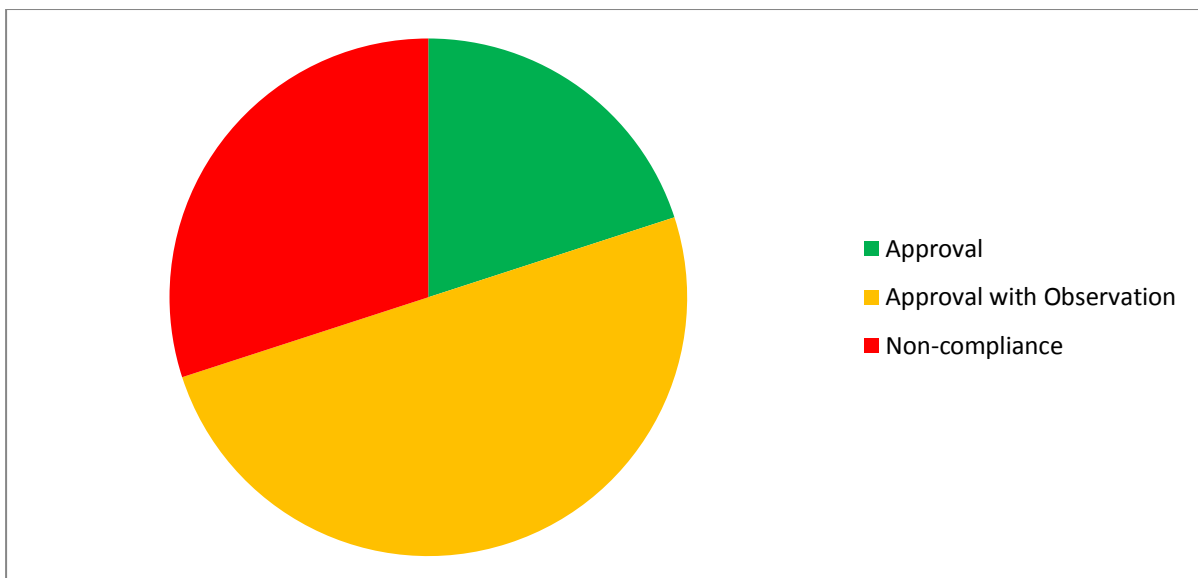
For example, the roles of maintenance in completing monthly meter reads, finance in collating primary data sources, and the communication of special events from within an organisation's building portfolio, which is typically done by persons at each site.

Therefore ongoing compliance, for the majority of organisations, relied on the involvement of large numbers of employees. In light of this evidence shortfall it was impossible to award 'approval' under the responsible parties check.

Summary of Key Recommended Actions:

	Action
1	Assign long term CRC roles and responsibilities and document within the CRC procedure (i.e. data management & special events) and store in Evidence Pack
2	Develop a staff organisational chart to reflect the assigned roles and responsibilities
3	Develop roles and responsibilities documentation in line with the organisational structure
4	Communicate all roles amongst the nominated responsible persons and collate evidence of all internal CRC communications and store within the evidence pack.
4	Review roles and responsibilities within the annual CRC review meetings and document any changes within the Evidence Pack

2.3 Organisation Check



As can be seen, the majority of participants were shown to have ‘approval with observation’ under the organisation check.

The main reason for this is similar to that of responsible parties. The majority of participants’ registration and organisation structure charts were up-to-date and covered the correct boundaries. However, it was shown that very few companies has specific CRC

organisational structure charts, detailing such information as meter information (MPAN, location etc.) and associated emissions for each site.

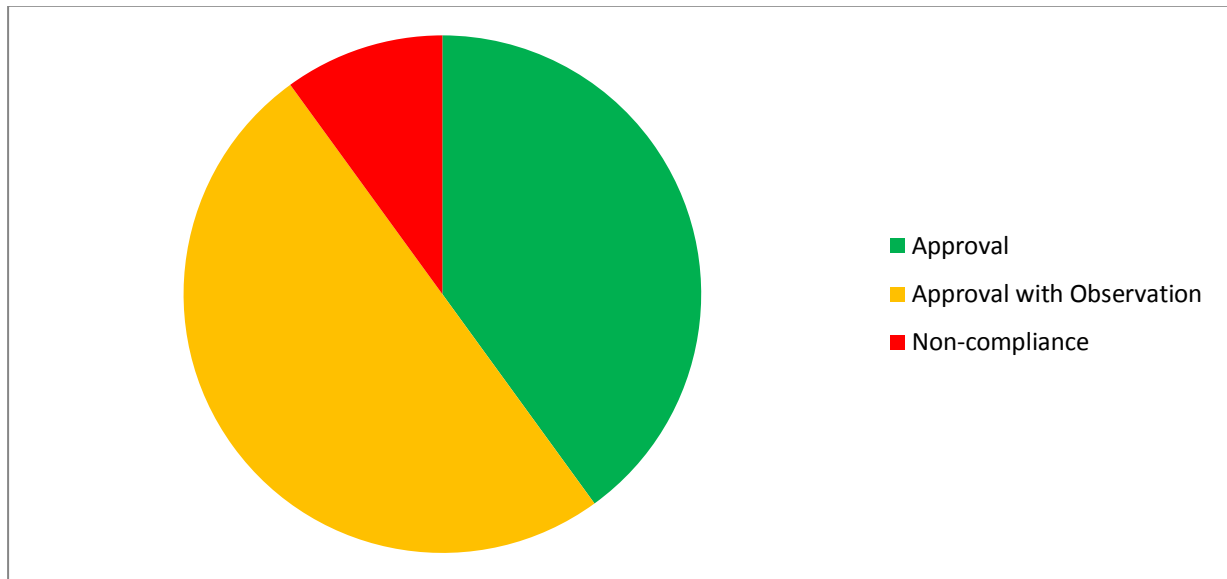
It was also noted that few companies had a documented process in place to ensure the ongoing review of organisational structure, including the check of both designated and non-designated changes and the ongoing record and review of special events such as meter and building changes/additions.

It can also be seen that a large proportion of organisations were 'non-compliant' under the organisational check. Main reasons for this were found to be due to poor evidence of organisation structure and little to no documented linkage between reported emissions and actual building/supply stock. It was also apparent that many organisations had not included certain supplies and building/organisations into their overall structure and reporting responsibility. A recurring example of this was seen where Pension Funds with investment/ownership of properties did not include those properties in their reporting.

Summary of Key Recommended Actions:

	Action
1	Collate evidence in support of all designated and non-designated changes and store within the Evidence Pack
2	Develop and introduce a procedure for organisation change which include evidencing and reporting of company purchases, sales and mergers and significant changes to current site activity
3	Develop a high level organisational diagram and include in the Evidence Pack.
4	Develop individual organisational diagrams and include in the Evidence Pack.
5	Include a commitment to the regular review and up-date of the organisational charts within the organisational change procedure

2.4 Data Sources



The results of this section show a majority of 'approval under observation' awarded.

It must be noted that the type and range of non-compliance did vary significantly. In some instances, companies did not have adequate primary data sources available for review, which either led to a non-compliance or in some instances approval with observation as primary data sources were available, but not stored in the correct place for review.

Other data sets were identified to be incorrect through the spot checking process. Errors were often discovered through incorrect boundaries, manual errors within source tools and errors in estimation techniques.

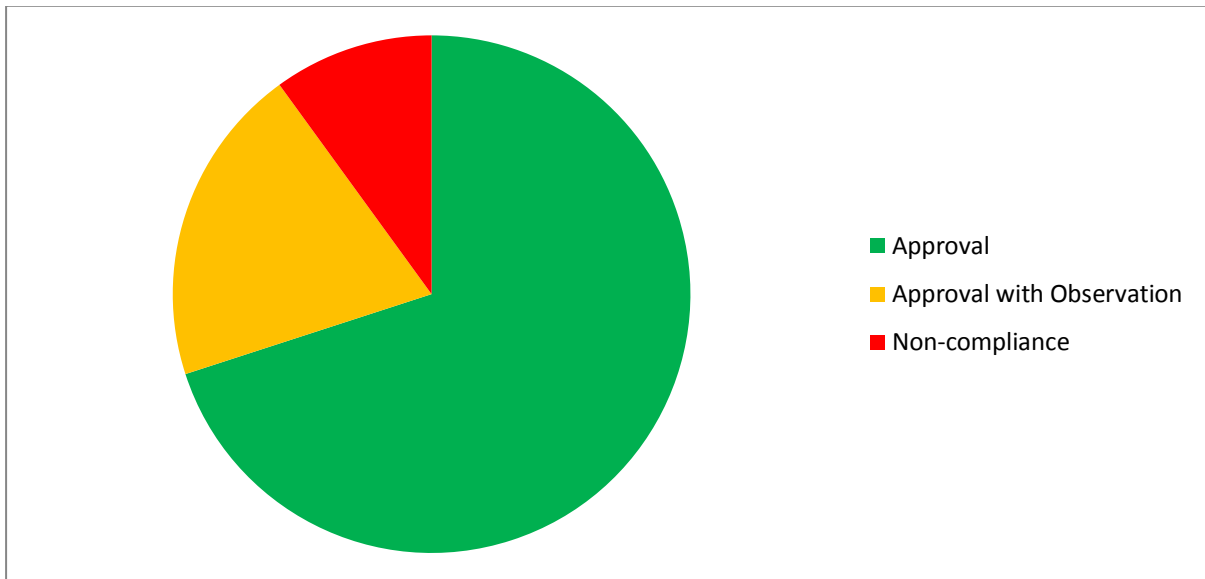
There was a significant lack of evidence in support of meter and supply validation issues for the majority of companies that were audited. This was something very few considered and many recommendations have been made for improvement in the area of supply validation.

It is important to recognise that due to the diversity of companies that were audited, data collection ranged from the very simple (one/two buildings) to the very complicated (hundreds of buildings with regular acquisitions and disposals). This is one reason for the amount of approvals given in this section, with the other being through the use of data management systems and the application of good resources for data collation i.e. bureau services/dedicated energy procurement departments.

Summary of Key Recommended Actions:

	Action
1	Develop and introduce a data management procedure to ensure the regular (at least monthly) review and collation of all data sources and supporting primary evidence. Include a commitment to the request for annual supplier statements
2	Establish a process of regular manual meter readings for on-going data validation. Conduct monthly/quarterly validation between meter readings, supplier invoices and HHM data.
3	Develop a detailed building, MPAN and supply list and include a commitment to its regular review within the data management procedure
4	Conduct final data source check for all residual fuels including generators and heating equipment etc.
5	Record all estimations calculations used and store the methodology within the Evidence Pack
6	Conduct a final review of all validation issues to ensure they are resolved. Ensure evidence in support of validation is available for review
7	Collate all validation issues in a separate document and store within the Evidence Pack

2.5 Footprint Report Validation



The results show a strong correlation of 'approval' awarded to the footprint report validation.

However there were still a number of submitted reports which were non-compliant. These 'non-compliances' generally relate to findings within the data sources section, including the spot check and validation issue sections.

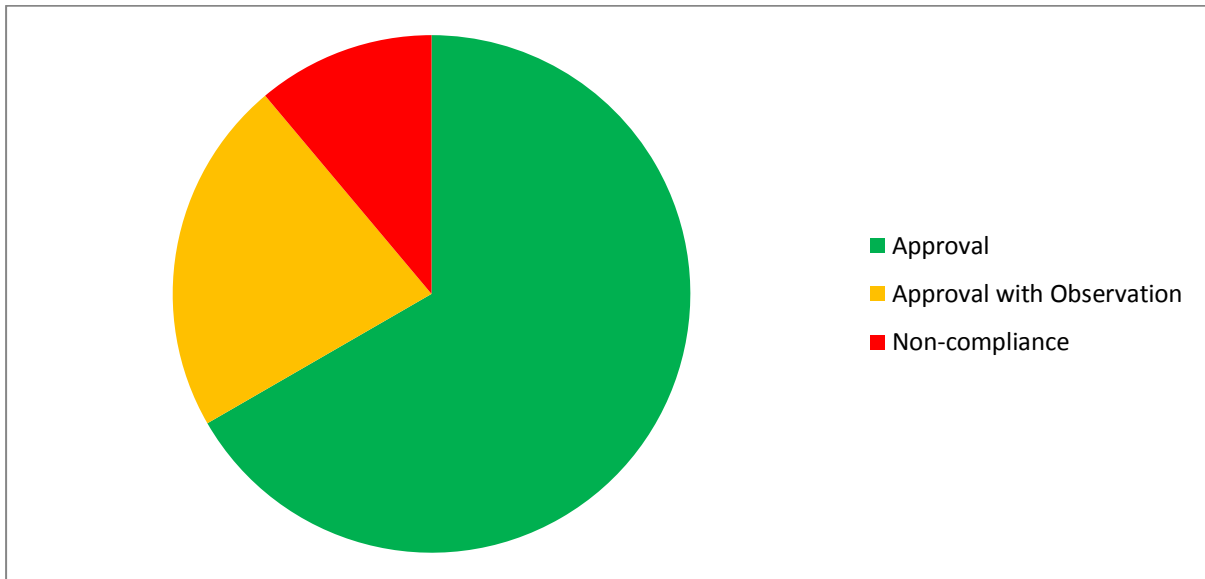
Where 'non-compliance' has been given recommendations of improvement were often linked to the recommendations in the data source section. However there were instances where organisations who have submitted incorrect Footprint reports were recommended to re-calculate these, in view of the recommended findings, and make contact with the EA as soon as completed, informing them of the error and corrective action undertaken.

Feedback from the EA has led us to advise companies with incorrect Footprint reports to document each step taken to improve and correct the error, once completed issuing this Footprint report change and details of, to the EA for their own records. There may still be fines involved with some clients however through the internal audit process, the identification of the Footprint report errors and the communication of the error to the EA, audited clients were confident of current and future compliance.

Summary of Key Recommended Actions:

	Action
1	Depending on outcome of the Footprint report validation check, there may be a number of recommendations for to take, that are not included in this summary
2	Include copy of footprint report in Evidence Pack

2.6 Annual Report Validation



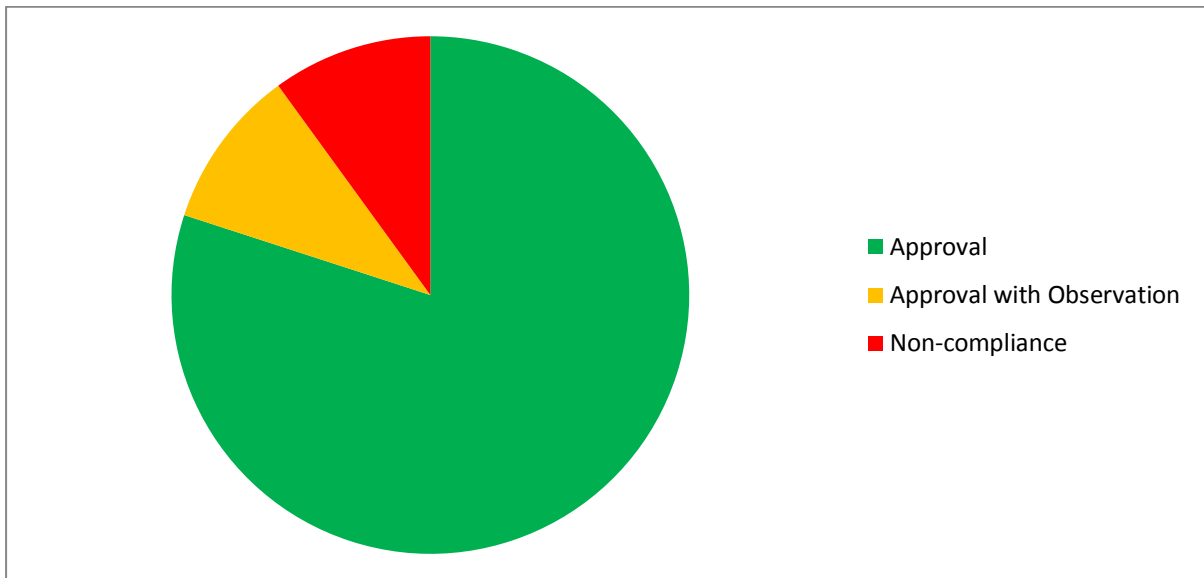
The audit findings of this section show a similar trend to that of the Footprint report validation section. The similar findings show the strong linkage between ensuring at least 'approval with observation' for the data source section, to ensuring compliance within the Footprint and Annual report validation sections. As can be seen, the same number of audited participants that were given 'non-compliance' under the data source section were also awarded 'non-compliance' under the Footprint and Annual report validation sections.

It was also found that due to the nature of the Annual reporting requirements i.e. inclusion/exclusion of residual supplies and changes to existing meters/supplies etc., many clients were finding difficulty with choosing a correct approach/methodology for data collation. It was observed that there is currently little EA guidance available in support of the current Annual reporting process.

Summary of Key Recommended Actions:

	Action
1	Begin collation of data sources for current Annual reporting requirement
2	Include copy of annual report in Evidence Pack

2.7 Early Action and Growth Metrics



As the results show, there is a high rate of 'approval' under the early action and growth metrics check. Reasons for this high approval were often due to organisations either not having any early action metrics or having limited coverage, which was simple to report against.

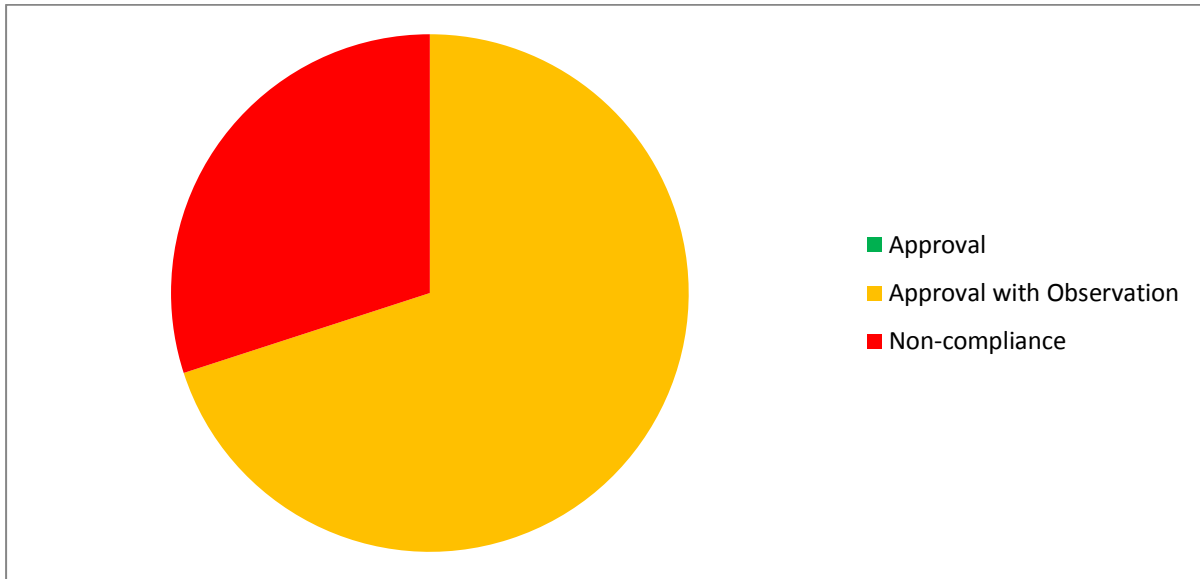
Those 'approval with observations' and 'non-compliances' that were given tended to be due to miscalculations in AMR coverage, which arose from either the complicated nature of the calculation or through a lack of reliable information surrounding AMR commission dates.

It was shown that a number of organisations chose not to disclose a growth metric whilst for those that did, it was always found to be a relatively simple task.

Summary of Key Recommended Actions:

	Action
1	Collate AMR lease agreement and contractual documentation for existing and future installed/ commissioned AMR's
2	Update evidence pack to include audited financial account summary showing turnover or revenue against total emission figures

2.8 Specials Events



It was found that a high proportion of all organisations audited were either ‘non-compliant’ or had ‘approval with observation’ under the special events check. It was recognised that organisations were insufficiently aware of the exact reporting requirements for special events and therefore had little to no processes in place to capture them, as and when they happen.

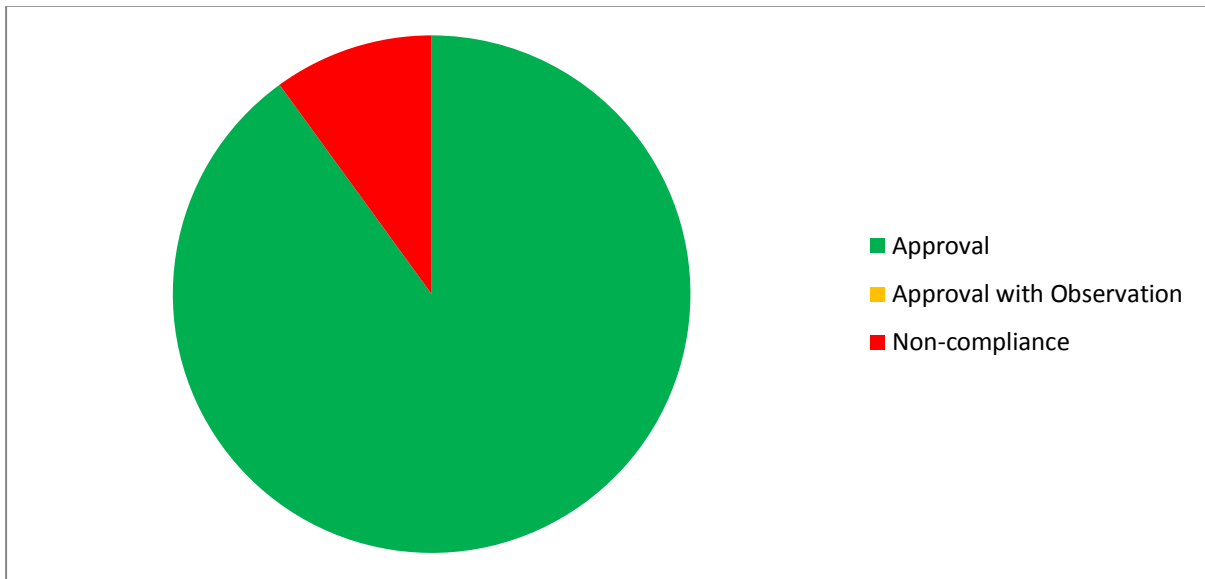
It was also found that the larger and more complex an organisations building portfolio was, the harder it was to accurately record special events.

We have found that communication is key to special event recording and have therefore strongly recommended including special events reporting within the agenda of an organisations’ energy steering group.

Summary of Key Recommended Actions:

	Action
1	Develop a special event procedure which commits the company to ensuring the regular reporting and recording of the above special event requirements, including meter failures, supply change and consumption increase/decreases.
2	Establish a timeline of significant events for the reporting time period. Provide supporting evidence for each significant event and document within the evidence pack
3	Develop a procedure for the receipt, review and reporting of all special events including changes to structure, site activities and responsibilities etc
4	Store all historical, current and future correspondence with the EA in the Evidence Pack

2.9 Exemptions and Credits



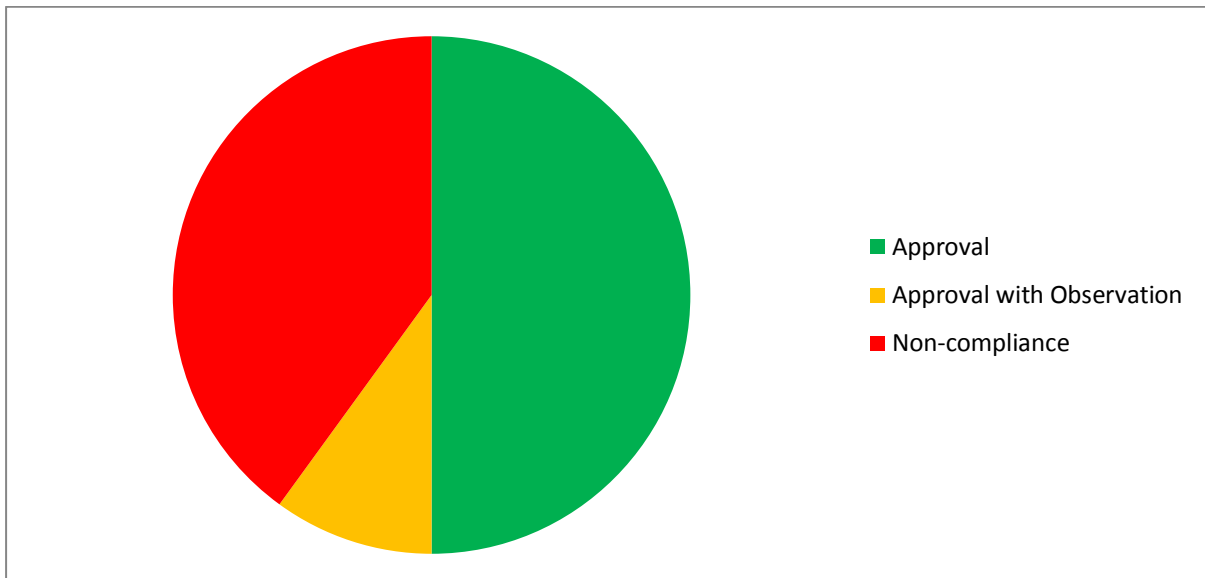
We generally found few companies with exemptions and credits except for those with some electricity generating credits and a range of CCA exemptions. However it can be seen from the results that a large proportion of all audited were given 'approval'.

We found the main areas for improvement were in the storage of supporting evidence within the evidence pack.

Summary of Key Recommended Actions:

	Action
1	Compile renewable energy generation information such as certificates, agreements and reports and include in evidence pack
2	Provide evidence of CCA member exemption and store within the Evidence Pack

2.10 Carbon Disclosure



The results show both a strong 'approval' and 'non-compliance' rate amongst audited organisations for the carbon disclosure section. Some companies had excellent methods in place for carbon disclosure and were involved with other schemes such as the Carbon Disclosure Project or their internal CSR reporting. Many companies had long standing energy reduction targets in place and strong evidence in support of these. On the other hand some companies showed little to no action towards carbon disclosure and carbon reduction.

Overall It can be shown that very few organisations neglected to reduce energy consumption where possible. However it was observed there was significant room for improvements, be it from the formalisation of objectives and targets or an improvement in employee engagement. It must be noted that a some organisations audited had little or no direct control over the energy and emissions as reported against within their CRC. Private equity and pension fund management participants were typical of this scenario.

Summary of Key Recommended Actions:

	Action
1	Compile evidence in support of carbon management and reduction and store in evidence pack
2	Compile evidence in support of current and historic carbon reduction targets and store in evidence pack
3	Produce a time lined action plan for the completion of carbon reduction projects. Include evidence in support of energy reduction projects, energy reviews and changes to working practices/ improved technology use.
4	Develop and document a programme of staff engagement and behavioural change for carbon reduction. Keep evidence of all staff communications, training and workshops delivered and store in evidence pack

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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