

DOE/AIE Forum Input- Materiality

Materiality & Level of Assurance

Level of assurance

- degree of assurance the intended user requires in a verification
- determines the depth of detail that verifiers design into their verification plan to determine if there are any material errors, omissions or misrepresentations
- Two types of assurance are possible, which are applied across GHG audit standards and programmes:
 - Reasonable Level of Assurance
 - Limited Level of Assurance

Materiality & Level of Assurance

- ❑ A limited level of assurance is related to a higher materiality threshold than a reasonable level. Which means that in order to reach limited level assurance less data needs to be verified than for reasonable level assurance (not applicable for CDM/JI)
- ❑ For a reasonable level of assurance, the verifier provides a reasonable (not absolute) level of assurance that the GHG assertion is materially correct.
- ❑ Applying the concept of materiality does **not** mean that errors that have been identified are not corrected by the project participants. If an error is found by the verifier, the responsible party will be asked to correct it and if applicable adjust the amount of baseline/project emissions (emissions reductions)

Verification process

- Materiality talks about errors that **could** influence the intended users decision. The concept is referring to the “probability” of an error, omission and misstatement occurring
- Auditors evaluate whether an individual or the aggregation of errors, omissions and misinterpretation could affect the assertion and the decision of the intended user by taking into account:
 - quantitative factors
 - qualitative factors

Example:

Quantitative factor: how big is the individual source stream in relation to the total emissions?

Qualitative factor: how good is the quality management and assurance (QM/QA) at the project site to avoid an error, omission, misinterpretation in the monitoring and reporting of an emission source stream?

The auditor will first review the QM/QA documentation. In a second step he/she will corroborate how well the documentation is understood and applied. This is done on site through interviews and record checks. The risk of an error because of not well understood and practiced QM/QA is high, medium or low (not absolute numbers)

Without materiality and level of assurance, what is the problem?

DOE/AIEs

- Absolute assurance (i.e. 100% certainty) is impossible to achieve in audits
- That is true for financial as well as GHG audits.
- 100% certainty can only be achieved if each and every parameter and data entry is checked, this is impossible for large data sets
- It would more or less require the auditor to be present during the monitoring and reporting at all times.

As no guidance by the regulator is provided auditors assume a materiality threshold of 1% to 5% and a reasonable level of assurance for JI verifications

Without materiality and level of assurance, what is the problem?

UNFCCC

- ❑ The concepts of level of assurance and materiality should also be applied at the request for review stage
- ❑ Decisions to request a project for review should consider: could the individual or the aggregation of errors, omissions and misrepresentations that might be present in the report affect the amount of CERs in a way that results in a material discrepancy.
- ❑ This would avoid that an unreasonable amount of resource is spent at UN, DOE and Project participant level in order to simply make a verification report more transparent (no correction of emission reductions) or correct ERs of a magnitude that is clearly immaterial and lost in the measurement error of installed equipment. i.e. corrections of less than 1% of CERs

- ❑ Materiality (like many other audit concepts) is a well established principle and is used widely in auditing (e.g. for financial (tax relevant) audits or greenhouse gas audits in the EU ETS as well as The Climate Registry). It should not be seen as something untried or untested.

- ❑ Materiality is used every day around the world to help keep assurance processes moving, whilst ensuring the errors/omissions that are of importance are still captured and dealt with

DOE/AIE Forum Suggestion

- Materiality threshold of 5 per cent should be accepted for all JI projects, except for projects reducing greater than 100,000 tCO₂e/annum, where it should be 1 per cent
- Formal inclusion of reasonable level of assurance for JI verifications

Materiality will help enhance an efficient JI without reducing the quality and credibility of carbon credits

The objective is to ensure a functional JI while maintaining its integrity and not clog the process with very small, insignificant issues