

# *Materiality*

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4<sup>th</sup> CDM Roundtable  
UNFCCC, Bonn

8 June 2012



# *Objective*

- To share practical experience of applying materiality concept
- Prompt discussion of the Draft Guidelines on the Application of Materiality in Verifications

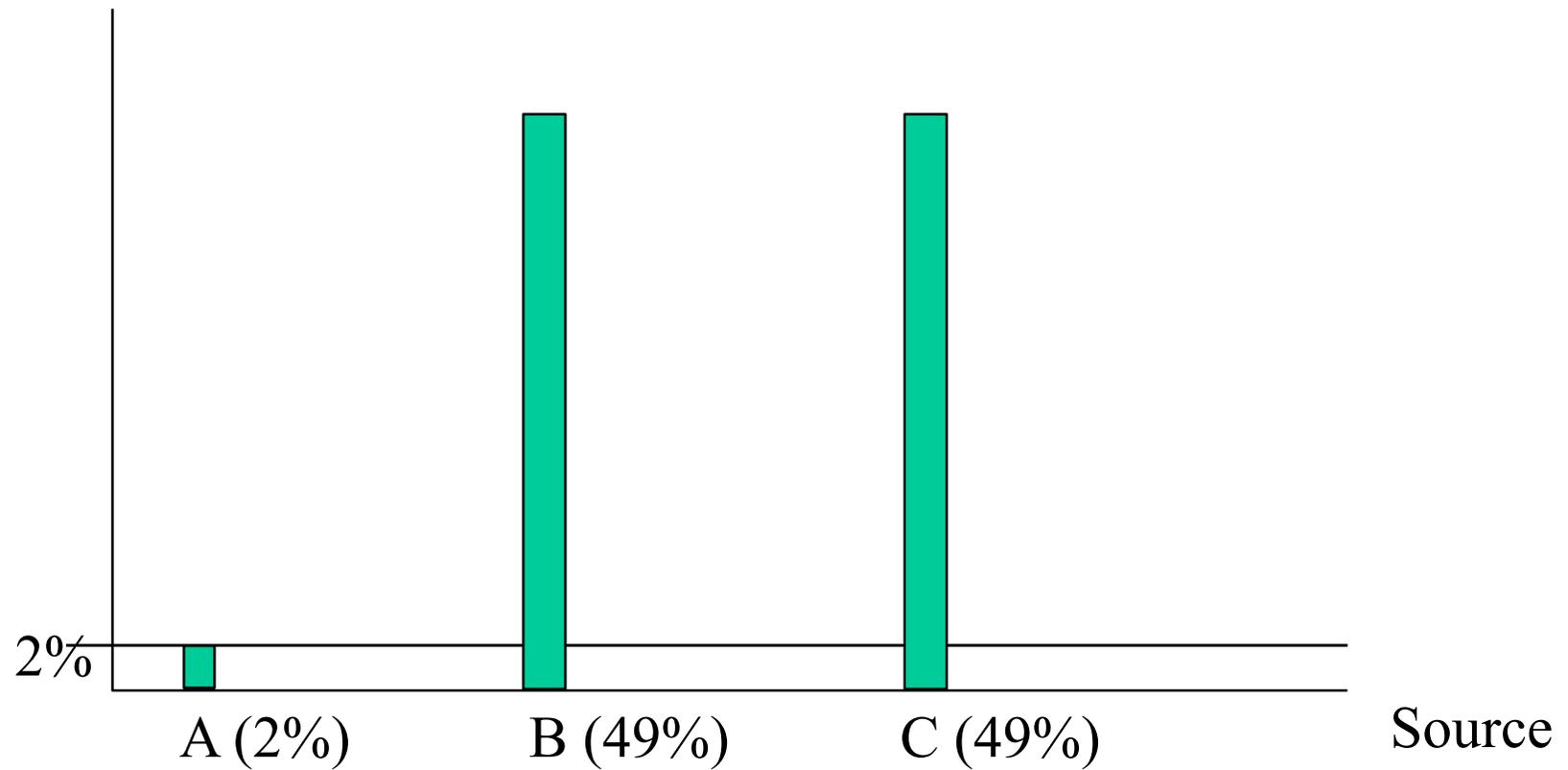
## *Definitions provided in the draft procedure*

- ***‘Reasonable assurance’*** is a high, but not absolute, level of assurance
  - means the verifier is confident that it has been proved whether or not the information reported in the monitoring report is free from material misstatement;
- ***‘Material information’*** is a piece of information for which the omission, misstatement or erroneous reporting could change a decision by the Board

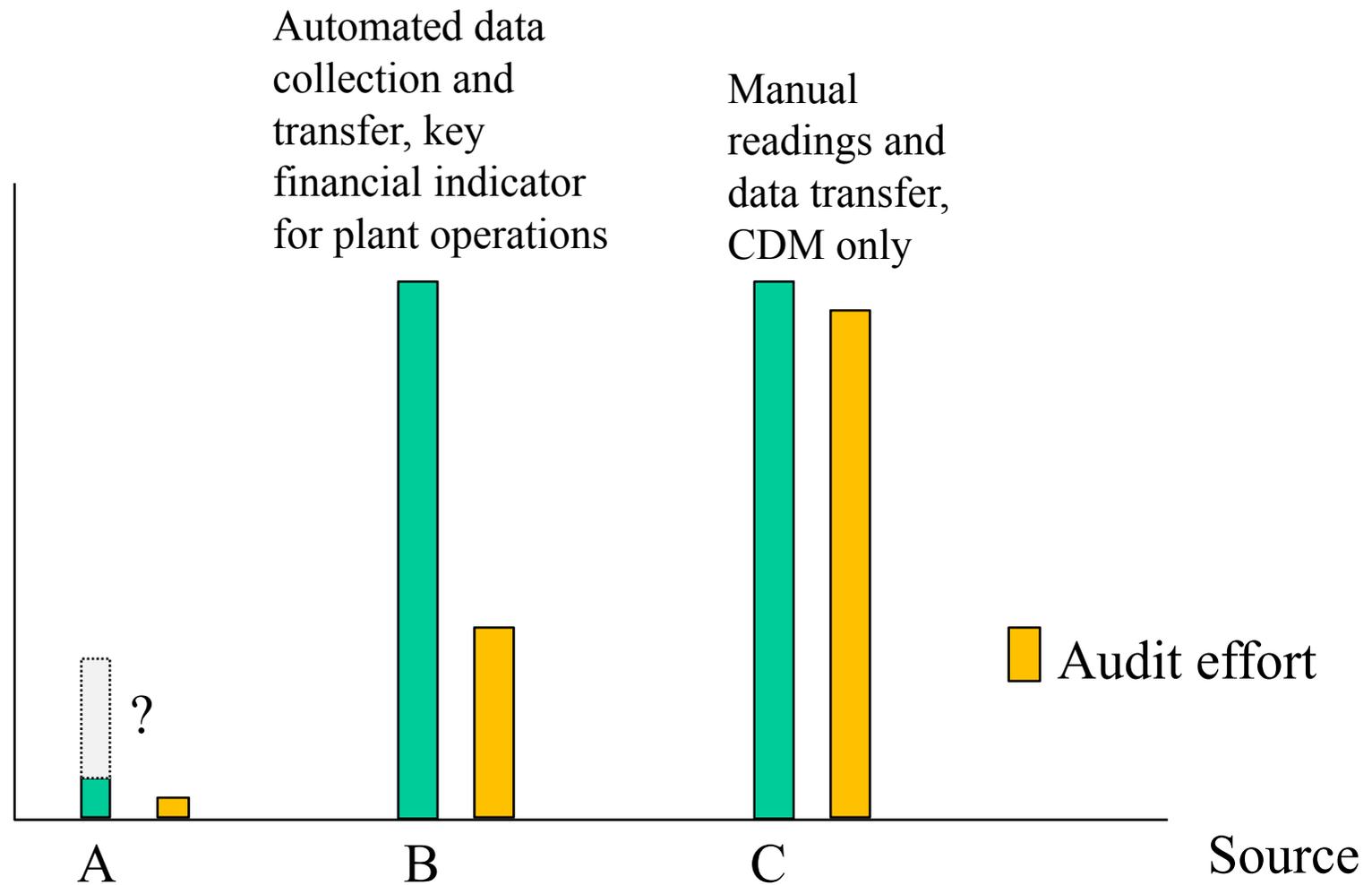
*Different thresholds of materiality are provided according to project size*

*Verification statements confirm that there is no material misstatement, **with all identified misstatements corrected***

# *Example large scale project, 200,000 t*

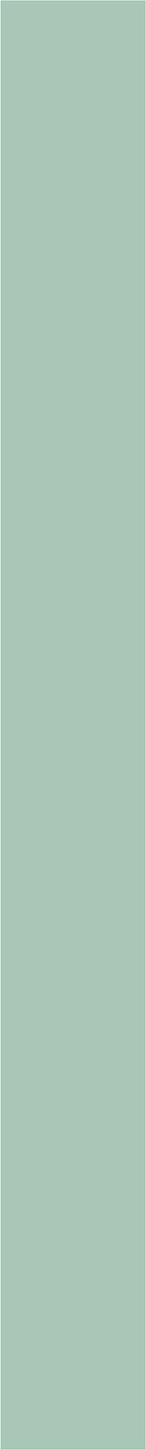


# Audit effort

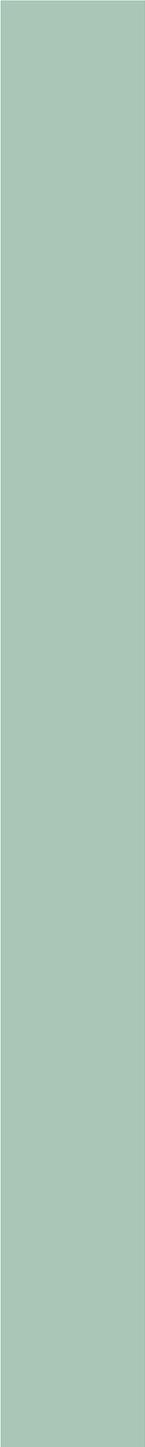


# *Applying materiality to identified issues*

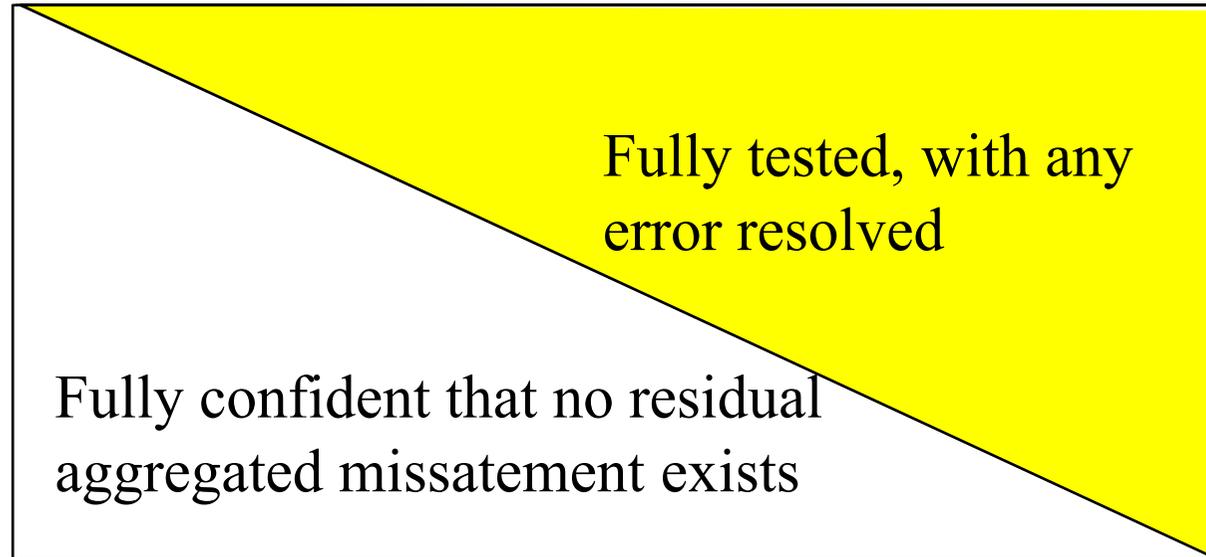
- Verifier conducts sufficient work to be sure that there are no **residual** issues that could be material
- Verifier determines whether the error is isolated or systematic and adjusts audit plan appropriately
- For example
  - a) Equipment failure, missed calibration – unlikely to be systematic.
  - b) Transcription errors – generally random.
  - c) Spreadsheet errors – likely to be systematic
- Identified errors corrected via CARs.
- Materiality could be applied where a CAR cannot be fully resolved – ie verifier closes CAR if satisfied that no material misstatement (considered in aggregate) will result.

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- *Example of Materiality applied to Correctable Immaterial Errors*
  - The project is a large-scale project achieving total emission reductions of 400,000 tonnes of CO<sub>2</sub>e, per annum, as such a 1% materiality level is applied.
  - During the course of the verification, errors are identified within a data set and are identified to have been caused by errors in manual transposition. Due to the cause, these errors are easily quantified, and are identified to represent an error of 0.5% of the total emissions (i.e. less than the materiality level of 1%).
  - Despite these errors being less than the materiality level of 1%, the DOE informs the PP that the data set contains errors that must be corrected. These errors are corrected by the PP and the DOE confirms the corrections and continues with the verification of the same data set. No further errors are identified with the data set, the verifier confirms the data set to be free from material error and proceeds with the remaining elements of the verification as defined in their verification plan.

- *Example of Materiality applied to Correctable Material Errors*
- The project is a large-scale project achieving total emission reductions of >500,000 tonnes of CO<sub>2</sub>e, per annum, as such a 0.5% materiality level is applied.
- During the course of the verification, errors are identified within a data set caused by erroneous meter readings. These errors are quantified to represent an error of 1% of the total emissions (i.e. more than the materiality level of 0.5%).
- The DOE informs the PP that the data set contains errors that must be corrected.
- The errors are caused by a failure of the meter to provide updated readings at the defined frequency and have resulted in the last consumption reading being repeated for a period. The monitoring Plan defines the approach to be applied in these circumstances and the PP corrects the data set in accordance with the defined approach.

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- *Example of Materiality applied to Material Errors that can not be corrected*
  - The project is a large-scale project achieving total emission reductions of >500,000 tonnes of CO<sub>2</sub>e, per annum, as such a 0.5% materiality level is applied.
  - During the course of the verification, errors are identified within a data set. These errors are estimated by the verifier to represent an error of 1.5% of the total emissions (i.e. more than the materiality level of 0.5%).
  - The error is not corrected by the PP.
  - The DOE concludes that the total reported emission reductions are not free from material error and issues a negative verification report unless the PP applies a conservative approach (if aligned with EB procedure).

# Conclusion



## **Opinion:**

“Reported emission reductions are free from material errors, omissions or misstatements”