



Assurance over Voluntary Greenhouse Gas Reporting

3 November 2011

 **ERNST & YOUNG**
Quality In Everything We Do

Today's agenda

- ▶ Business case for voluntary greenhouse gas (GHG) reporting and assurance
- ▶ Assurance fundamentals / Accounting speak
- ▶ Tips for success

Fresh insights from 300 global executives on climate change



In 2010, Ernst & Young released an analysis of a global survey *Action amid uncertainty - the business response to climate change*^{*}. The survey was conducted among three hundred global corporate executives from 16 countries with a least US\$1 billion in annual revenue.

Key findings include ...

^{*} Right click / "Open Hyperlink" to activate the link

Ernst & Young global survey results: key findings

64% of respondents report their climate change data in a sustainability report, and nearly two-thirds of them have their data verified by an independent third party

Over 40% surveyed indicated they believe equity analysts are currently considering climate change-related factors in the valuation of their company. An additional 30% believe analysts will incorporate climate change factors within the next five years.

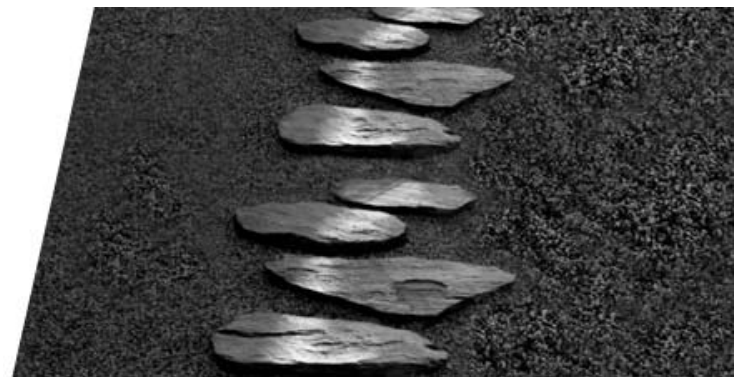
36% are already working with their stakeholders to decrease the carbon in their supply chain and another 30% are at least discussing programs with their suppliers

Why are these companies voluntarily reporting GHG data?

Accuracy in monitoring, measuring and reporting the results of climate actions is becoming increasingly important to internal and external stakeholders because it helps in mitigating risk and recognizing opportunity.

Why now?

- ▶ Better public access to information
- ▶ Business customer expectations and competitor activities
- ▶ Greater engagement by the investment community
- ▶ Shifting consumer expectations
- ▶ Shifting employee expectations
- ▶ Mandatory reporting regulations



Why obtain assurance if it is not mandatory?


- ▶ Increases credibility
 - ▶ Address stakeholder requests
 - ▶ Increase scores with climate change or sustainability rating
 - ▶ Mitigates reputational risk around reporting
 - ▶ Example – CDP Carbon Performance Leadership Index
- ▶ Can help you improve your controls around reporting and increase efficiencies
- ▶ Trending toward integrated reporting

* In some cases, assurance is mandatory (e.g., California AB-32)

What is verification and assurance?

- ▶ “The terms *verification* and *assurance* are both used to describe the process of checking climate data as well as related data collection and management systems.
- ▶ Verification is defined as a systematic, independent and documented process for the evaluation of climate data against a set of predefined criteria. Whilst assurance can be used in the same context, it describes the result i.e. **the degree of confidence** that is provided in the data through the process and the provision of an assurance opinion.”
 - Carbon Disclosure Project Verification of climate data

Example of a sustainability assurance journey

Project phase	IFAC/AICPA/other assurance standard	Progress 				
		2012	2013	2014	2015	2016
External assurance	Reasonable/examination	▶ None	▶ GhG	▶ GhG	▶ GhG ▶ Water	▶ CSR report
	Limited/review	▶ GhG	▶ Safety ▶ Water	▶ Safety ▶ Water ▶ Waste	▶ Remainder of sustainability report	▶ N/A
Internal Audit	Readiness assessment	▶ Waste ▶ Water ▶ Social ▶ Labor ▶ Safety ▶ Economic	▶ Waste ▶ Social ▶ Labor ▶ Economic	▶ Social ▶ Labor ▶ Economic	▶ N/A	▶ N/A
		2012	2013	2014	2015	2016

A five-year progress plan is useful from a budget perspective and to show continuous progress.

Audit objective

- ▶ The objective of an audit of GHG statements is to enable the auditor to *express an opinion* about whether the GHG statements are prepared, in all *material respects*, in accordance with an applicable assurance standard.
- ▶ The concept of materiality is that individual, or the aggregation of, errors, omissions and misrepresentations could affect a company's GHG assertion and could thus influence data users' decisions.
- ▶ Audits are performed in accordance with accounting standards to provide outcome consistency
- ▶ Audits are designed to provide reasonable assurance (not absolute assurance) that the GHG statements are not materially misstated.

Audit opinion (1 of 2)

- ▶ Four types
 - ▶ An **unqualified opinion (clean)** should be expressed when the auditor concludes that the GHG statements are presented fairly, in all material respects (or give a true and fair view) in accordance with the applicable **reporting** framework
 - ▶ A **qualified opinion** should be expressed when the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the GHG statements; or is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the GHG statements of undetected misstatements, if any, could be material but not pervasive.
 - ▶ An **adverse opinion** should be expressed when the auditor, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the GHG statements.
 - ▶ A **disclaimer of opinion** should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has been unable to obtain sufficient and appropriate audit evidence and, accordingly, is unable to express an opinion on the GHG statements.

Audit opinion (2 of 32)

We have *examined* the accompanying Schedule of Total Scope 1 and Scope 2 Greenhouse Gas Emissions for the year ended December 31, 2010 (the Schedule) that the Company calculated for its 2011 submittal to the Carbon Disclosure Project...

In our opinion, the Company's Schedule of Total Scope 1 and Scope 2 Greenhouse Gas Emissions for the year ended December 31, 2010 is *fairly stated*, in all material respects, based on the criteria disclosed in the Company's Carbon Disclosure Project submissions for estimating these emissions.

Tips for success

Calculate emissions in accordance with a recognized methodology (e.g., WRI Greenhouse Gas Protocol)

Make available evidence showing coverage for all possible sources within established boundaries

Make available evidence supporting the calculations

Document procedures/processes addressing data accuracy

Recognize past audits and address findings

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