



KPMG Climate Change and Sustainability

CRC: Energy Efficiency Scheme

The Role of the Internal Auditor (Perhaps?)

13 March 2011

Introduction





CRC and your organisation

Why should CRC be on risk maps?



But can it be an opportunity too?

Who's involved in the CRC?



Why might this be an issue for the Board?

- Cost?
- Cash flow?
- Reputation?
- Risk?
- Opportunity?
- License to operate?
- Fines ...or prison?

Some illustrative examples:

The Chief Exec....

“I need to know my team are doing their job. I need confidence in the numbers I’m reporting to my investors, and I need to protect the reputation of the company. I’d also like to know how we measure up against our peers.”

Trust

Reliability

Comparability

Some illustrative examples:

The Finance Director....

*“ I need to know what it’s going to cost me and when so I can budget.
I also need to know how I recognise carbon in the accounts, as well as the likely October refund.
I need to be ready for my auditors at year end.”*

Trust

Consistency

Timeliness

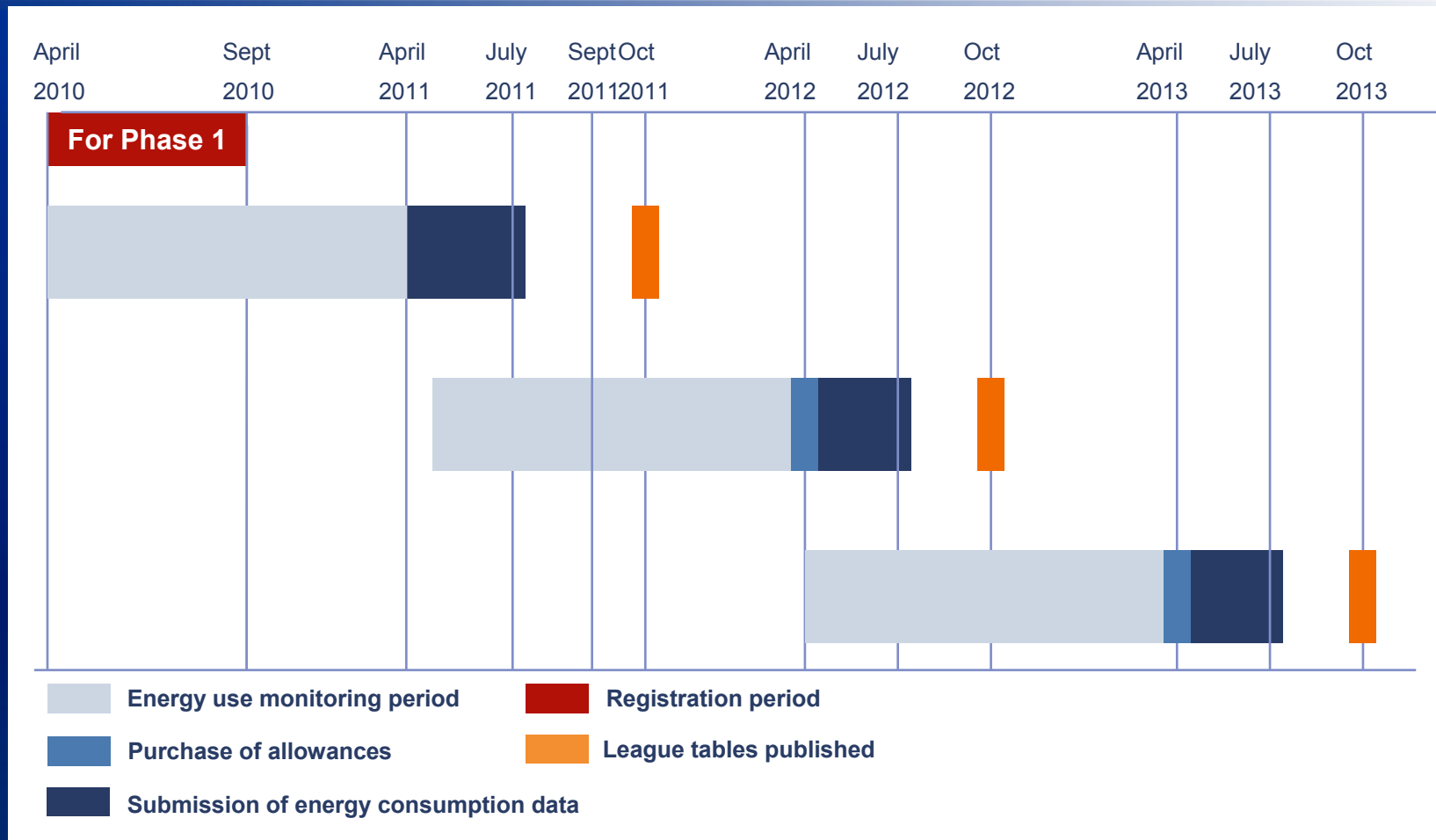


What is the CRC?

Carbon Reduction Commitment (CRC) Scheme

- 3500 UK organisations are full participants
- Originally designed to be a 'simple' cap and trade scheme
- Originally designed to be revenue neutral
 - At present, it functions as a retrospective levy on emissions
 - 10 times the previous cost (at least)
 - But there are a few advantages.... stability, no trading, simple (slightly)
- League tables on performance
- April 2010 was the first month of measurement
- Expense impact starts in April 2011 NOT April 2012
- Annual evidence packs to regulators
- 25% of participants a year will now be audited

Timeline – what and when?



This timeline reflects the latest government guidance following the Comprehensive Spending Review.

Commonly asked questions

What emissions are caught by the scheme?

What about recharges to other organisations?

Carbon footprint – Simple isn't it?



Boundaries

Completeness

Methodology

Accuracy

Verification

Skillset

What should we be focussing on now...

52 weeks have passed – Where is your data?

Key action by **March** – Request evidence

Key action in **April** – Account for spend

Key action by **July** – Submit evidence pack

with director sign off!



Impact of the CRC

..... reputational AND financial

Reputational impact comes from 2 sources:

October league table

Name and shame

Understanding your league table position- for what this is worth!

	Oct 2011	Oct 2012	Oct 2013	Ongoing
CTS (or equiv)	50%	20%	10%	0%
AMR	50%	20%	10%	0%
Absolute	0%	45%	60%	75%
Growth	0%	15%	20%	25%

Name and Shame

Of all things in the CRC,
this is what you want to avoid

EA have already started auditing:

- Initially this is focussed on registration

From April 2011 it will be:

- 25% risk based sample with some random
- Up to 5 years of historic data is audited
- Audit is desk based (at first)
- Penalties for more than a 5% misstatement

Carbon Reduction Commitment

What is the CRC going to cost you?

The cost of the CRC to you is determined by a number of factors:

- Your carbon footprint
- The price of allowances during the sale/auction
 - Possibly fixed for first 3 years from sale but after that it's determined by climate change policy...this may be announced in advance
- Any penalties you incur e.g. failure to meet deadlines or incorrect reporting
- It may also be determined by any need to trade ...pending decisions on future of scheme



Our experience of the CRC

Carbon Reduction Commitment

What could the CRC audits look like?

- Desk based (at first)
- Up to 5 years of historic data
- Possible outcomes:
 - Pass
 - Pass with improvements
 - Fail
- EA will continue to work with participants
 - Enforcement will be the last resort

Evidence Pack Requirements and EA Annual Submissions

- **Evidence Packs Requirements:**

- a breakdown of all energy usage from fixed point sources: request now your annual CRC statements of energy usage from utility suppliers
- details of any estimated data and the methodology used (as this will incur a 10% mark-up)
- details of the organisational structure, its total revenues/spend in the period
- the level of coverage of AMR and Carbon Trust Standard, or equivalent metrics
- any exceptional events such as new meters, breakdowns, acquisitions etc
- sign off by the by a responsible Director to say that the evidence pack has been checked

- **Footprint Report:**

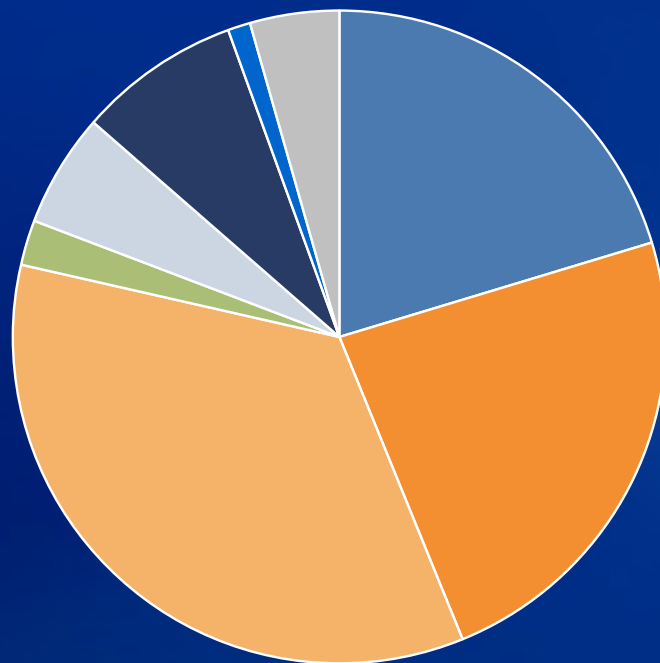
- Report due by 29 July 2011 including the organisation's relevant energy consumption during April 2010-March 2011
- CRC Registry will convert energy consumption into CO2 emissions
- At least 90% of your energy supply must be covered by CRC or EU ETS or CCA

- **Annual Report:**

- Summary of CRC emissions for previous year (April-March), due by end of July each year (starting this year)
- Need to surrender allowances to cover emissions reported in the Annual Report at £12/tCO2 from 2012

CRC Readiness Reviews – The Results

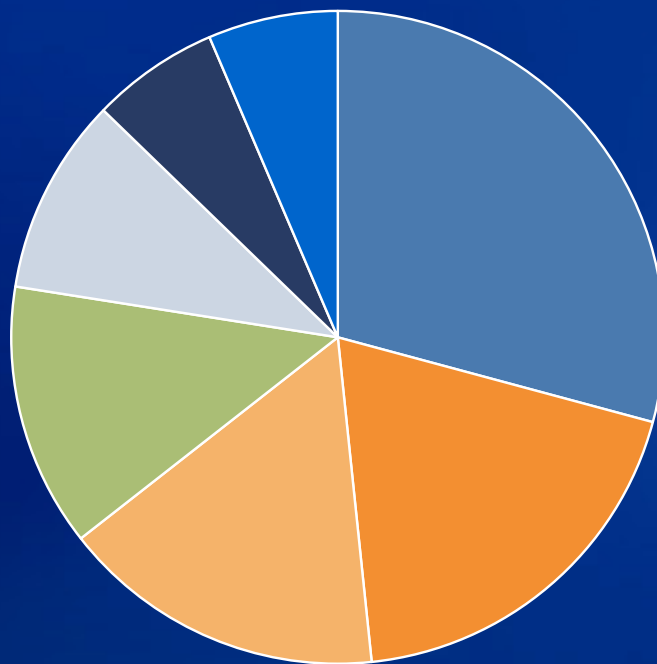
From a sample of our reviews, the issues can be split as follows:



- Strategy/policy/buy-in
- Reporting systems/controls
- Recording/reporting issues
- Early action metrics
- Identifying opps
- Investment/funding
- Trading strategies
- Other

CRC Readiness Reviews – Risk of penalties

Primarily come from findings relating to recording/reporting issues. These can be broken down by cause:



- Boundaries
- 3rd party data
- Availability
- Conversion factors
- Technology
- Estimates/restatements
- Human error/typos

12 CRC audit survival tips:

1. Never have incomplete data
2. Report all data at least every quarter
3. Report data in a timely manner
4. Have someone check a sample of data regularly
5. Document everything!
6. Check invoices against meter reads
7. Don't forget to ask for your annual statement
8. Have someone senior sign off numbers
9. Be consistent
10. Be sceptical of 3rd parties
11. Explain significant variances
12. Estimates are OK if the cost outweighs the 10% markup



Any Questions?

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