

Guide for Aircraft Operators Undergoing Verification



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1.0 Introduction

This document provides a simplified outline of what is involved in the process of verification. It explains the steps that verifiers must go through before, during and after the verification of an emissions report, the purpose of each process, and what it involves. It also explains what Operators are required to provide. The process described is based on the Standards to which verifiers work and are accredited, in particular EN45011 (and its associated guidance document - EA 6/03).

1.1 Verification

All greenhouse gas emissions must be verified by an independent body before they are submitted to the Competent Authority. Each Verification Body (VB) must be accredited in the Member State in which the Operator has been assigned for Regulation. However, it is possible for a VB accredited in one country to be given permission¹ to verify Operators assigned to other countries. The UK accreditation body is UKAS.

The purpose of verification is to ensure that the Operator is fully compliant with their legal requirements under the EU ETS. Following a risk based approach and taking into account national legislation as well as the applicable Monitoring and Reporting Guidelines (MRG)², verifiers assess the monitoring plan in place so as to be able to state, with reasonable assurance, that the data is free of material misstatements and the accounting processes are free of material non-conformities.

In order to do this, verifiers must obtain an understanding of the Operator's business activities, GHG accounting processes, quality control environment, monitoring plan and any other internal or external factors which may affect the accuracy of the data or non-conformity with the regulations. They then evaluate if the procedures match the monitoring plan, and have been implemented correctly. This is likely to involve site visit(s), where a visit is made to location(s) where data is collected, processed and held, in order to observe the system(s) in practice. The outcome of the verification is detailed in the Verification Opinion Statement which is submitted to the Operator, and who in turn submits it alongside their emissions report to the Competent Authority before March 31st of the following year. Depending upon the Competent Authority requirements, the final data may be entered onto the Registry by either the verifier or the Operator; in both cases the final entry is checked by the verifier.

As part of this assessment risks associated with the accounting process, such as inherent risks, control risks and detection risks must be identified and reduced to an acceptably low level in order for the verification to be successfully completed; this reduces the verification risk (ie that the verifier will make the wrong conclusion) to an acceptable level to achieve 'reasonable assurance'. This requires a good understanding and planning of the detailed verification beforehand.

¹ By the relevant Competent Authority and nationally recognised Accreditation Body

² MRG(A):2009 – applicable to Aircraft Operators only and MRG2:2007, of which part is applicable to Aircraft Operators.:

2.0 Verification Process

2.1 Contract Review

In this pre-contract stage the Lead Verifier assesses whether it is possible to undertake the verification activities for the specific Operator. In general, the following activities are carried out -

- evaluating the risks that are involved to undertake the verification activities within a particular Operator activities (both risks to the VB, and those inherent in the Operator's processes)
- assessing whether the Operator has provided the verifier with sufficient information
- undertaking a competency needs analysis to select the verification team and ensure there is no conflict of interest
- allocating adequate time for all verification activities so as to prepare a quotation
- review of the quotation by a competent person (eg a Lead Verifier), in terms of days required to complete all verification activities, completeness of the planned activities, and risks management
- specifying any contract conditions and expectations of the Operator

All of the contract review activities and decisions should be documented, and these internal Work Papers retained for inspection by the Independent Reviewer, Competent Authority or any other relevant third party. VBs are required to hold all documents for 10 years from the date of submission of the verified report and associated Opinion Statement.

2.2 The Verification Team

The Lead Verifier manages the team allocating tasks to each team member. They prepare the strategic and risk analyses as well as developing and implementing the verification plan. They direct the compilation of the Work Papers and the Verification Opinion Statement.

Some tasks may be delegated to other team members; however they remain the responsibility of the Lead Verifier. This includes confirmation of scope and objectives of verification, process analysis and detailed testing, compiling the Work Papers and drafting the Verification Opinion Statement. They may also delegate resolution of issues arising from the verification tests, such as closing out identified errors, assessing materiality or anomalies and changes to the risk levels associated with potential for mis-statement.

From time to time, sub-contracted personnel will be used as technical experts. For Aviation ETS it is expected that they will mostly be IT specialists in cases where Operators use proprietary software which needs to be inspected/validated but, may also be sub-contracted verifiers during busy periods. ICM ETS Ltd take full responsibility for the competency of anyone sub-contracted to become part of a specific verification team, as though they were permanent members of staff.

2.3 Contract Obligations for the Operator

As VBs have to adhere to strict impartiality rules, the Accreditation Body insists that there are certain obligations which must be included in contracts to avoid commercial relationships becoming conflict of interest. Operators are legally and contractually obligated to disclose all relevant information and data that the Lead Verifier deems necessary for verification to be correctly carried out. Operators must also provide written confirmation from senior management that all required data and information has been disclosed. In addition to this arrangements must be made to facilitate on-site visits, allowing access to all relevant areas, records and personnel.

The contract must also state that the Operator cannot use the Verification Opinion Statement for any misleading reason. The VB is obligated to specify contract conditions in a clear and transparent manner.

2.4 Time Allocation

When considering how to allocate time for verification, the Lead Verifier must consider the nature of the Operator's business, the size of their fleet, the complexity of the monitoring plan and associated GHG accounting systems, the applicable materiality threshold and the location(s) of data records etc. The complexity of the accounting and monitoring processes must also be considered, including issues such as the quality control systems and data flows.

In addition to the time allowed to perform all the Stages of verification activities (see Sections 3, 4 and 5), an allowance of time is made for addressing any issues arising; preparing internal Work Papers, independent Technical Review and drafting the Verification Opinion Statement in time to submit it by the 31st of March.

VBs are also required to make provision in contracts for flexibility to add further days to the budget where the Strategic or Risk Analyses (or results of implementation of the verification plan) show that more detailed tests need to be done, or a greater sample of data and systems needs to be checked, or there is a need to travel to more locations than was anticipated at Contract Review; these may arise where verification planning and/or implementation highlights actual or potential material misstatements or non-conformities that need to be resolved.

3.0 Verification Assessment

The first stage of verification is the Verification Assessment. This is where the Operator's activities are inspected in detail for the first time, and potential risks and areas of concern are identified. A Verification Plan is developed, which maps out the approach which will be taken for this specific verification. The process is simplified when verification is performed in consecutive years by concentrating on changes rather than starting the assessment from scratch, although it is good practice to perform a new assessment every few years as changes build up. The following flowchart shows the processes of the Verification Assessment, and the order in which they must be completed.

3.1 Strategic Analysis

This is the initial assessment of the Operator' accounting processes; during which the Lead Verifier assesses their likely nature, scale and complexity through document review and interviews, to assess the impact on verification planning.

The lead verifier takes a look at the internal and external factors that will affect the verification and creates initial documentation to plan and focus the next Stages of work.

Internal Documentation

Can be merged into one or may be multiple documents

3.2 Risk Analysis

This stage identifies the likely levels of risk of misstatement or non-conformity, where they are likely to occur in the accounting process, and whether they are likely to be material.

Internal Documentation

3.3 Verification Plan

Based on the risk analysis the verifier drafts a verification plan which comprises:

- a verification program that includes the nature of verification activities, when they will be carried out and their scope;
- an assessment of whether the Operator's boundaries (emission sources, source streams) are correctly defined in the approved monitoring plan
- a data sampling plan setting out the extent of the data sample to be tested and the nature of the detailed tests
- the site visit(s) – including location(s) and activities to be conducted (eg interviews, inspections, records review etc) and assessment of conformance with the approved monitoring plan and the ETS rules

The followings steps lay out the elements of the Verification Plan:





3.3.1 Verification Programme

This covers the activities that relate to **how** the verification will take place, and is determined appropriately for the risks identified.

The verification programme serves as a means of monitoring and recording progress of the verification activities and the scope of such activities; and ensuring that all required activities will take place.

3.3.2 Data Sampling Plan

This consists of **what** the verification will involve in terms of extent and depth of testing, including - what sources will be looked at prioritised based on their contribution to total emissions and the results of the Strategic and Risk Analyses. Specific attention is paid to changes to the fleet over the reporting period.

The data sample must be representative of the full data universe and testing must include horizontal and/or vertical checks, taking into account sampling regimes of prior audits.

Failure of the selected data sample to meet the principles of trueness, completeness and consistency will result in the testing of an extended data sample until the verifier understands the full extent of any potential or actual misstatement. Details and justification of the (additional) samples selected and outcomes of substantive testing are recorded in Work Papers.

3.3.3 Site Visit and Assessment of Source Streams and Emission Sources

The verification plan indicates which activities are carried out on site, and which can be performed remotely. It must detail activities which assess the conformance to and implementation of the approved monitoring plan and verify the full extent of the data trail(s).

3.4 Documentation of the Verification Plan

The verification plan, including any modifications (with reasons) is documented in the Internal Work Papers and is used to guide Stage 2 of the verification (process analysis and detailed testing).

4.0 Process Analysis

Process Analysis covers implementation of the Verification Plan and is the detailed verification Stage. The verifier uses standard auditing techniques, such as document review, interview, observation, cross checking and corroboration; as well as comparison to proxies and external sources of data.

There are two key elements – analysis of the accounting and control processes, to ensure the monitoring plan has been implemented correctly, and detailed testing/analysis of the source and aggregated data.

As all Operators submit their data on the 31st of March, but the full year's data isn't available until part way through the January following the end of the reporting year. To facilitate the verification and reduce pressure against the deadlines, VBs aim to spread the workload out throughout the reporting year.

Process analysis can be done at any point during the reporting year (since it is primarily checking for compliance) and done early it can help both correction of problems and ensure that they aren't carried into the entire data set.

Data can also be verified throughout the year, as it becomes available. Thus the data and process analysis can be combined or performed separately; where combined, the data may be checked up to the point at which the Process Analysis is conducted; and then the remainder of the data set checked at the Year End. The outcomes of the strategic and risk analyses provide the information on which planning decisions such as these are made.

Operators are encouraged to consider combining Process and Data Analysis in the period from August to November of the Reporting Year, to provide several months of time for corrections compared to several weeks if all verification work is done after the end of the Reporting Year.

4.1 Site Visits

Site visits allow the verifier to properly examine the systems put in place to monitor emissions, and confirm that they are being correctly implemented. The approach to site visits was developed with fixed installations in mind, where every site needed to be visited, even if one company owns more than one. In the case of aviation, it would not be practical to visit each individual aircraft, so verifiers go to where the relevant³ data is collected, processed and stored, which will usually be the head office, but may not always be.

Site visits can be waived only under exceptional circumstances in two specific situations:

- the Competent Authority has established a list of exemption criteria and the verifier has assessed that these criteria apply to the individual Operator
- if the Operator has submitted a request (confirmed by the verifier) and obtained approval from the Competent Authority for a visit exemption⁴

³ Note –this will be information demonstrating compliance as well as the fuel etc data, so may be at multiple locations

⁴ Note – some Competent Authorities have a deadline in place by when applications must be made.

These situations are unlikely to apply very often to aviation.

4.2 Misstatements and Non-conformities

All misstatements and non-conformities, whether material or not, are reported to the Operator during the verification process, usually by sharing the Issues Log. This is done as early as possible, and on an on-going basis, to allow plenty of time to provide further information and/or make any necessary changes, and allow for subsequent review of the changes in time to meet the 31st of March deadline.

If issues cannot be corrected before the deadline, the verifier will assess whether or not they are material; if they are it is not possible to verify the emissions report and a “No Verification” Opinion Statement will be issued. The Operator must then work with the Competent Authority to resolve the issues identified.

Non-material misstatements/ non-conformities that are not corrected before the deadline, will be addressed in accordance with national legislation, within a timeframe set by the Competent Authority. In some cases these are identified in an Annex to the Verification Opinion Statement and the Operator is expected to report to the Competent Authority how they plan to address the issues, and by when.

Such non-material issues will be followed up at the next verification, and if no action has been taken, the verifier will assess if this leads to breakdown in control and/or a material breach. If non-material issues have not been resolved, the verifier will again report this to the Operator for onward reporting to the Competent Authority.

Due to the need for impartiality, verifiers are unable to tell Operators how to correct any error, mis-statements etc, as this would be considered to be consultation which might result in a verifier subsequently checking their “own work”, verifiers simply highlight problems and weaknesses in accounting, control and/or reporting. However, clarity in highlighting why something is incorrect or a problem, appropriate corrective actions may be obvious. Verifiers are required to review any changes made.

4.3 Other Verification Issues

- The verification team will obtain and retain all appropriate evidence to support their work and the conclusions arrived at
- Mis-statements and non-conformities must be logged in the internal Work Papers (usually in the form of an Issues Log), and fully resolved by the Operator to the satisfaction of the Lead Verifier. Once corrected, they are noted as closed but not removed from the Log. Issues that cannot be resolved will be assessed for their materiality impact and noted in the Verification Opinion Statement.
- When verification is performed in subsequent years, the previous year’s findings will be considered when evaluating whether to increase or decrease the verification effort for individual sources, data or systems; this will impact upon the amount of time required and hence the fee quotation. Justification will be recorded for significant decreases or increases in time allocated.

4.4 Completing the Verification and Findings

Before the verifier's conclusion can be finalised, the verifier will review the entire process, ensuring that all Work Papers have been correctly completed, all non-conformities and misstatements have been dealt with appropriately, and that any changes to the data as a result of the verification have been justified.

The Lead Verifier must also ensure that an audit trail can be clearly demonstrated and check that the effort was appropriately distributed in accordance with the risk analysis. This is different to the formal Independent Review of the Verification Opinion Statement and supporting evidence, which is detailed below. The findings of the verification are then used to make a judgement about whether or not there are any material misstatements or non-conformities in the emissions report, and therefore what opinion can be drafted.

5.0 Verifier Reporting

5.1 Internal Verification Documentation

Internal documentation (usually referred to as Work Papers) is drafted so that an informed third person can obtain an insight into the approach to verification and whether all Stages and processes were carried out properly; and that both Work Papers and Evidence support the Verification Opinion Statement.

As a minimum Work Papers should include evidence that the contract review, strategic and risk analyses, and the verification plan have been performed in full, that appropriate amounts of evidence have been obtained, and that there is sufficient information to evaluate robustness of the verification process, and support the conclusions arrived at.

5.2 Comments in the Verification Opinion Statement

The purpose of the Verification Opinion Statement is to confirm that the emissions report is free of material misstatements and the GHG accounting and control processes are free from material non-conformities. The Statement is provided to the Operator who submits it to the Competent Authority with their emissions report.

The Statement should also identify any non-material misstatements and non-conformities that have not been resolved by the Operator, along with recommendations for improvement. Material mis-statements/breaches that have been resolved do not need to be included in the report, but should be detailed, and marked as closed in the Internal Work Papers.

The Verification Opinion Statement should clearly state if any data or processes do not conform with the approved Monitoring Plan or either of the applicable MRGs; and also any opportunities for the Operator to improve the robustness and transparency of their monitoring and reporting to ensure it is fully in accordance with the applicable MRGs.

5.3 The Independent Review Process

The draft Verification Opinion Statement must be reviewed by a competent person who took no part in the actual verification. This person needs to have sufficient knowledge and experience of emissions accounting and verification etc to evaluate the verification processes and the justification for the verification decision.

The function of the review is to look for any technical errors, to ensure the verification team has acted with due diligence and fulfilled their duty of care, to ensure that the regulations (EU Directives, national legislation, MRG and accreditation requirements) have been followed and to proof read the Opinion Statement.

The review covers all aspects of the preparation, planning and detailed verification and the preparation of the Opinion Statement; as well as confirming that VB procedures have been followed and VB business risks have been managed appropriately.

5.4 Issuing of the Verification Opinion Statement and Entry of Data into the Registry

Once the Verification Opinion Statement has been confirmed by the Independent Reviewer, and the Management Representation letter received, the Statement is issued to the Operator. It is their responsibility to submit it to the Competent Authority along with their emissions report. The verifier will then input, or approve (depending on the national legislation), the entry of the final verified greenhouse gas emissions into the Member State's ETS Registry.

