

# EB 48

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Relations with Designated Operational  
and Applicant Entities

# DOE Forum Inputs- EB47

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## Materiality & Level of Assurance

### Level of assurance

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

## Materiality & Level of Assurance

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

## Verification process

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

Example:

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

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

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

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

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## *DOEs*

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

As no guidance by the EB is provided DOEs assume a materiality threshold of 1% to 5% and a reasonable level of assurance for CDM verifications

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

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### *CDM EB/UNFCCC*

- ❑ The concepts of level of assurance and materiality should also be applied at the EB at the request for review stage
- ❑ Decisions to request a project for review should consider: could the individual or the aggregation of errors, omissions and misrepresentations that might be present in the report affect the amount of CERs in a way that results in a material discrepancy.
- ❑ This would avoid that an unreasonable amount of resource is spent at UNFCCC Secretariat, EB, DOE and Project participant level in order to simply make a verification report more transparent (no correction of CERs) or correct CERs of a magnitude that is clearly immaterial and lost in the measurement error of installed equipment. i.e. corrections of less than 1% of CERs
  
- ❑ Materiality (like many other audit concepts) is a well established principle and is used widely in auditing (e.g. for financial (tax relevant) audits or greenhouse gas audits in the EU ETS as well as The Climate Registry). It should not be seen as something untried or untested.
  
- ❑ Materiality is used every day around the world to help keep assurance processes moving, whilst ensuring the errors/omissions that are of importance are still captured and dealt with

## DOE Forum Suggestion

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- DOEs suggest that a materiality threshold of 5 per cent should be accepted for all CDM projects, except for projects reducing greater than 100,000 tCO<sub>2</sub>e/annum, where it should be 1 per cent
- DOEs suggest to formal inclusion of reasonable level of assurance for CDM verifications

Materiality will help enhance an efficient CDM without reducing the quality and credibility of CERs

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

## Specific Inputs from DOEs

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### Guidance on reviewing 'Additionality' at Verification/Issuance Stage

#### Details:

- ❑ A few projects have received a request for review recently because the actual emission reductions were substantially higher or lower than the projected emission reduction figures in the registered Project Design Document (PDD)
- ❑ There have been no post registration changes to the project design, although the assumptions used for assessing additionality may have changed during implementation
- ❑ DOE's should verify the implementation of the proposed CDM project activity vis-à-vis registered PDD and report about the information provided in the monitoring report that is different from the registered PDD and has caused increase/decrease in emission reductions in current/future monitoring periods

We seek guidance from the CDM EB expects DOEs to also review and re-assess additionality for such cases

(ref. SGS input for details)

## Specific Inputs from DOEs

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### **Retroactive application of revisions to approved methodologies for registered project activities- Request for Reviews raised by EB**

#### **Details:**

EB35 annexure 13, para 16 states:

*If the Board approves the revision of an approved methodology, this methodology shall replace the previously approved methodology. The revision shall be deemed effective 14 calendar days after the date of publication on the UNFCCC website (24h00 GMT), which shall be within five (5) calendar days after the Board's publication of the report.*

*In accordance with paragraph 39 of the CDM modalities and procedures, any revision to an approved methodology or tool referred to in a methodology shall only be applicable to project activities registered after the revision and shall not affect (i) registered CDM project activities during their crediting period; and (ii) project activities that have been published for public comments for validation using the previously approved methodology or tool, so long as the project activity is submitted for registration within 8 months of the effective date of the revision.<sup>2</sup>*

**Conclusion :** We request the CDM Executive Board to issue further guidance:

During verifications, DOE's can strictly adhere to the guidance in EB35 annexure 13, para 16 i.e. a revision to an approved methodology or tool referred to in a methodology shall not affect the registered CDM project activities during their crediting period

**Or**

changes that would occur if the revised monitoring methodology was applied be assessed and reported

# EB48, Annex 3 Para 13

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## D. Implications of incomplete submission

**Para 13.** If the secretariat considers the request for registration to be incomplete, as outlined in this document, the validity of the methodology will be determined according to the date on which a final complete submission has been made.

**Note:** We agree this will avoid incomplete submissions by DOEs when getting close to a methodology deadline. Also, help DOEs in avoiding a rush and plan in advance of meth expiry

**Issue:** Incompleteness rejections due to typos/inconsistency in references etc. should not be compelling for the DOE/PP to revise the PDD/validation report e.g a project would need to apply a new version of a methodology because the validation report, submitted one month prior to the meth deadline had a typo/editorial mistake.

**Suggestion:** Revision and resubmission of PDD should be limited to revision and resubmission of PDD/Validation Report if the issue is related to VVM requirements and meth

Timelines for completeness check by the Secretariat to be followed