Department for Transport

RTFO Guidance Part Three: Guidance for Verifiers

RTFO Year 5: 15 April 2012 to 14 April 2013

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1. Introduction

Chapter summary

This chapter outlines the purpose of this document and provides an overview of the context and relevant legislation. It indicates how this document relates to the other parts of the RTFO Guidance.

Overview

1.1 This document provides guidance for verifiers undertaking assurance of reporting parties' data under the Renewable Transport Fuel Obligation (RTFO).

1.2 This document highlights the key requirements relating to the reporting and assurance of biofuels information. This document is not intended to provide details of all possible activities that verifiers may need to carry out in order to provide assurance.

Target audience

1.3 This document is aimed at verifiers of carbon and sustainability information under the RTFO, though it is also a useful resource for reporting parties preparing for verification.

Context

1.4 The RTFO Order is a legal instrument that encourages reductions in greenhouse gas emissions in the UK by substituting some of the fossil fuels used in road transport with sustainably sourced biofuels. It is the mechanism through which the transport elements of the Renewable Energy Directive (RED) have been implemented in the UK.

1.5 The RTFO introduces mandatory sustainability criteria for biofuels in the UK. Reporting parties must demonstrate that their biofuels meet these criteria in order for them to count towards their obligations.

1.6 Carbon and sustainability data submitted to the RTFO Administrator is subject to independent verification in order to provide assurance of its accuracy.

About the *Guidance for Verifiers*

1.7 This document provides guidance for verifiers of biofuel sustainability data under the RTFO. It provides details of the verification process with particular focus on the issues relating to the assurance of biofuel sustainability data.

1.8 The executive summary gives an overview of the process that verifiers are likely to follow. Following this, there is a chapter describing the purpose of verification under the RTFO and what is required. The document is then divided into chapters dedicated to each of the major process steps described in the executive summary.

1.9 The original Verifiers' Guidance was published by the Renewable Fuels Agency (RFA) in 2009 following extensive consultation with verifiers and other stakeholders. It has been periodically updated since then.

1.10 This document relates to biofuels supplied after the implementation of the transport elements of the RED. Any updates made in-year will be available on the DfT website's biofuels pages where guidance for earlier reporting periods may also be found.

1.11 This document forms one of three documents making up the RTFO Guidance. It should be viewed alongside Part One: *Process Guidance* and Part Two: *Carbon and Sustainability Guidance*. Queries or comments should be directed to the RTFO Administrator (DfT's RTFO Unit) at biofuel-sustainability@dft.gsi.gov.uk.

Terminology

1.12 In order to distinguish between the final supplier of biofuel across the UK duty point and other suppliers of biofuel, or pre-cursors, in the supply chain, the final supplier is referred to as the 'reporting party' throughout this document.

1.13 While the RTFO Order refers to verification and verifiers, ISAE 3000 uses the word 'practitioner' for a person who provides assurance. Verifier and Practitioner are used interchangeably in this document and should be understood to mean the same thing.

2. Executive summary

Requirements of the RTFO Order

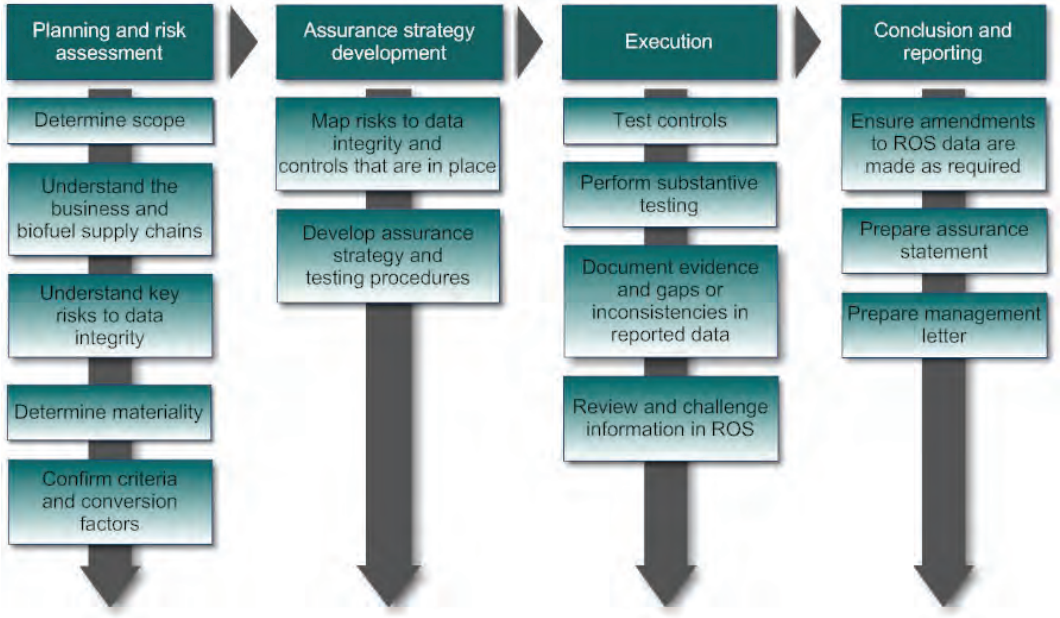
2.1 The RTFO Order, by articles 16A and 16B, requires that:

- The verification must meet the requirements of ISAE 3000 or an equivalent standard. ISAE 3000 defines two levels of assurance: limited and reasonable. The RTFO Order states that the level of assurance required for data submitted under these regulations is 'limited'.
- The assurance provider is not 'the supplier' and is not a 'connected person' of the supplier.
- The verifier's assurance procedures must be undertaken by a person with appropriate expertise.

The assurance process

2.2 Figure 2.1 below describes the key steps involved in the assurance process.

Figure 2.1 - A typical assurance process



Source: Ernst & Young LLP

Planning and risk assessment

2.3 The first stage in the assurance process involves engagement with the reporting party to determine the scope of the assurance engagement. It will then be necessary to understand the business, its processes and supply chains and gain a familiarity with the data in the reporting party's application for RTFCs. The verifier then assesses the engagement risk, identifying any known risks to data integrity (such as particular sources of information where the reporting party has doubts over the reliability). Using this information, the verifier will determine materiality and agree the criteria against which the information will be tested. This part of the process is covered in Chapter 4.

Assurance strategy development

2.4 The second stage is the design of the assurance strategy. This will involve verifiers mapping out the risks of carbon and sustainability (C&S) data being materially misstated in the application for RTFCs, based on the information gathered during the planning and risk assessment phase. Verifiers will then develop the testing procedures which will be carried out against the criteria to reduce engagement risk to an acceptable level.

2.5 The nature and extent of any systems or controls to mitigate risks of errors in collecting, collating and reporting information will also be mapped. Where controls are in place and verifiers intend to rely on them in forming their conclusion, they must develop testing procedures to

enable them to determine whether the controls are operating effectively. It is expected that substantive procedures will be undertaken on the data reported as well as any controls testing which may be performed. Further details on testing procedures are provided in Chapter 5.

Execution

2.6 The third phase is the execution of the testing activities. This will include testing controls for recording and handling of C&S information and performing substantive testing of the reliability of information down the chain(s) of custody. The verifier will document evidence found during the testing process and identify where there are any material errors in the reported data. Chapter 6 of this document discusses the types of evidence that verifiers are likely to obtain in the course of an RTFO assurance engagement and some of the key considerations that need to be taken into account for different types of evidence.

Conclusion and reporting

2.7 In the final stage of the assurance process the verifier will discuss any proposed adjustments to the data with the reporting party. Once any necessary changes have been made, the verifier will issue an assurance statement. Chapter 7 discusses this part of the process and some of the key requirements for assurance statements under ISAE 3000.

3. The purpose of verification and what is required

Chapter summary

This chapter outlines the purpose of verification and the roles and responsibilities of reporting parties, verifiers and the RTFO Administrator. It also sets out the requirements for independence of verifiers, professional competencies and quality control.

The purpose of verification

3.1 In order to provide the RTFO Administrator with assurance over the C&S information provided by reporting parties, the data is required to be independently verified. Renewable Transport Fuel Certificates (RTFCs) will only be issued for sustainable biofuels where the sustainability data has been verified.

3.2 The *RTFO Guidance Part Two: Carbon and Sustainability Guidance* (C&S Guidance) describes the mandatory sustainability criteria in detail. This includes the chain of custody systems that reporting parties should establish in order to provide carbon and sustainability information in their reports to the Administrator.

3.3 Assurance is to be provided on the reporting party's C&S data. Inevitably this will involve testing the systems and processes that generated the information, but the systems and processes themselves are not the sole focus of the verification.

Roles and responsibilities

3.4 The following paragraphs outline the responsibilities for the key steps in the verification process.

3.5 Reporting parties are responsible for:

- Preparing their data and completing their application for RTFCs;

- Preparing their additional information and submitting it either with their application for RTFCs or in an annual report;
- Ensuring that they have evidence (or that it exists in the chain of custody) to support the information in their application for RTFCs and annual report;
- Appointing an independent verifier who is competent to undertake assurance engagements under ISAE 3000 and has sufficient understanding of the sustainability issues relating to the data they will be reviewing;
- Letting the Administrator know which verifier they have appointed so that they can be given the appropriate access to the RTFO Operating System (ROS);
- Indicating which consignments are to be verified in the period in question and submitting the data to the verifier;
- Providing supporting information and evidence to the verifier and hosting any visits;
- Assisting the verifier in gaining contact with and access to other organisations in the supply chain;
- Correcting any data which the verifier finds to be misstated or insufficiently supported by evidence;
- Providing the assurance statement to the RTFO Administrator;
- Informing the RTFO Administrator if errors are discovered in their data after the application for RTFCs or annual report has been submitted.

3.6 Verifiers are responsible for:

- Planning and carrying out evidence gathering and testing activities in order to form an opinion on the data;
- Informing reporting parties of any changes to data which must be made and of any consignments which should be withdrawn from verification;
- Providing an assurance opinion, or, if necessary, a qualified opinion or disclaimer of opinion, in accordance with ISAE 3000 or an equivalent standard, to the reporting party.

3.7 The RTFO Administrator is responsible for:

- Specifying the nature, form and content of the reports to be submitted by reporting parties (see *C&S Guidance* for details);
- Receiving the assurance opinions and reviewing against the requirements of the RTFO Order and this guidance;

- Informing the reporting party of acceptance or rejection of the assurance opinion.

3.8 Verifiers are appointed by, and are responsible to, the reporting parties. Consequently, the assurance opinion is addressed to the management of the reporting party. However, as the RTFO Administrator is a user of the data, verifiers need to be cognisant of the specific requirements laid out in this document.

Assurance standards – ISAE 3000

3.9 ISAE 3000 is an international standard developed by the International Auditing and Assurance Standards Board (IAASB). It is a standard for assurance engagements other than audits or reviews of historical financial information.

3.10 IAASB states that the purpose of ISAE 3000 is:

"…to establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice…for the performance of assurance engagements other than audits or reviews of historical financial information…"

3.11 ISAE 3000 defines two levels of assurance: limited and reasonable. The level of assurance required for data submitted under the RTFO is 'limited' as specified in Article 16A of the RTFO Order (as amended).

3.12 The level of assurance relates to the level of engagement risk. This is the risk that the verifier expresses an inappropriate conclusion. As limited assurance involves limited evidence gathering activities the assurance opinion is expressed in the negative form, for example:

"Based on our review, nothing has come to our attention to cause us to believe there are errors in the data."[1]

3.13 By expressing the conclusion in this manner, the verifier is being clear that the level of confidence users of the assurance statement place on the conclusion must be gauged by reference to the nature and extent of evidence gathering that the verifier has undertaken and described in the report.

3.14 At the time of writing, the RTFO Administrator is not aware of any equivalent standards to ISAE 3000. If a verifier would like to use an

[1] This example is intended to illustrate the concept of the negative form, not an entire assurance conclusion.

alternative standard, they should contact the RTFO Administrator (biofuel-sustainability@dft.gsi.gov.uk or 0207 944 8555) to discuss this as soon as possible, and in any event, before instructing a verifier to report on the basis of an equivalent standard.

3.15 A consultation on changes and updates to ISAE 3000 closed in 2011. When the new version has been released, the RTFO Administrator will review it, making changes to this guidance if necessary.

Independence of verifiers

3.16 ISAE 3000 requires that *"The practitioner should comply with the requirements of Parts A and B of the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (the IESBA Code)"*. This Code provides a framework of principles that members of assurance teams, firms and network firms use to identify and safeguard against any threats to independence.

3.17 The IESBA code does not of itself preclude a professional accountant within the supplier's organisation (such as an internal auditor) from providing assurance. However, article 16A of the RTFO Order requires that the assurance provider is not the 'supplier', and as such for the purposes of the RTFO, verification by a professional accountant within the supplier's organisation is not considered to be independent assurance.

3.18 The RTFO Order also requires that the assurance provider is not a 'connected person' of the supplier. This references the definition in section 1122 of the Corporation Tax Act 2010[2].

3.19 Threats to independence may also exist where a verifier is independent of the supplier, but has been engaged by them in another capacity relating to the carbon and sustainability information. For example, if a verifier has worked with a supplier to design or implement controls over that information.

Professional competencies

3.20 ISAE 3000 requires that *"The practitioner should accept (or continue where applicable) an assurance engagement only if the practitioner is satisfied that those persons who are to perform the engagement collectively possess the necessary professional competencies"*. This includes both the work of the practitioner themselves, and any expert that

[2] http://www.legislation.gov.uk/ukpga/2010/4/section/1122

they may engage to provide specialist technical input to the assurance activity.

3.21 Article 16A of the RTFO Order also requires that the verifier's assurance procedures must: *"…be undertaken by a person with appropriate expertise"*[3].

3.22 The extent to which expert skills and knowledge relating to sustainability information for biofuels is required will depend on the complexity of the fuel supply. For example, in the case of a reporting party which supplies only biofuel made from locally sourced used cooking oil (UCO), and which reports the default value for the carbon emissions, a significantly lower level of expertise would be needed than for verification of data relating to a supply chain sourcing multiple feedstocks from multiple countries and relying on land use and actual carbon emissions information being accurately passed through the chain of custody.

3.23 Verifiers should be prepared to demonstrate their competencies to reporting parties as part of the appointment process.

Quality control

3.24 ISAE 3000 requires that *"The practitioner should implement quality control procedures that are applicable to the individual engagement"*. An example is the International Standard on Quality Control (ISQC) 1. Under this standard, a firm of professional accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that the assurance reports issued by the firm or engagement partners are appropriate in the circumstances. In addition, elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.

Accepting an assurance engagement

3.25 When accepting a new assurance engagement, verifiers should ask the reporting party about any previous verifiers of their data. If a previous verifier was appointed, the new verifier should send a letter of professional courtesy to the previous verifier to enquire as to whether

[3] See Article 16A(1)(b) of the RTFO Order (as amended)

there is any reason why they should not accept the appointment. This is because a change of verifier is an indicator of potential risk.

4. Planning and risk assessment

Chapter summary

The first stage in the assurance process involves determining the scope of the assurance engagement and gaining familiarity with the business, its supply chains, and the data in the application for RTFCs. The engagement risk is then assessed, materiality determined and the criteria agreed.

Determine scope

4.1 Verification is required for all of the carbon and sustainability data submitted as part of reporting party's application for RTFCs. When a supplier is required to produce an annual report, this must also be verified.

Applications for RTFCs

4.2 The reporting party's application for RTFCs is made up of a number of lines of data on the RTFO Operating System (ROS). Each line represents an administrative consignment. The reporting party will choose which consignments they wish to submit for verification. Once the reporting party has submitted the data to the verifier, the data will be 'locked' so that the reporting party is unable to amend it. The verifier will be able to access the data directly on ROS and download the data to a spreadsheet for their own use. The data will remain locked unless, or until, the verifier requires and allows the supplier to amend it.

4.3 The *C&S Guidance* sets out the full requirements for the data which must be reported. All of the carbon and sustainability data submitted is subject to verification.

4.4 If a supplier can provide evidence that fuel has already been certified to meet some or all of the RED sustainability criteria by a voluntary scheme recognised by the RTFO Administrator, it is not necessary for a verifier to re-verify the information provided through the scheme. Verifiers may also rely on independent assurance outside of a recognised voluntary scheme where it is conducted to an appropriate standard. See Chapter 6 for more information on the evidence required when relying on the work of other auditors, and on voluntary schemes.

4.5 The reporting party will be required to provide a formal 'sign off' of their data when submitting it to the Administrator. This necessarily happens after verification. If the verifier requires a sign off of the data from the reporting party, this must be arranged between the two parties as part of their agreement.

Annual reports

4.6 Where all of the information required for annual reporting has been provided and verified as part of the application for RTFCs, reporting parties will not be required to provide a separate annual report on their C&S information. However, if certain information has not been provided as part of the application, this will be required to be submitted and verified separately. See Chapter 3, Annual Reporting in the *C&S Guidance* for more details.

Timing

4.7 There is no longer a requirement for reporting parties to submit C&S data on a monthly basis and verification is no longer restricted to an annual process. Reporting parties may choose how often to apply for RTFCs and therefore how often they require their data to be verified.

4.8 The RTFO Administrator issues RTFCs on a monthly cycle. Please see the *RTFO Guidance Part One: Process Guidance* for full details of the timing. Applications for RTFCs received after the cut-off date will be processed the following month. The last possible date for RTFC applications to be received is 12 August immediately following the end of an obligation period. Applications received after this date may not be processed.

4.9 Reporting parties may therefore require verification to be carried out as frequently as monthly or as infrequently as annually.

4.10 Verifiers should ensure that reporting parties are aware of the time needed for assurance activities and that expectations are managed appropriately.

Understand business and supply chains

4.11 ISAE 3000 states that *"The practitioner should obtain an understanding of the subject matter and other engagement circumstances, sufficient to identify and assess the risks of the subject matter information being materially misstated, and sufficient to design and perform further evidence-gathering procedures."*

4.12 A key aspect of understanding the business relating to biofuel supply will be for the verifier to gain an understanding of the reporting party's biofuel supply chain(s). This will include understanding the nature and extent of processes and controls to collect, collate and report information, identifying any known risks to data integrity (such as particular sources of information where the reporting party has doubts over the information reliability), and confirming any conversion factors which may have been used.

4.13 The extent of the verification activities required will depend on the type(s) of data in the reporting party's application for RTFCs and the variations between individual consignments. For example, it is likely to be a significantly shorter exercise to assure data associated with UK-sourced used cooking oil (UCO) where all consignments have the same data, than for biofuel from a range of agricultural feedstocks sourced from all over the world.

Initial examination of the data

4.14 Verifiers will be able to examine the reporting party's data online using ROS which suppliers use to report their data. Within this system the RTFO Administrator will provide an indication of whether the data is in principle sufficient to satisfy the mandatory sustainability criteria. For each administrative consignment, following the reported data, there are four indicative fields which will show a green 'Y' (yes) for compliance or a red 'N' (no) for non-compliance. The first three fields represent the mandatory sustainability criteria: biodiversity, carbon stock and greenhouse gas saving; the final field will only show indicative RED compliance when all of the other three fields do so.

4.15 The population of these fields is automated and is based on the data which the reporting party has entered. This does not involve any testing of the evidence supporting the data or the accuracy of the data entered, so verifiers should not rely on a positive result. However, if a negative result is shown for any consignment, it is highly unlikely that assurance will be able to be given. Any negative results should be discussed with the reporting party immediately and the consignment withdrawn from the verification process by the reporting party as appropriate.

Understand risks

4.16 The reported sustainability characteristics of the biofuels supplied into the UK by a reporting party are a key input into the verifier's assessment of risk. Some biofuel feedstocks have a significantly greater inherent sustainability risk than others. The determination of inherent sustainability risk will be down to the professional judgement of the verifier. These judgements need to be guided by the likelihood of a

feedstock being produced in a manner that is inconsistent with the sustainability criteria of the RED. This may be impacted by such factors as:

- The biome in which the feedstock is produced and, in turn, the biodiversity values and environmental sensitivities that may typically be associated with that biome;
- The nature of the production process for the feedstock;
- The availability of operational certification schemes for the feedstock.

4.17 There are a number of factors which may increase the risk of misstatement in the data; these include but are not limited to:

- The length and complexity of the biofuel supply chain - due to the increased chance of incorrect data being passed on;
- Carbon and sustainability data reported outside of a recognised voluntary scheme - this applies in particular to land use information;
- Field auditing undertaken outside of a recognised voluntary scheme;
- Actual carbon intensity values being reported as opposed to defaults;
- Carbon intensities close to the emission saving threshold being reported;
- Wastes, residues and other double-counted feedstocks being reported - due to increased financial incentive and the exemption from meeting the land criteria;
- Where exemptions to reporting requirements are claimed e.g. grandfathering;
- Carbon and sustainability data which is maintained or allocated outside of a robustly controlled IT system i.e. where incorrect changes to data could be made deliberately or accidentally, without detection.

Determine materiality

4.18 Since ISAE 3000 requires an assessment of the risk of **material** mis-statement, an assessment of materiality is required.

4.19 Verifiers may consult with the reporting party when making their determination of materiality; however, verifiers are responsible for making an independent assessment of the material issues for their testing procedures.

4.20 Information becomes material if its presence or absence will impact the decisions, actions or performance of the reporting party or the users of the report. Under the RTFO, the RTFO Administrator will be using the

assurance statements to help determine whether RTFCs should be issued for the group of consignments in the application. Information is therefore material if it would be likely to influence this decision.

4.21 The market value of RTFCs and the significance of the value of them to the reporting party must be considered as part of the assessment of materiality.

4.22 The nature of the data being reported under the RTFO will also influence materiality. Four key factors are discussed below.

Fuel volumes

4.23 Each report submitted under the RTFO will comprise consignments of biofuel with one or more sets of sustainability characteristics. Verifiers should consider the proportion of the overall volume at which a set of sustainability characteristics becomes material.

Compliance with sustainability criteria

4.24 Under the RTFO, reporting parties will only be awarded RTFCs for biofuels which meet the mandatory sustainability criteria. The materiality of any misstatement in the data which could effect whether a particular consignment of fuel meets the criteria must be carefully considered. See the *C&S Guidance* for full details of the mandatory sustainability criteria.

Carbon saving

4.25 A minimum carbon saving is one of the mandatory sustainability criteria. However, reporting parties may wish to report higher carbon savings in order to meet their own savings goals as part of their business or corporate social responsibility strategy. The *C&S Guidance* sets out full details of the methodology which must be used for calculating actual carbon savings.

4.26 Where a reporting party has chosen to report actual carbon saving data rather than reporting the default value, the materiality of the carbon savings claimed must be considered.

4.27 There are exemptions from meeting the minimum carbon saving relating to when the 'biofuel processing installation' began operating. Materiality of the application of these exemptions must also be considered.

Wastes, residues, non-food cellulosic and ligno-cellulosic feedstocks

4.28 Under the RED, biofuels made from wastes, residues, non-food cellulosic and ligno-cellulosic feedstocks are counted twice towards meeting a reporting party's obligation. They are therefore issued with two RTFCs

per litre[4] rather than the one given to other biofuels. Wastes and non agricultural residues are exempt from having to demonstrate compliance with the land criteria and do not have to include GHG emissions prior to the process of collection of the material.

4.29 The *C&S Guidance* sets out details of the definitions of wastes and residues and the criteria which they must meet. DfT also publishes a list of materials and their categorisation for the purposes of the RTFO on its website.

4.30 Given the potential benefits of reporting a biofuel feedstock which is categorised as a waste or residue, the materiality of the feedstock claims must be considered. Note that this not only requires verifiers to consider whether the reported feedstock is correctly identified in a double counted category, the biofuel feedstock claim itself must be closely examined.

Determine criteria

4.31 Criteria are defined by IAASB as the benchmarks used to evaluate or measure the subject matter of an assurance engagement including, where relevant, benchmarks for presentation and disclosure.

4.32 The *C&S Guidance* sets out the requirements for the reporting of C&S information and is, therefore, the standard against which the data in question should be measured. Verifiers will need to have a detailed knowledge of the requirements in that document to ensure that they comply with article 16A(1)(e)(i) of the RTFO Order (as amended)

4.33 When assessing a report against the criteria, particular consideration should be given to the following issues:

- The traceability of information down the supply chain;
- The completeness of the reported data i.e. the extent to which all of the information known about the fuels has been reported;
- The consistency of methodologies used in calculating actual carbon data and operating a mass balance system;
- The accuracy of the reporting party's collation and reporting of information.

4.34 Some of the reference information for carbon and sustainability reporting may change within an obligation year. This includes carbon intensity default values, recognition of voluntary schemes, categorisation of a feedstock as a waste or residue and NUTS2 data. Verifiers and reporting

[4] Or kg of biogas

parties must ensure that the criteria they are applying are the correct ones for the month with which the biofuel is associated.

5. Assurance strategy development

Chapter summary

During the 'assurance strategy development' stage of the process verifiers will need to map the risks and obtain an understanding of the nature and extent of the control systems for information that are in place within the reporting party and its supply chain(s). Where controls are in place, verifiers will need to develop procedures to test whether they are accurate, reliable and protected against fraud. Where information is being provided, but no controls are in place, verifiers will need to develop procedures for substantive testing to understand the robustness of this information.

Mapping risks

5.1 Based on the assessment of risks undertaken in the previous phase, the verifier will map the risks.

Mapping controls and systems

5.2 Controls over non-financial information are frequently not as well established as controls for financial information. Where existing controls are in place over the information being reported, verifiers should review them.

5.3 If verifiers intend to place reliance on systems or controls, they must perform an appropriate level of testing. The reliance that verifiers place on existing controls over C&S information needs to be considered in the light of the materiality of that information and the inherent risks of misstatement. It is a verifier's professional judgement whether or not a system or control can be relied upon – this judgement needs to be made following a consideration of the evidence that a control is effective.

5.4 A statement of whether or not a reporting party's systems or controls over C&S information have been relied upon in forming the conclusion must be included in the verifier's assurance statement.

5.5 There are three main categories for the controls over C&S information that may be in place: internal systems, internal assurance mechanisms and external assurance mechanisms.

Internal systems

5.6 Internal systems are those developed and operated by the reporting party or one of their suppliers. These are set out below.

Supplier selection

5.7 Verifiers should understand the processes used by the reporting party during their selection and pre-qualification of suppliers to build confidence that the suppliers they select are equipped to provide the C&S information the reporting party requires.

Contractual requirements

5.8 Verifiers should consider whether suppliers are contractually obliged to provide certain information; whether there are penalties for failing to provide such information or providing inaccurate information; whether the supplier is obliged to put in place appropriate quality assurance mechanisms for the C&S information it provides; and whether the reporting party has established rights of audit over its suppliers.

5.9 In the attitude of professional scepticism required by ISAE 3000, verifiers must not assume that a contractual requirement for a supplier to provide C&S information to a reporting party means that the information is reliable.

Documentation to support C&S claims

5.10 Documentation to support C&S claims, such as a declaration from a supplier, is a form of control over C&S information used by many reporting parties. Verifiers need to understand the availability of this documentation across the reporting party's supply chains, and develop procedures to assess the reliability of such documentation and determine whether it provides sufficient appropriate evidence to support the C&S information being provided, or whether further substantive testing is required. Supplier declarations are discussed in more depth in Chapter 6.

5.11 As the RTFO Administrator requires C&S information to be traceable back to the source of that information a declaration from a supplier relating to a previous step in the fuel chain is not likely to be sufficient evidence of chain of custody.

5.12 Reporting parties may have a system for preparing their C&S data, for example a database or spreadsheet that is populated with information

obtained from procurement records. Where this is the case, verifiers should expect to test the reliability of such systems (for example, confirming that the database has been accurately populated).

5.13 The information from bills of lading and related documentation will often be tracked on a reporting party's data systems linked to their processes for financial transactions. These systems may be subject to audit and review, for example, by the company's financial auditors.

Internal assurance mechanisms

5.14 These include the extent to which the reporting party's internal assurance processes extend to reviewing its suppliers as well as the reporting party's own internal assurance mechanisms. Evidence of internal assurance would include audit reports that have examined the controls around C&S information provision. In order to build confidence in internal assurance mechanisms, verifiers will need to ensure they understand the scope of any assurance activities and the competencies of those undertaking the assurance.

5.15 Where internal assurance mechanisms are in place, verifiers will need to develop testing procedures to assess the reliance that can be placed on the outputs of the internal assurance (e.g. audit reports). Where such internal assurance mechanisms are mature and functioning effectively, verifiers may be able to place a significant degree of reliance on this assurance. However, where such systems are relatively immature or are not functioning effectively, verifiers will be unable to rely on the assurance and will have to undertake substantive testing in order to obtain sufficient appropriate evidence.

External assurance mechanisms

5.16 The third category of controls that reporting parties may have over C&S information is external assurance. External assurance over supplier declarations is likely to play an important role in enabling suppliers to demonstrate the reliability of the C&S information they provide to their customers.

5.17 External assurance may be provided in the form of proof of compliance with a recognised voluntary scheme or it may be in the form of a third party audit over aspects of the supply chain. Verifiers should not seek to duplicate other forms of third party assurance that an organisation has in place, though they do need to develop procedures that enable them to test whether the third party assurance can be relied upon. Further information is provided in Chapter 6.

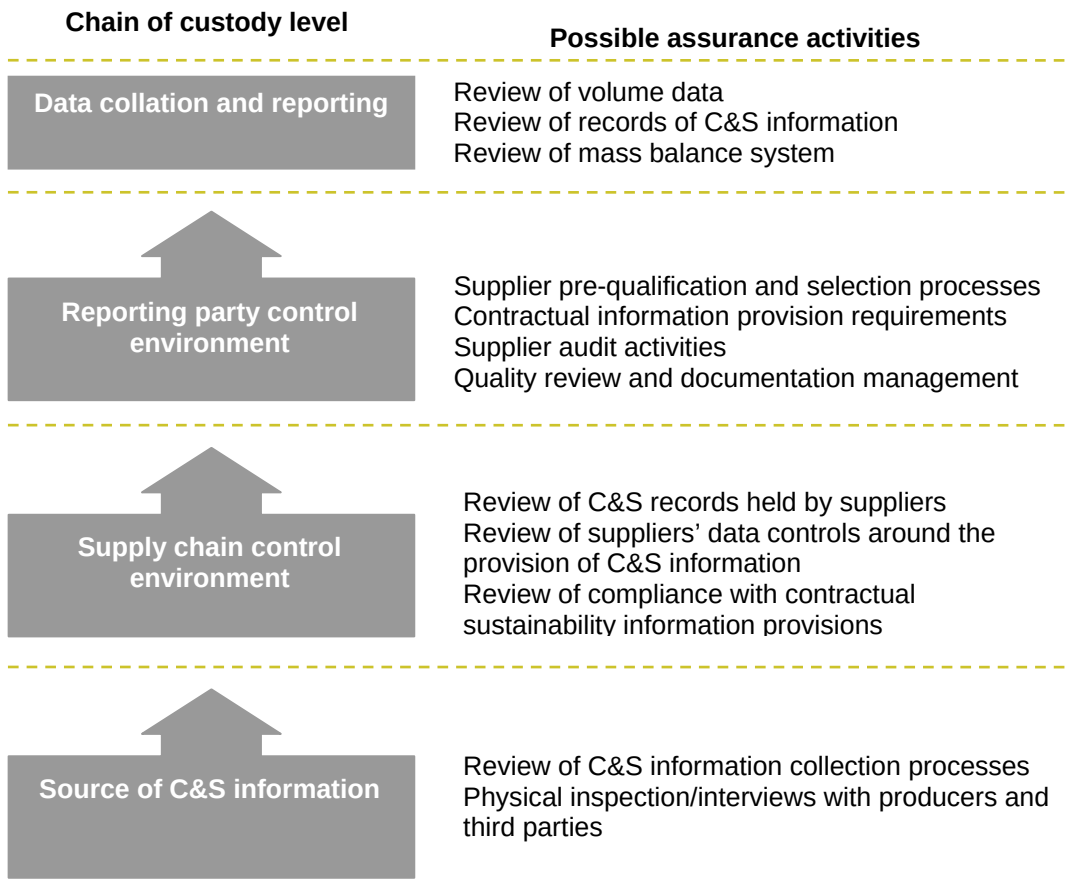
Developing testing procedures

5.18 Verifiers will develop testing procedures based on the outcomes of the 'planning and risk assessment' phase of the assurance process and the mapping of risks and controls in this phase. They will specify the nature, timing and extent of evidence gathering procedures to be performed and the reasons for selecting them. The testing procedures will be designed to obtain sufficient appropriate evidence to enable the engagement risk to be reduced to a level whereby an assurance opinion can be provided.

5.19 The testing procedures must be focused on those aspects of the report that have the highest risk of material misstatement. Data should be more rigorously tested where they could have more impact or there are weak audit and verification controls in place.

5.20 Figure 5.1 below provides examples of the types of assurance activities verifiers may seek to undertake at different levels of the supply chain.

Figure 5.1 - Potential assurance activities in the chain of custody



Source: Ernst & Young LLP

5.21 The exact testing procedures developed by a verifier will vary depending upon the nature of the reporting party's supply chains, the biofuel feedstock and the information being reported. However, in designing

these procedures there are common considerations that all RTFO verifiers should take into account. These are set out below.

Traceability

5.22 In seeking to assess traceability verifiers should consider the following questions:

- Is the reported information traceable back to the party or parties that generated the original source information through an appropriate chain of custody?
- If a voluntary scheme has been used to confirm compliance with sustainability criteria, is there appropriate evidence of compliance with the rules of the scheme, e.g. a valid certificate?

5.23 In developing procedures for assessing the traceability of reported information, verifiers need to be mindful of the complexity of the reporting party's supply chains. The complexity of biofuel supply chains varies significantly between different feedstocks and also between different reporting parties.

5.24 Access to the supply chain will be a key factor in determining the assurance conclusions that verifiers are able to provide. It is expected that reporting parties will engage with other suppliers within their supply chain to obtain access for their verifiers. However, in some instances there may be difficulties in obtaining this access, such as where rights of audit have not been written into contracts between the reporting party and their suppliers. In these instances, verifiers may not be able to obtain sufficient appropriate evidence that information can be traced down the chain of custody to the originator of the information.

5.25 Where there is insufficient evidence to support the data entered on ROS, the reporting party must change the data to reflect this or withdraw the consignment(s) in question from their current application for RTFCs. If the reporting party believes that they may be able to secure this information at a later date, they can return it under a future claim. It is not necessary to issue an opinion covering consignments which have been withdrawn from verification, as an application for RTFCs cannot be submitted.

5.26 The C&S information that the reporting party has reported will impact upon how far down the supply chain the verifier will need to carry out assurance procedures. It will be important for verifiers to consider whether it is necessary to go down the full length of the supply chain to obtain evidence that supports the chain of custody from the source of the information up to the reporting party. For example, in order to determine country of origin for a feedstock there may be other stages in the supply chain, such as feedstock aggregators, where the verifier is able to

determine that all feedstock from a given aggregator could only have come from the same country. However, for directly reported information relating to land use or land type it is likely to be necessary to examine records relating to the farm or plantation.

5.27 Mass balance systems are designed to contain information about direct suppliers and direct customers and do not contain information about the whole chain of custody. As set out in the *C&S Guidance*, there is no requirement to pass physical evidence along the supply chain, and verifiers may expect to work back up the supply chain using chain of custody records. Sampling a proportion of mass balance records at each stage in the chain, and ultimately a proportion of the potential pool of farmers and plantations, would allow verifiers to express a level of confidence about the accuracy of the information reported by the reporting party. In practice, suppliers to reporting parties and their subsequent supply chains may not operate mass balance systems, in which case actual deliveries could be identified and traced back up the supply chain.

5.28 Traceability through the chain of custody to the source of C&S information is a requirement of the RED and is not affected by whether a verifier is providing limited or reasonable assurance – the difference between reasonable and limited assurance is in the amount and nature of evidence gathering that is done.

Completeness

5.29 In seeking to assess completeness verifiers should consider:

- Has all of the relevant information known about the administrative consignments been reported in full?
- Have any calculations of 'actual' carbon intensity accounted for all of the emissions contributing over one percent to the fuel chain value?

Consistency

5.30 In seeking to assess consistency verifiers should consider:

- Are the methodologies used for calculation and reporting of carbon data consistent with those set out in the *C&S Guidance*?
- Are the methodologies used for operating the mass balance system consistent with those set out in the *C&S Guidance*?

- Are the methodologies used for calculation and reporting of carbon data consistent across the reporting party's administrative consignments? [5]
- Are the methodologies used for operating the mass balance system consistent across the reporting party's administrative consignments?[5]
- Are any conversion factors used consistent with those required to be used by the *C&S Guidance*?

Accuracy

5.31 In seeking to assess accuracy verifiers should consider:

- Have carbon saving defaults been accurately applied?
- Have exemptions such as grandfathering been correctly applied?
- Has the information been accurately transcribed along the supply chain and from the reporting party's systems into ROS?
- Have calculations been performed accurately?

5.32 Testing procedures in respect of the accuracy of the collated information will include an examination of the systems, processes and controls used by the reporting party in collating information for RTFC applications. This will be informed by the maturity of the controls and will also include an element of recalculation to verify the accuracy of reported data. The amount of recalculation required is likely to be informed by the effectiveness of the reporting party's control framework.

5.33 An additional accuracy test relates to the use of conversion factors as feedstock moves through the supply chain. These factors may relate to the conversion of inputs to outputs (e.g. rapeseed to rapeseed oil) and would be relevant to the assurance process when C&S information is being tracked on a mass balance basis from the farm along the supply chain. For example, if a reporting party claimed a quantity of biodiesel from rapeseed, the verifier would need to determine that the quantity of rapeseed oil and biodiesel reported was consistent with the quantity of rapeseed sourced from the farm. However if the feedstock met a recognised voluntary scheme which covered the chain of custody this check would not be necessary.

5.34 Verifiers will need to establish whether conversion factors are relevant for the information they are reviewing and, if necessary, develop testing procedures that enable them to determine if an appropriate methodology has been followed for calculating conversion factors.

[5] It is accepted that there may be valid reasons for using different methodologies in certain cases. 'Cherry picking' of methodologies to produce the best outcome in all cases is not acceptable.

6. Execution

Chapter summary

This chapter covers the execution of testing activities and focuses on the quality and nature of evidence that may be encountered when verifying biofuel sustainability information.

Perform testing (quality and nature of evidence)

6.1 For the RTFO, verifiers will be seeking evidence that supports or undermines the information in the reporting party's application for RTFCs.

6.2 ISAE 3000 requires verifiers to obtain 'sufficient appropriate evidence' upon which to base their conclusions. Sufficiency is the quantity of evidence needed to reach a conclusion, and appropriateness is the relevance and reliability of this evidence. This standard states that verifiers must use their professional judgement and exercise professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance conclusions.

6.3 ISAE 3000 states that *"An attitude of professional scepticism means the practitioner makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party".*

6.4 The International Framework for Assurance Engagements provides some generalities about the reliability of evidence whilst recognising that some important exceptions exist:

- Evidence is more reliable when it is obtained from independent sources outside the entity.
- Evidence that is generated internally is more reliable when the related controls are effective.
- Evidence obtained directly by the practitioner (for example, observation of the application of a control) is more reliable than

- Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of what was discussed).
- Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.

6.5 The *C&S Guidance* specifies the information that reporting parties are required to report for each administrative consignment. This comprises a wide range of information such as fuel type, feedstock, country of origin, previous land use, carbon intensity and whether a voluntary scheme has been used.

6.6 Verifiers may find that evidence for some of this information is easier to obtain than for others. Evidence for fuel type and biofuel feedstock should be readily obtainable. Information on previous land use may be more difficult to locate, particularly for long and complex supply chains; however, evidence is required to support all reported data. Suitable evidence is discussed in more detail below.

Evidence of compliance with recognised voluntary schemes

6.7 The *C&S Guidance* states that reporting biofuel meeting a voluntary scheme which has been recognised as meeting one or more of the RED sustainability criteria, is proof of compliance with those criteria. In this case, verifiers must satisfy themselves that:

- The supplier's claim of compliance with a scheme is legitimate;
- The recognised version of the scheme is being used;
- The volumes of biofuel that have been reported as compliant have been accurately reported.

6.8 Each scheme has its own system for tracing registrations and any certificates which may be issued. Some include numbered certificates which can be crosschecked using an online database. Some schemes have strict rules on the claims that can be made, such as a requirement for all parties in the chain of custody, including the reporting party, to be registered and certified in order for a claim to be legitimate.

6.9 Voluntary schemes may not cover all of the mandatory criteria of the RED. In this case the scheme can only be accepted as evidence for the criteria for which it has been recognised. Other evidence is required to demonstrate compliance with the criteria of the RED not covered by the scheme and is subject to verification.

6.10 If a voluntary scheme does not include all of the suppliers in the fuel chain, the verifier should look for evidence that the biofuel is indeed covered by the scheme and that an appropriate chain of custody system has been correctly applied for the intermediate stages of the supply chain which have not already been subject to assurance.

6.11 Where a voluntary scheme has been used but the version differs from the one that was recognised by the EC or RTFO Administrator, this may still provide evidence, but does not automatically demonstrate compliance. In this case, it should be treated as other third party assurance - see *Third party audits or assurance* below.

Evidence of feedstock type in claims for double counted feedstocks

6.12 Considering the financial incentive that double counting of certain feedstocks presents, it will be particularly important to examine evidence of feedstock type for these claims. Evidence will be required that the fuel is indeed made from the feedstock that has been claimed. Whether this feedstock is counted as a waste or residue under the RTFO is determined by the Administrator. Determinations are published on the DfT website.

6.13 Evidence will vary with feedstock type and source. As with all claims it will be important to trace evidence through the chain of custody to the source. For example, in the case of used cooking oil, it should be possible to find evidence of the original collection of the oil from restaurants or other catering establishments.

Waste Transfer Notes

6.14 In the UK, a Waste Transfer Note (WTN) is a document which is required, by law, to be completed when waste is transferred from one entity to another. There is a list of information which must be included in the document and there are penalties for falsifying the documents. Information on UK WTNs can be found on the Business Link web site.

6.15 Documents describing themselves as WTNs originating in countries other than the UK may not be subject to the same levels of regulation, and therefore may not be considered to provide the same level of evidence. Verifiers need to use their professional judgement to assess the reliance which can be placed on individual pieces of evidence such as WTNs.

Third party audits or assurance

6.16 Evidence of third party audits may be provided in a number of circumstances. These include:

- where a supplier has used a voluntary scheme which has not been recognised by either the Commission or the Administrator;
- where a member of the supply chain has arranged independent verification of the data to that point in the fuel chain;
- as proof of compliance with the RTFO Biofuel Sustainability Standard;
- as evidence for the use of actual carbon data.

6.17 For third party assurance to be credible enough for verifiers to rely upon, the key considerations are:

- Is the subject matter appropriate for the needs of the reporting party?
- Is the assurance being provided by a suitably competent individual or organisation?
- Is the assurance being provided by an independent individual or organisation?
- Is the assurance provider working to a standard appropriate to the data they are verifying?
- Has the supplier's auditor used the same assurance criteria as the reporting party's verifier?
- Have the testing procedures been undertaken to an appropriate methodology and sufficient sample size to be relied upon? For example, did the assurance provider test, and what sample size did they use to check, that the C&S information is traceable back to the party or parties that generated the original source information through an appropriate chain of custody?
- Do the conclusions provide sufficient assurance to mitigate the need for further testing?

6.18 Where proof of compliance with the RTFO Biofuel Sustainability Standard is being presented, it is important that the verifier assesses whether there is evidence to support the reporting party's claim that a positive field audit was undertaken and that the auditor(s) met the norm for audit quality. No assessment of the content of audit reports is necessary, as the audit norm serves as a proxy for audit quality.

Second party audits

6.19 Second party audits are those undertaken on behalf of a supplier but which are not 'independent'. For example, where a reporting party has hired experts to undertake checks on the supply chain, but has not engaged them under an assurance framework which requires independence such as ISAE 3000.

6.20 It is important for verifiers assessing evidence provided by second parties to take into account the considerations for third party audits described above, with the exception of the assessment of independence. It will therefore be important to consider the relationship between the individual or organisation undertaking the checks and the supplier. The level of independence required for undertaking credible checks will vary based on risk, including the complexity of information being checked.

Technical testing

6.21 On receipt of biofuel deliveries, reporting parties may perform tests of the feedstocks for conformity with required physical and chemical properties. These test results may provide one form of evidence about the type of feedstock and the percentage split for mixed feedstocks. Verifiers should evaluate the frequency and methodology of sampling for these tests.

Contracts and transport documentation

6.22 A bill of lading is a document issued by a carrier, such as a shipping company, confirming that specified goods have been received as cargo for transportation. In addition, a bill of lading usually indicates the particular vessel on which the goods have been placed, their destination and the intended recipient.

6.23 Verifiers should expect to be able to obtain bills of lading for all biofuels and feedstocks that have been shipped into the UK. Bills of lading will describe the fuel type and may also describe the feedstocks for blended biofuels. Reporting parties should also be able to provide contract documentation that describes the biofuel that the supplier was contracted to supply, and links to the bill(s) of lading that proves the specified biofuel was supplied. Feedstocks produced within the UK may not have bills of lading, but there should be equivalent contractual and transportation documentation that provides evidence of product type, quantity, delivery route and date of delivery.

6.24 Two or more forms of corroborating evidence will usually be required to confirm biofuel type, feedstock type and associated volume split where relevant for mixed cargoes, including contracts, transport documentation and/or technical testing results. Verifiers will need to satisfy themselves that the systems and processes for collecting and collating this information are functioning properly. Biofuel volume data from bills of lading should be consistent with the data in the application for RTFCs.

Supplier declarations

6.25 Declarations from suppliers on the C&S characteristics of a biofuel feedstock, supported by contractual obligations upon suppliers to provide

such information, are a means of obtaining and maintaining control over C&S information that are used by many reporting parties.

6.26 Whilst these declarations can be an important means of obtaining C&S information for the reporting party, verifiers should treat such declarations with care. The level of evidence required will depend on the characteristic of the fuel that is being tested. A supplier declaration in itself is unlikely to be sufficient evidence and should be supported by other corroborating evidence. In order to rely on supplier declarations, the verifier will need to assess and have confidence in the control framework that is in place.

Management representations

6.27 The need to obtain management representation letters from the reporting party is fundamental to reinforcing management's responsibility for preparing data that meets the requirements. However, management representations are not a substitute for obtaining sufficient appropriate evidence.

Other forms of evidence

6.28 First-hand evidence, such as interviewing personnel, observing processes and controls and, potentially, physical inspections, are all important sources of evidence. Interviews and observations of processes and controls are likely to form part of the evidence gathered for every RTFO assurance engagement. Physical inspections may be required for certain information where documented evidence has not been passed up the chain of custody; an example might be examining local land use records and speaking to local community members to verify the previous land use of an area.

6.29 Other forms of evidence may be available. For example, these could include research reports produced by independent third parties that support a claim being made by a reporting party. For example this might relate to an assertion that a biofuel feedstock was sourced from an area with no land-use change.

Evidence supporting carbon intensity data

6.30 Where a reporting party has reported a default value for the carbon intensity it will only be necessary for a verifier to check that the feedstock (and process if applicable) is correct and that the correct default has been applied. In the case of EU feedstocks, this also includes a requirement to check that the reporting of a default was appropriate for

the region where the feedstock was cultivated (i.e. that the feedstock was from a compliant NUTS2[6] region).

6.31 If external verification of actual carbon emissions is not available the verifier will have to review supporting evidence.

6.32 Where actual carbon emissions data is provided through a voluntary scheme, the verifier should check that the calculation includes any additional carbon emissions which may have occurred between the certification and the UK duty point.

6.33 There is a large amount and variety of evidence that may be required in order to rely upon actual carbon data. A detailed understanding of the specified lifecycle analysis methodology is also needed. If faced with verifying actual carbon data, verifiers will need to consider whether they have the necessary expertise to verify such information and, if not, they can either consider partnering with an appropriately competent organisation or will only be able to provide assurance relating to the reporting party's use of default values for carbon emissions.

Fraudulent documents

6.34 Some shipping companies and other organisations host 'black lists' of examples of fraudulent documents on their web sites[7] which may give some indication of the types of fraudulent document that exist. None of these lists can be considered official and therefore the nature of the hosting organisation must be taken into account when considering the validity of any evidence provided.

Review and challenge information

6.35 If, during the course of their activities, a verifier finds evidence that some of the reporting party's reported data is incorrect, or that there is insufficient evidence to support the claim, they should discuss this with the reporting party. Information which is incorrect or insufficiently supported by evidence must be amended by the reporting party. If the amendment means that the biofuel no longer meets one or more of the mandatory sustainability criteria, the reporting party must withdraw the consignment from verification. The process and requirements for this are set out in the *Process Guidance* and *C&S Guidance*, respectively.

[6] Nomenclature of territorial units for statistics, level 2 defines regions within countries
[7] For example see http://www.rosneft.com/Investors/beware/examples/

7. Conclusions and reporting

Chapter summary

This chapter covers the requirements for assurance statements.

Ensuring changes are made

7.1 If the verifier has requested that the reporting party makes changes to their data, they should ensure that the changes have been correctly and completely entered into ROS before issuing their assurance opinion.

7.2 If the reporting party is unable or unwilling to make the changes, the verifier should set out any outstanding issues in their assurance opinion.

The assurance statement

7.3 ISAE 3000 sets out the required content for assurance statements[8] – verifiers will need to familiarise themselves with these requirements and ensure that their assurance statements comply with the Standard. As a minimum for acceptance under the RTFO, the assurance statement should include:

7.4 A **title** – including the words 'independent assurance statement'

7.5 An **addressee** – the addressee is the party or parties to whom the statement is addressed. This will be the management of the reporting party that has commissioned the verifier.

7.6 A **statement** that the engagement was performed in accordance with ISAE 3000 (N.B. not simply 'with reference to'), and the assurance level provided.

[8] The assurance statement is referred to as the verifier's assurance report in the RTFO Order.

7.7 A **declaration** that the verifier has appropriate expertise and is not the supplier or a connected person of the supplier.

7.8 A description of the **subject matter** and the information it contains. This should include a list of the consignment ID numbers for all of the consignments covered by the assurance opinion. The RTFO Administrator intends to provide a 'download' system which will enable these details to be output directly from ROS.

7.9 The **assurance criteria** against which the reporting party's data has been assessed. Please see *'Determine criteria'* on page 20 for details of what the criteria must be.

7.10 A **summary of the work performed**, including any limitations on the nature, timing and extent of evidence-gathering procedures. This needs to be sufficiently detailed for readers of the assurance statement to readily understand what work the verifier performed and must include a description of what activities have been undertaken at the level of the reporting party and how the evidence for C&S information from the supply chain has been tested. For example:

- Conducted interviews with _____ to obtain an understanding of _____.
- Conducted a review and testing of carbon and sustainability data measurement, collection and reporting systems and processes, including _____.
- Reviewed chain of custody information, including _____.
- Conducted interviews with suppliers to determine _____.

7.11 A statement of whether any **reliance** has been placed **on the reporting party's systems or controls** over C&S data in forming the conclusion.

7.12 Any **limitations** in the evaluation against the criteria such as:

- the extent of evidence gathering activities;
- where the work of third parties was relied upon;
- where the company's financial systems or processes have been relied on without testing them as part of the RTFO assurance activities.
- Stated limitations should be included only to clarify the extent of the verification activities – and should not contradict the formal opinion statement.

7.13 The assurance **conclusion** and any **qualifications** to that conclusion. The language used must be appropriate to at least a limited assurance engagement. Note that assurance statements with qualified conclusions

will be carefully assessed by the Administrator but may not be accepted as fulfilling the requirements to issue an RTFC.

7.14 Any other **relevant remarks** (as appropriate). These should be clearly separated from, and worded such that they do not affect, the conclusion.

7.15 Assurance statements that fail to address all of the above requirements sufficiently will not be accepted as providing an adequate level of assurance. Where evidence is not available for a particular requirement, a statement explaining the reasons for its absence should be provided.

7.16 Reporting parties are responsible for ensuring that the verifier's assurance statement is provided to the RTFO Administrator. However, the content of the assurance statement is the sole responsibility of the verifier.

Concluding the process

7.17 Once the assurance opinion is complete, the verifier will send this, along with any accompanying documentation, such as a management report to the reporting party. There is a facility within ROS for verifiers to indicate the consignments for which assurance has been provided and to directly upload the opinion[9]. The opinion will not be submitted to the RTFO Administrator until the reporting party chooses to do so.

[9] At the time of writing it is not yet possible to upload verifier's opinions directly on ROS and these should be submitted by the supplier directly to the Administrator via email to RTFO-compliance@dft.gsi.gov.uk