The business benefits of third party verification of climate data

A CDP Guide

Written in partnership with Bureau Veritas and Lloyd's Register

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About this guide

What drives companies to have their climate data verified, and what are the advantages of doing so?

The business benefits of independent third party verification are far reaching. By improving internal processes, identifying risks and opportunities, increasing the reliability of data and building a strong reputation, independent verification of environmental data can result in cost savings and a competitive advantage for your organization.

This guide is intended to be a useful resource for any company exploring the business benefits or investigating the practical considerations of engaging a verification body.

The business benefits

Improving internal processes
Third party verification can identify inefficient process areas in your organization. This allows corrective action to be taken and can also provide independent evidence as to why your organization should invest in improving these processes.

Other opportunities for improvement may also be identified during the verification process. These will be provided in an issues log or internal report from the verifier. During subsequent verification reviews the verifier will look at whether these recommendations have been addressed and, if so, their effectiveness. Some of these may be simple, but could have significant benefits, particularly in relation to the time taken to operate an emissions monitoring and reporting system.

Examples of this could be: areas where processes and procedures can be simplified to reduce potential for error, simple mechanisms for highlighting anomalies for investigation and automatic cross-checking with other systems.

Identifying risks and opportunities
Undergoing independent, third-party verification can highlight the risks and opportunities your organization faces. All of the examples listed below could result in significant time and cost savings for your organization:

Regulation & legislation: Verifiers can alert you to upcoming regulatory risks and opportunities such as a carbon tax, cap and trade requirements, or fuel or energy taxes. They can also provide information about how legislation, such as mandatory non-financial reporting, could affect your business.

Operational: Operational risks may include those affecting the accuracy of the data or those relating to business continuity issues. When it comes to data accuracy one of the largest single areas for error is where manual data entry occurs. Therefore, removing stages of manual data entry and transposition will reduce the risk posed by inaccurate data.

Risks to business continuity are potentially of greater significance. For example, where reliance is placed on single instruments without adequate or sufficiently maintained back-up, organizations can suffer severe operational set-backs due to equipment failure, resulting in extended periods of hours or days off-line. Verification can help identify shortcomings or weaknesses in business monitoring, which in turn may highlight weaknesses in the operation of the equipment. Also, failure to correctly quantify carbon emissions data for trading or other purposes could potentially have a significant financial impact.

Emissions: When an organization monitors and independently verifies its emissions data it can develop an accurate understanding of the true proportions that each source contributes to its total emissions. In this way an organization is able to identify the greatest opportunities for emissions reductions and cost benefit. Under a mandatory emissions reporting or trading scheme, cost benefits may also be realized by emissions reductions.

Increasing reliability of data
Third party verification brings most benefit to an organization when it is revisited annually. By working together over consecutive years the verifier and organization are able to identify and make improvements to the internal quality assurance and quality control processes. Where these improvements are made successfully, the annual verification time and costs can be greatly reduced. Up to 25% of time spent on verification in the first year can be reduced through repeated verification process over subsequent years. Time can be saved on the continuous follow up of data, cutting down on information chasing across different business divisions, ensuring consistency in the format of the data received and establishing a process that can be replicated from year to year.

Verification can help to identify weak points and prioritise areas for improvement, this increasing the effectiveness of your data monitoring and collection chain.

Within voluntary reporting schemes, having data independently verified by a third party demonstrates the control a reporter has over their data. One specific area is the use of checking routines to compare energy use or emissions. Horizontal benchmarks check the reported data against data calculated through comparable methods, for example, calculation of an emissions factor based on gas composition versus an emissions factor from a national inventory. Vertical checks compare data points from different sources at different points in time and are linked to causal factors such as production levels or weather conditions. If any differences cannot be explained through variance in the causal activity data then they are investigated.

A verifier will use these types of checks as part of the verification processes as they are a proven method to identify errant data and promote their adoption by the company on a routine basis as part of quality control systems.

Finally, third party verification ensures your data is as accurate as it can be based upon the underlying systems and processes used for its management. It is rare for a verifier to go through the process of verifying a company's data and not identify any errors or anomalies. Verifiers experience errors ranging from single tonnes of CO2e to tens of millions of tonnes. If those errors went unidentified and were incorrectly reported in a regulated scheme, the company could potentially face consequential costs and fines.

Building a strong reputation

Undergoing independent, third party verification of emissions data can help your organization to build a strong reputation:

- Increase confidence in data for internal and external use;
- Develop and demonstrate an effective carbon reduction strategy;
- Improve business processes;
- Reduce operational costs;
- Fulfill one of the mandatory criteria for entry to the CDP A-list by gaining full points on CDP's Scope 1 and 2 verification questions;
- Provide credibility for products, services and internal processes; and
- Counteract claims of greenwashing.

Gaining a competitive advantage

The advantages of independent, third party verification such as improving internal systems, identifying risks and opportunities, increasing the reliability of data and building a strong reputation can all provide companies with a competitive advantage. Individually, each benefit provides an incentive to have emissions data verified and taken together they provide a strong business case for your organization.

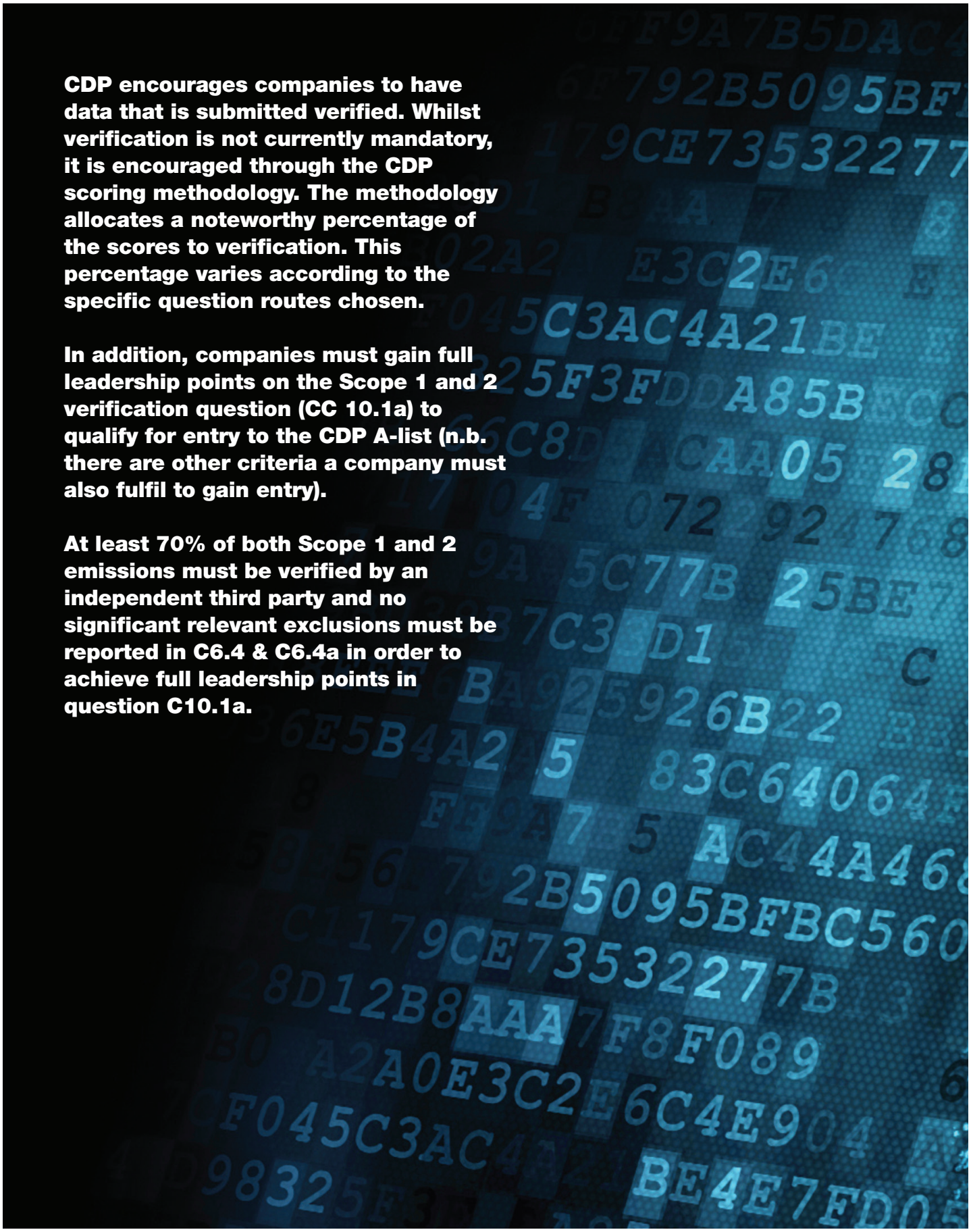
Quantitative benefits – such as operational cost reductions, process improvement and the identification of risks and opportunities – provide clear advantages to companies. With increasing environmental awareness and concern amongst consumers and investors, the qualitative benefits of independent third party verification are equally as important. Increasing credibility for your organization's products and services and giving stakeholders greater confidence in your emissions data could help your organization gain competitive advantage.

In the following sections we will provide advice and further information on the verification process, the steps to take and how organizations can get the most out of their third-party verification.

CDP encourages companies to have data that is submitted verified. Whilst verification is not currently mandatory, it is encouraged through the CDP scoring methodology. The methodology allocates a noteworthy percentage of the scores to verification. This percentage varies according to the specific question routes chosen.

In addition, companies must gain full leadership points on the Scope 1 and 2 verification question (CC 10.1a) to qualify for entry to the CDP A-list (n.b. there are other criteria a company must also fulfil to gain entry).

At least 70% of both Scope 1 and 2 emissions must be verified by an independent third party and no significant relevant exclusions must be reported in C6.4 & C6.4a in order to achieve full leadership points in question C10.1a.



Practical Considerations

Choosing a verification body

What points should you cover in a Request for Proposal (RFP) to a potential verification body? What should you look out for in their proposal? Why is accreditation important?

RFP

The more information provided initially in a RFP, the more tailored the verification proposal or quotation will be. Key items to include are:

- The scope of the company;
- The type of data collation system used to determine the inventory;
- A list of which facilities will be included and their locations;
- The main activity of that facility e.g. warehouse, food manufacturing facility and the level of emissions from that facility;
- The level of assurance required; and
- Any accreditation requirements.

This will allow the verifier to carry out an initial review of the information and to select a sample of sites to visit based on a risk assessment, thus allowing a more tailored proposal to be written.
The type of data collation system used to determine the inventory is a common piece of information that is not usually covered in an RFP, but should be.

For example:

1. Do you collate consumption information and then calculate the inventory centrally?

2. Or does each facility calculate its own inventory and submit for inclusion in the corporate inventory?

3. Are you using a specific software package or simple spreadsheets to carry out the calculations?

Each method has its own associated set of risks that a verifier will need to take into consideration in their strategic review and risk assessment.

For more info on CDP accredited verification providers please visit the CDP website.

Proposals

When you receive a proposal from a potential verification body in response to your RFP, here are a few key things to look out for:

- Do the costs include a report on recommendations for improvement?
- Where are the verifiers located in relation to all the facilities that may need to be visited? This could impact on travel costs.
- Is travel time included in the price quoted or will it be charged separately?
- Is extra time included should errors be identified and require correction and follow-up?
- Is the verification body accredited?

Accreditation

What is Accreditation? What are the benefits of having an Accredited verifier?

Accreditation is a process that ensures that the verification body has achieved an appropriate level of organizational proficiency and that it has reliable mechanisms in operation to continually improve the quality of services it delivers, according to standards developed by impartial organizations, such as members of the International Accreditation Forum (IAF).

Accreditation assesses whether the verifier:

- Has the competence to carry out the verification;
- Is performing the verification in line with the standard set by the independent organization; and
- Meets the requirements of the standard.

Knowing that the verification provider your organization is working with is accredited to perform verification can give organizations confidence and trust in the verifier and its products and services.

Accreditation ensures procurers can choose organizations that have numerous, appropriate management controls in place related to accountability, and efficient, effective use of available resources in providing services. Benefits to the procuring organizations of working with an accredited verification body are:

- A guarantee that the verifiers' service quality meets or exceeds the standard;
- The same level of service quality across geographies, products and sectors;
- Confidence that there are appropriate processes in place to ensure such things as confidentiality, staff competence, handling of complaints and physical safety;
- Knowing that there are mechanisms to ensure accountability; and
- Knowing that there is a quality improvement process in place to continually improve services.

Please note that CDP-accredited verification solutions providers also comprise CDP's technical working group. As such CDP ensures that they are accredited under internationally recognized standards (including relevant ISO or ISAE standards) to perform verification under national and international schemes such as the EU ETS and Western Climate Initiative. These checks are done by CDP to ensure that we are working with leading verification providers, and as part of our own accreditation process.

This chapter of the white paper refers to the accreditation of verification providers in a wider sense: accreditation provided by members of the IAF.

Some of the verification standards accepted by CDP require the verification body to be accredited against a particular standard or will provide guidelines on the requirements to verifiers in order to conduct the verification.

Currently, CDP recommends that companies check their verifier has relevant GHG experience together with the required accreditations for the relevant, CDP-accepted, verification standard used.

Achieving the best results in the verification process

How do you make sure the verification process is as efficient as possible? What preparation do you need to do internally to ensure everything runs smoothly?

Best practice

The most efficient verifications are those where the processes, procedures and data for carbon reporting are fully embedded into the core management systems of the business and where the records are well maintained and accessible. It's also important that roles relating to carbon reporting are clearly defined and understood throughout the organization. Within such organizations identified issues are able to be efficiently addressed and corrective and preventive action taken to prevent their recurrence. These types of organizations are able to learn from the process and continually improve their management systems and data accuracy and, as a result, potentially reduce future verification time.

Preparation

Planning and completing an efficient verification process requires a good working relationship between the organization and the verification body, openness throughout the process and quick and efficient access to information.

The initial stages of verification are learning stages, especially with a new client. The verifiers will need to quickly understand the organization, its boundaries, its management systems, structures and reporting lines. The key contact within the reporting organization will need to be sufficiently informed to provide that picture.

The verifier will know what they need to see and understand and the roles they will need to liaise with, from the earliest stages. Even prior to commencement the verifier will be able to give the reporting organization an idea of their information requirements.

Once the verifier has gained an understanding of the organization's essentials, it will compile a plan to be communicated to the organization, providing clear expectations of the information needed. This approach sets expectations for the whole process.

It is a good idea to pre-check your data. Many regulatory schemes require internal audit and other quality assurance and quality control measures on your data. A verifier can gain much confidence from robust internal quality assurance and control and, as a result, reduce the verification work required.

Split verification

Verification doesn't have to commence after the completion of the reporting period, particularly for companies new to the verification process or reporting process. Verification can be undertaken part way through, or even at the beginning of the reporting period. This will ensure that systems, process and calculations in place are compliant with the reporting methodology, as well as addressing the adequacy of control systems.

This can:

- Prevent loss of data and information that is required for compliance purposes by ensuring correct data is being collected throughout the year;
- Identify issues in plenty of time to allow correction to meet any reporting deadlines; and
- In extreme cases, if there are issues that cannot be overcome for that reporting period, end the verification process so as not to incur additional unnecessary cost. This provides the company with the opportunity to make the necessary corrections for subsequent reporting periods.

This "split verification" approach reduces the cost of a more expensive, separate pre-verification whilst achieving the same results.

Post-verification

To achieve the best results from the verification process there are a number of actions that a reporting organization can take post verification:

- Ensure the verifiers provide good feedback of the process. Make sure they include detailed reports of issues from which improvements can be made.
- Communicate this to management. Your verifier could also provide an executive summary for communication to top management, and a brief presentation to feedback the key results and benefits.
- Set up a system to capture the lessons learnt. Understand how to implement these lessons and l improve the system(s).
- Decide which recommendations for improvement to address. Minimize the likelihood of having the l same issues arise. Demonstrate that you have reviewed the issues and have a plan to move forward with.

Doing more

After having completed a successful verification, how do companies go about doing more? How do you increase the assurance level or the geographic scope?

For organizations not obligated under a regulatory regime they have much greater flexibility. They can learn much from a verification of a limited geography of their choosing and can then apply those lessons across the board and at their own pace as they prefer. Also much can be learnt from either a limited or reasonable level of assurance.

Organizations already under a regulatory regime will have had a reasonable level of assurance and geographical scope already mandated. Such organizations can then expand that coverage geographically. In the first year of verification an amount of time is spent in understanding the systems used and the controls in place. For a large company, in an initial verification covering all geographic regions and facilities, it may be more difficult to demonstrate that the systems and controls have been thoroughly implemented to the same degree throughout. It may therefore be easier to meet verification requirements by commencing with a staged roll-out of verification by limiting the geographical scope. Using this approach the company is able to demonstrate the accuracy and control of central systems, which the verifier can then verify.

This process may suggest or require amendments or changes to the operation of these systems. Through a staged roll-out these changes can then be made within the limited geographical scope, prior to a full roll-out over all geographical regions. This reduces the need for duplication of changes in multiple regions. Such an approach simplifies – and thus increases the efficiency of – the roll-out process.

Obstacles to expanding your verification process

The common obstacles to expansion can be considered from two perspectives: those that are under the control of the organization and those that are not.

In those that are under the control of the organization, the most common obstacles are different management systems that may be used across geographies and different IT systems. Many global organizations take different approaches in different geographies and, whilst this may be appropriate and necessary for many business operations, for gathering consistent data across the board it causes challenges. A simple way to overcome this is to allow those different local approaches, but to set global KPI's against which all must monitor consistently. These are strongest when they dictate the units and means of calculation and/or measurement.

Those obstacles that are outside the control of the organization include such occasions as when an organization may have differing mandatory requirements in different geographies. Hence, in this case, there is a mandatory need for an inconsistency of approach. One means of overcoming such a problem is to implement an organization-wide, overarching process (such as those under ISO 14064) which will bring consistency whilst also enabling geographical variations where necessary.

Verification: Facts and myths

Some companies may have concerns when working with a verifier for the first time. This section addresses the concerns companies might have and shares some important, but often forgotten, facts in relation to verification.

FACT: The verifier is contracted to the reporting organization. Whilst the verifier must maintain independence, their ultimate aim is always for a successful verification.

FACT: Verifiers identify, not appoint blame for, errors. If issues are identified, the verifier will clearly explain the problem and will discuss and agree with the company what would be required to rectify the errors.

FACT: The verifiers are experienced individuals. They can and will make recommendations to improve the efficiency and effectiveness of an organizations system for data gathering, calculation and reporting.

FACT: The verification statement is the property of the reporting organization. This is true for voluntary schemes. Companies can therefore choose to communicate it internally or externally, or not, as they wish.

FACT: You do not pass or fail verification. If there are issues found that would result in no verification opinion on the initial data and information, then that is not the end of the process. The verifier is able to ask for clarifications, amendments and additional information and work with the reporter to adapt the submissions to ensure that a verification opinion can be reached. The verifier will remain impartial and will not be able to provide consultancy in terms of how to correct issues, but will explain issues that have arisen and need to be corrected.

MYTH: Verification is something only large organizations should be considering. Small organizations often have less sophisticated management systems. Verification of such systems can help greatly to identify improvements that can benefit the reporting of emissions and business performance.

MYTH: Small corporations can't afford verification. The cost of verification depends on a wide number of variables, such as the size and scope of the company and the level of assurance a company requires. There is no 'one size fits all'.

MYTH: Organizations with a large number of facilities will require a more complex and more expensive verification. The verification duration (and therefore cost) is most dependent on the complexity and risk posed within the inventory. A large organization with many facilities, but a well designed and implemented management system, may therefore require only a simple verification of shorter duration.

MYTH: Verification is only necessary if there are no procedures and no systems in place. Even the most evolved procedures and systems can benefit from verification to identify areas for improvement in efficiency and effectiveness. The objectivity and technical expertise of the verifiers provides a perspective that organizations cannot create themselves.

Case Studies

CASE STUDY:
Participants in the EU ETS are required to have their GHG emissions verified. However, one client of a verification partner in the oil and gas sector has operations in a number of countries outside Europe. Their objective is to be able to adopt common procedures irrespective of location. They require accurate and reliable GHG emissions data that can be benchmarked both internally and externally, to inform an effective emissions reduction strategy.

In any company, the collecting and reporting of such data represents an investment of time and resources. For this oil and gas company it was not just important to have their systems and data verified for EU ETS compliance purposes, but also because they send data to a wide variety of organizations and publish data through their own reports. It is important that this data is consistent and transparent. Independent verification enhances the value of this work, adding credibility and building trust.

CASE STUDY:
When completing third-party verification for an industry client, a verification partner of CDP undertook analysis of the client's gas bills and identified that a majority of European sites were reporting data on the basis of net calorific value, whereas the company requirement was for gross calorific value. This was leading to an underreporting in GHG emissions of 10% per site which, if used for carbon trading purposes, could have resulted in insufficient provision for regulatory compliance and a significant financial penalty.

CASE STUDY:
One particular organization that a verification partner has been working with for a number of years is obligated to verify their emissions under the European Union Emissions Trading System (EUETS). The verification time has been reduced from 38 days in the first year to five days in the eighth year due to improvements in internal processes and data management, assisted by the verification process.

CASE STUDY:
An industrial sector client of a verification partner found that throughout the third party verification process they were able to benefit by using information to correct and improve their processes, as well as being able to integrate diverse areas of their business. The third-party verification process was of particular importance to them as it allowed the company to demonstrate the credibility of the organization to external stakeholders through independently verified and accurate data. In addition, they were able to develop robust internal mechanisms for quantifying and reporting their GHG emissions in future.

Acknowledgements

CDP's current accredited verification solutions providers are:

Bureau Veritas
Global gold partner

and

Enviro-Mark Solutions
Silver partner in Australia and New Zealand

Lucideon
Silver partner in the UK and US

NSF International
Silver partner in the US

This report has been produced by CDP with special thanks to Bureau Veritas and Lloyd's Register

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