

Non-Domestic Renewable Heat Incentive (RHI)

Sustainability Audit Guidance for Participants and Auditors

www.ofgem.gov.uk

Non-Domestic



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Overview

Sustainability requirements apply to all Non-Domestic Renewable Heat Incentive (RHI) participants using solid biomass or biogas to generate heat, or biomethane for production, from 5 October 2015. Some RHI participants will be required to provide annual sustainability reports to maintain compliance. The sustainability self-reporting guidance document sets out the wider requirements and describes the circumstances where an annual audit report will or may be required. This can be found on our website.

Affected participants are all biomass and biogas participants who are 'self-reporting' and have an installation of 1MWth and above, and all biomethane participants. This document is for affected participants and their auditors. It provides guidance on how to comply with the annual sustainability audit report requirements under the RHI and is effective from 5 October 2015.

Context

The Renewable Heat Incentive (RHI) is a world-first government financial incentive scheme designed to increase the uptake of renewable heat technologies and reduce carbon emissions. It is a key way for the UK to meet its renewable energy target of 15 per cent by 2020, as required by the European Union.

The Secretary of State for Energy and Climate Change used powers contained in the Energy Act 2008 ('the Act') to introduce the Renewable Heat Incentive (RHI) in Great Britain. The Renewable Heat Incentive Scheme Regulations 2011 came into force on 28 November 2011. The government is responsible for developing the underlying RHI policy including setting tariffs, establishing the legislative framework, and introducing any future changes to the scheme elements.

From July 2016 the new Department for Business, Energy and Industrial Strategy (BEIS) assumed the roles and responsibilities of the Department of Energy and Climate Change (DECC).

This guidance provides information on the requirements for the submission of the annual sustainability audit reports for solid biomass, biogas and biomethane in England, Wales and Scotland from 5 October 2015.

Associated documents

Legislation

- Energy Act 2008¹
- DECC Renewable Heat Incentive Policy Document²
- Renewable Heat Incentive: Impact Assessment³
- Renewable Heat Incentive Scheme Regulations 2011⁴
- Renewable Heat Incentive Scheme (Amendment) Regulations 2012⁵
- Renewable Heat Incentive Scheme (Amendment) Regulations 2013⁶
- Renewable Heat Incentive Scheme (Amendment No.2) Regulations 2013⁷
- Renewable Heat Incentive Scheme (Amendment No.3) Regulations 2013⁸
- Renewable_Heat_Incentive_Scheme_(Amendment)_Regulations_2014⁹
- Renewable Heat Incentive Scheme (Amendment) Regulations 2015¹⁰

Guidance

Guidance is available at www.ofgem.gov.uk/ndrhi-guidance

- Non-Domestic RHI Guidance Volume 1: Eligibility and How to Apply
- Non-Domestic RHI Guidance Volume 2: Ongoing Obligations and Payments
- Non-Domestic RHI Sustainability Self-Reporting Guidance
- Non-Domestic RHI Guidance: Fuel Measurement and Sampling

Woodfuel Advice Note:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/352488/Woodfuel_Advice_Note.pdf

¹<http://www.legislation.gov.uk/ukpga/2008/32/contents>

²<http://www.decc.gov.uk/assets/decc/what%20we%20do/uk%20energy%20supply/energy%20mix/renewable%20energy/policy/renewableheat/1387-renewable-heat-incentive.pdf>

³<http://www.decc.gov.uk/assets/decc/what%20we%20do/uk%20energy%20supply/energy%20mix/renewable%20energy/policy/renewableheat/1381-renewable-heat-incentive-ia.pdf>

⁴<http://www.legislation.gov.uk/uksi/2011/2860/contents/made>

⁵<http://www.legislation.gov.uk/uksi/2012/1999/contents/made>

⁶<http://www.legislation.gov.uk/uksi/2013/2410/contents/made>

⁷<http://www.legislation.gov.uk/uksi/2013/2410/contents/made>

⁸<http://www.legislation.gov.uk/uksi/2013/3179/contents/made>

⁹<http://www.legislation.gov.uk/uksi/2014/1413/contents/made>

¹⁰http://www.legislation.gov.uk/ukdsi/2015/9780111124970/pdfs/ukdsi_9780111124970_en.pdf

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Executive summary

This document provides guidance to participants using biomass, biogas or producing biomethane, and their appointed auditors, on the annual sustainability audit report to be submitted under the requirements of the Non-Domestic Renewable Heat Incentive (RHI).

It aims to provide assistance to these participants and other interested parties by describing the requirements necessary to verify compliance with the RHI sustainability criteria. The RHI requires the annual sustainability audit report to be prepared to an adequate standard, being ISAE 3000 or equivalent. Background information to International Standard on Assurance Engagements (ISAE) 3000 is provided by this document. The RHI Regulations also set out some specific points which must also be addressed as part of the audit process which are also described in this document.

The audit will require the participant and their auditor to go through a number of steps, working together throughout the verification process. An overview and examples of the actions that may be undertaken as part of the audit are described by this document. So are the data, processes and systems used by the participant to produce the sustainability information reported to Ofgem that will be subject to verification.

Ofgem does not participate in the verification engagement therefore it is the output of the audit, (i.e. the audit report) which is used by Ofgem to determine whether there is adequate assurance that the participants have reported correctly. This document provides guidance as to the format and contents that the annual sustainability audit report must present, in order to meet the auditing requirements set out by legislation and ensure relevant and sufficient information has been provided.

This document has been specifically created for the Non-Domestic Renewable Heat Incentive scheme. It is for guidance only and not intended to be a definitive legal guide.

1. Background

Chapter summary

The common terminology used within this document is explained within this introductory chapter.

- 1.1. Some areas of the legislation are prescriptive, others give us discretion. Where the legislation is prescriptive, this guidance is intended to help participants and verifiers understand what we require. Where the legislation gives us discretion, the document gives guidance as to how we might exercise that discretion. It also explains what we need, practically, from participant and auditors to enable them to meet these requirements.
- 1.2. In instances where parties other than participants are involved in the RHI (for example the auditor appointed to conduct the annual sustainability audit), the participant is responsible for ensuring any guidance is distributed accordingly.
- 1.3. This document cannot anticipate every scenario which may arise. Where a scenario arises which is not addressed in this guidance, we will adopt an approach consistent with the relevant legislation.
- 1.4. This is a guidance document only. Participants are responsible for ensuring that they are aware of the requirements of the Regulations. It is not intended to provide comprehensive legal advice on how the Regulations should be interpreted. Where necessary, participants should seek their own technical or legal support.
- 1.5. As a working document it may be updated from time to time and should be read in conjunction with other guidance documents listed in the Associated Documents section, and the relevant legislation. Any separate guidance published in addition to this document will be posted on our website.

Terminology

- 1.6. The document refers to the Renewable Heat Incentive Scheme (Amendment) Regulations 2015. "Ofgem", "us", "our" and "we" are used interchangeably when referring to the exercise of the Authority's powers and functions under the Regulations. For more information on Ofgem's role as the RHI administrator please refer to volume 1, chapter 1¹¹.

¹¹ www.ofgem.gov.uk/ndrhi-guidance

- 1.7. Where the term “biomass” is used in this document it refers to solid and gaseous states. Where a distinction needs to be made the terms “solid biomass” “biogas”, or “biomethane” will be used.
- 1.8. The terms “auditor” and “verifier” are used interchangeably throughout this document. The terminology within ISAE 3000 refers to this party as ‘the practitioner’. The terms “audit”, “verification” and “engagement” are also used interchangeably.

Queries

- 1.9. Any queries in relation to this document should be sent to Ofgem using the details on the front of this guidance document.
- 1.10. All queries in relation to our functions under the Regulations should be emailed to rhi.enquiry@ofgem.gov.uk. Written queries should be sent to Ofgem, 9 Millbank, and London, SW1P 3GE, clearly marked for the attention of the Non-Domestic Renewable Heat Incentive team.
- 1.11. Any queries regarding future changes to the RHI Regulations for England, Scotland and Wales and wider policy should be directed to the Department of Business, Energy and Industrial Strategy (BEIS) . Contact details can be found at www.gov.uk/beis.

2. Auditing requirements

Chapter Summary

The Regulations set out how the annual sustainability audit report needs to be prepared, and also set out specific points which must be addressed during the audit process. The audit process will require the participant to appoint and engage with an auditor. They will then need to undergo a number of steps during which the participant's sustainability information and relevant processes will be verified.

Introduction

- 2.1. The government introduced mandatory sustainability requirements and associated third-party verification for participants using solid biomass, biogas or producing biomethane to gain support under the RHI on 5 October 2015. From this date, some participants are obliged to submit an annual sustainability audit report demonstrating compliance with the sustainability requirements and have their sustainability data independently verified. Following the verification, an audit report must be submitted to Ofgem.
- 2.2. Participants must submit an annual sustainability audit if any of the following apply:
- they have a biomass installation and are self-reporting on the fuel used (not sourcing from the BSL or SFR, or self-supplying) and their installation is 1MWth or above. This includes:
 - if the fuel is 'waste'¹²; or
 - if it is a CHP installation which is not compliant with the RO sustainability criteria
 - they have a biogas installation and their installation is 1MWth or above. This includes:
 - if the fuel is 'waste'; or
 - if it is a CHP installation
 - they are producing biomethane
- 2.3. The Regulations¹³ set out the requirements on how the audit report is to be prepared including that it must:

¹² "waste" has the meaning given in Article 3(1) of Directive 2008/98/EC of the European Parliament and of the Council on waste(5) and includes excreta produced by animals.

¹³ The Renewable Heat Incentive Scheme and Domestic Renewable Heat Incentive Scheme (Amendment) Regulations 2015, Regulation 36D

- be prepared by a person who is not the participant or a connected person¹⁴
 - be prepared in accordance with the International Standard on Assurance Engagements 3000 (Revised): Assurance engagements other than audits or reviews of historical financial information dated 9th December 2013 or an equivalent standard
 - state whether anything has come to the attention of the person preparing the report to indicate that the sustainability information is not accurate; and consider, in relation to each consignment:
 - whether the systems used to produce the sustainability information are likely to produce information which is reasonably accurate and reliable;
 - the suitability of the frequency and methodology of any sampling carried out for the purpose of obtaining or checking the data on which the participant relied in preparing the sustainability information; and
 - whether there are controls in place to protect the sustainability information against material misstatements due to fraud or error; and
 - the robustness of the data on which the participant relied in preparing the sustainability information.
- 2.4. Relevant 'sustainability information' for non-waste solid biomass, biogas and biomethane refers to the information which demonstrates the greenhouse gas (GHG) emissions and land criteria have been met. For waste solid biomass, and biogas and biomethane produced from feedstock which was waste, it refers to evidence to demonstrate the correct classification of waste.
- 2.5. It is the responsibility of the participant to provide Ofgem with an annual sustainability audit report. This report must meet the requirements specified by the Regulations and (subject to paragraph 2.7) be submitted to Ofgem within three months after:
- each anniversary of the tariff start date; or
 - in the case of biomethane producers, each anniversary of the date on which the participant was first registered as a producer of biomethane¹⁵
- 2.6. The report must consider and report on each consignment of biomass or biogas used, or biomethane produced during the 12 month period preceding the tariff start date (or registration date for biomethane producers). The exception to this is described in the following paragraph.
- 2.7. Due to the Regulations providing a six month grace period, where the anniversary of the tariff start/registration date falls on or after 5th October 2015 but before 6th April

¹⁴ A connected person is deemed in the regulations to be any person connected to the participant within the meaning of [section 1122 of the Corporation Tax Act 2010\(a\)](#).

¹⁵ The Renewable Heat Incentive Scheme (Amendment) Regulations 2015, Regulation 36D(5)

2016, an annual report is not required to be submitted for the period between 5th October and the anniversary date. The first annual report must be submitted within three months after the next anniversary of the tariff start date which follows 5th October 2016; and it must consider and report on each consignment used between 5th October 2015 and that anniversary. This means it will cover a period between 12 and 18 months, depending on the anniversary date.

- 2.8. For example, if a tariff start date was 10th November 2013, there will be a tariff start date anniversary on 10th November 2015. Normally an audit report would be required within 3 months of the anniversary, but this is during the exemption period so an audit report is not required. The next anniversary is 10th November 2016, so an audit report will be required by 10th February 2017 which covers the period from 5th October 2015 to 9th November 2016.
- 2.9. The audit report must be submitted via the RHI Register. A submission slot will be provided for this for each reporting year. Please refer to the [RHI Register External User Guide](#) for further information on submitting sustainability audit report information.
- 2.10. Where the annual sustainability audit report is not provided by the relevant deadline or is provided but is incomplete or unsatisfactory, Ofgem may postpone RHI payments, and may remain postponed until the annual report is provided (or revised as required).
- 2.11. Where the participant is awaiting a decision on an application for RHI accreditation for their installation, then given the timing of the accreditation process can vary they may wish to consider the auditing requirements and engage with auditors at an appropriate stage.
- 2.12. This report must be supplied regardless of the conclusion reached by the independent auditor. Organising the verification is the responsibility of the participant.

Assurance standard – ISAE 3000

- 2.13. The Regulations¹⁶ requires the sustainability audit report to be prepared to an adequate standard: ISAE 3000 or equivalent¹⁷.
- 2.14. ISAE 3000 sets out a framework for verifiers when undertaking assurance engagements of non-financial information. Developed by the International Auditing and Assurance Standards Board (IAASB) it is based on the same framework that underpins the IAASB's International Standards on Auditing.

¹⁶ The Renewable Heat Incentive Scheme (Amendment) Regulations 2015, Regulation 36D(4)(b)

¹⁷ Revised version is expected to become effective for assurance reports on or after 15 December 2015

http://www.ifac.org/sites/default/files/meetings/files/20130916-IAASB-September_2013_Highlights-final.pdf

- 2.15. ISAE 3000 is not, however, limited to sustainability reporting and covers a wide range of non-financial assurance engagements. The standard itself is therefore sparse on the detail that may help participants and verifiers conduct the specifics of the RHI biomass sustainability audit engagement consistently.
- 2.16. It is the responsibility of the auditor to perform the assurance engagement and complete the written report in accordance with ISAE 3000. However, the participant is responsible for ensuring they are appointing a relevant and competent auditor and agreeing an appropriate scope of work with them. The participant should therefore ensure that they fully understand the requirements of ISAE 3000.

Background of ISAE 3000

- 2.17. ISAE 3000 provides the background information to the parties involved in the assurance engagement, in this case the participant and their appointed auditor. It sets out the importance of the initial work required to identify the scope of the engagement. While ISAE 3000 principally provides guidance to the auditor on carrying out assurance engagements and structuring the report, it should also be read by the participant so they understand the role and requirements of themselves and their auditor.
- 2.18. The rest of this section sets out more detailed information on what ISAE 3000 covers. This should provide a useful summary in the context of sustainability reporting, but should not be seen as an alternative to reading ISAE 3000 itself in full.
- 2.19. **Ethical requirements** – Details how the verification body and its personnel should comply with the requirements of Parts A and B of the 'Code of Ethics for Professional Accountants'.
- 2.20. **Quality control** – Illustrates the internal controls that the verification body should have in place. These should assure it that the firm and its personnel comply with all necessary professional standards and regulatory and legal requirements, and that the assurance reports issued by the verifier are appropriate in the circumstances of the particular engagement.
- 2.21. **Engagement acceptance** – Information explaining that the verifier should accept engagements only if they are satisfied that the personnel performing the engagement have both the necessary professional competency and the appropriate knowledge of the subject. The verifier should ensure they can deliver to the requirements of the engagement, to comply with ISAE 3000.
- 2.22. **Terms of the engagement** – It is important that there is a clear understanding and agreement concerning the scope and purpose of the engagement between the verifier and the participant. At this stage, preparatory work (ie initial risk assessment) must have been completed by the verifier in order to define the scope and hence the terms of the engagement which should be recorded in an engagement letter or other suitable form of contract.

- 2.23. The terms of engagement should be set out so that the responsibilities and liabilities of the participant and auditor are clearly and unambiguously defined. It is vital that the participant fully appreciates the importance of this document and the terms agreed as it will set out the basis on which queries or issues raised by Ofgem, if any, will be addressed, eg if the terms of engagement do not include the complete requirements for producing the RHI annual biomass sustainability audit report, this may cause issues for the participant if a revised audit report, further work or information is requested by Ofgem. Where aspects of the RHI requirements are not included within the terms of the engagement, they may be considered to be outside of the scope of the engagement by the verifier.
- 2.24. **Planning and performing the engagement** – Describes the need for the verifier to plan the engagement so that it will be performed effectively, appropriate ongoing evaluation of the engagement and revisions of the initial risk assessment where necessary. In order to perform this work, the verifier will need to understand the participant’s data, systems, processes and controls.
- 2.25. **The use of experts** – For the purposes of the biomass sustainability audit reports a verification body, with expertise in ISAE 3000, may wish to appoint an expert with specific subject knowledge, eg an agronomist, to support the verification engagement. This section explains that if the verifier is to use a technical expert during the engagement process, they should obtain sufficient appropriate evidence that the expert’s work is adequate for the purposes of the engagement and that the verifier accepts full responsibility for the opinion formed.
- 2.26. **Obtaining evidence** – Gives examples on some of the generic circumstances where the verifier should have obtained sufficient appropriate evidence upon which to base their opinion.
- 2.27. **Representations** – The verifier should obtain representations from the responsible party (the participant) as appropriate. In this context the verification body would be advised as a minimum to obtain a formal management representation letter from the participant confirming that all relevant data, information and records have been made available to the verifier in order for them to conduct their work. It also confirms that the participant takes full responsibility for ensuring that all such material information is both complete and accurate.
- 2.28. **Considering subsequent events** – Outlines how events occurring after the end of the reporting period that is subject to verification up until the date of the audit report, should be considered by the verifier. It is possible that some events, eg changes in processes, may have an impact on the subject matter and thus the verifier’s opinion.
- 2.29. **Documentation** – The verifier is required to maintain adequate level of documentation that supports that the engagement was performed to the relevant professional standards. Issues which are, or have the potential to be, material should be appropriately documented to support the assurance report. This can be done via an issues log.

- 2.30. **Preparing the assurance report** – Demonstrates the areas that must be included within the written report. More information on the basic elements of the report is set out in Chapter 3.

Risk and materiality based assessments

- 2.31. ISAE 3000 states that the auditor should consider the assessment of materiality and assurance engagement risk when planning and performing an assurance engagement¹⁸.
- 2.32. The determination of inherent risk will be down to the professional judgement of the auditor. The risk assessment is intended to reduce the risk of the auditor failing to observe a misstatement present in the data. When considering the risk assessment the auditor will strive to identify which areas they consider there to be the greatest risk of error or misreporting. This will then determine the sampling strategy. The risk assessment should be clearly set out and documented so that it can be presented to Ofgem, following the audit, if further details are required.
- 2.33. Examples of factors that may increase the risk of misstatement are the complexity of the fuel supply chain, use of actual carbon intensity values rather than default values, when carbon intensities reported are close to the emission saving threshold or where data is recorded manually rather than electronically.

Selective procedures

- 2.34. In determining the selective procedures that may be used, the auditor identifies where they will focus their attention during the assurance engagement. This selection should be based on the risk of misstatement assessment previously performed by the auditor and should be sufficient to satisfy the auditor that the level of risk is acceptable.
- 2.35. It may be expected that as the verification process progresses, should the auditor identify areas of concern, they may determine to enlarge the selection of information and procedures under the scope of review in order to achieve an acceptable level of risk.
- 2.36. Where a participant has a portfolio of installations, the verifier may consider, based on similarities in fuel use, fuel measurement and sampling (FMS) procedures and other processes, not to visit all of the installations if they consider that sufficient appropriate evidence is available on which to base their conclusions. This is acceptable but the auditor should be able to provide robust justification for this, and for the selection of sites chosen to visit. Where the audit identifies issues during any of the installation visits, the auditor may determine that additional sites need visiting.

¹⁸ Paragraph 22 of ISAE 3000

Materiality

- 2.37. Assessment of materiality must also be conducted by the auditor to determine whether the presence or absence of information will impact decisions or actions of the reporting party or the intended users of the report. For example, Ofgem will be using the assurance statement to help determine whether the installation has reported correctly against the sustainability criteria, and to determine whether any payments have been made for fuel which the auditor determines do not meet the sustainability criteria.
- 2.38. Materiality is best regarded as a concept relating to the importance or significance of a factor, amount or discrepancy, or combination of such issues, in the determination of a professional judgement, in this case whether the audit report can or cannot be verified. Materiality decision making can be applied in two ways, firstly at a 'qualitative level' where there is a significant problem with due process ie major non-compliance with agreed process or procedure with a regulatory requirement, and secondly at a 'quantitative level' where reported data contains errors and misstatements.
- 2.39. There are various factors that can affect materiality. For example, when the participant reports biomass fuel use classified as a waste or processing residue, given that these types of fuels are exempted from certain reporting requirements, the risk of misstatement of the fuel claims must be considered. Another example would be the use of actual values to calculate the carbon intensity reported to Ofgem, as the Regulations require a minimum GHG emissions threshold that must be met in order to comply with sustainability requirements.

Assurance approach

- 2.40. ISAE 3000 defines two types of non-financial data assurance engagement, a 'reasonable assurance engagement' and a 'limited assurance engagement'. These refer to the level of assurance engagement risk acceptable and will determine the form in which the verifier's conclusion is expressed.
- 2.41. In a reasonable level of assurance engagement, verification risk is reduced to a level where the auditor's conclusion is expressed in a positive form. For example, "In our opinion, the participant has reported correctly for their biomass fuels, in all material respects, against the RHI sustainability requirements."
- 2.42. In a limited level the assurance engagement risk is reduced to an acceptable level where the auditor's opinion is expressed in a negative form eg "Based on our work described in this report, nothing has come to our attention that causes us to believe that the participant has not reported correctly, in all material respects, against the RHI sustainability requirements."

Other requirements of the Regulations

- 2.43. As well as requiring the sustainability audit report to be prepared in accordance with ISAE 3000, the Regulations set out specific points which must be addressed as part of the audit process (see paragraph 2.2). This section provides further information on these requirements¹⁹ and how the auditor can address them.
- 2.44. **Accuracy and reliability of the systems.** The auditor must consider whether the systems used by the participant to produce the relevant sustainability information are likely to produce information which is reasonably accurate and reliable. When discussing the scope of the engagement, the participant and their auditor will discuss the systems used by the participant to produce the relevant sustainability information. These systems may include bespoke IT systems, manual systems (eg paper-based filing systems) or widely available tools such as the UK Biomass and Biogas Carbon Calculator. Methods that could help the participant ensure accuracy and reliability of the information include:
- up to date, written procedures outlining how staff should use the systems
 - a staged process of checking data, involving review by multiple people for quality control
 - where the UK Biomass and Biogas Carbon Calculator is used, a regular check for software updates
 - where input data for GHG calculations is based on existing literature, a regular review to ensure these figures are the most up to date and appropriate
 - quality assurance or quality control procedures
 - internal audit procedures
 - sign-off processes.
- 2.45. **Fraud or error prevention measures.** The auditor must consider whether there are controls to help protect systems used by the participant to produce the relevant sustainability information against misstatements due to fraud or error.
- 2.46. While it is impossible to identify and prevent every eventuality, considering fraud and error risks is likely to already be part of the day-to-day running of the participant's business. It is therefore likely that the participant will already have considered potential areas for fraud or error, so has controls to reduce these risks. Examples of measures that may help protect against fraud and error are:
- limiting access to systems to specified employees
 - ensuring that IT-based systems are protected by appropriate virus software and against hacking
 - quality assurance or quality control procedures
 - sign-off processes
 - use of an appropriate and safe record system
 - keeping paper documentation in a lockable area
 - internal audit procedures.

¹⁹ The Renewable Heat Incentive Scheme (Amendment) Regulations 2015, Regulation 36D(4)(c)

2.47. **Sampling frequency and methodology.** The auditor must consider the frequency and methodology of any relevant sampling performed by the participant as part of their processes for preparing or checking the sustainability information. This consideration aims to determine whether it produces the sustainability information required by the Regulations. Examples of such procedures are:

- FMS procedures. These are agreed with us during the accreditation process and are intended to describe how quantity of fuel used, energy content and any level of fossil fuel are determined. The auditor is expected to review the installation's FMS procedures and confirm whether they have been approved by Ofgem, whether they are being followed by the participant and consider their adequacy to produce the sustainability information to be reported to Ofgem. Further information on FMS procedures and how the auditor can use them is set out later in this chapter.
- Other fuel sample and analysis. As well as what is set out in the FMS procedures, the participant may complete other regular fuel sampling and analysis to be confident that the material they have purchased is in line with the fuel specification. This process is likely to be completed at specific intervals, with both the sampling and analysis performed to standard methodologies.
- Checks for new suppliers. Before entering a contract with a fuel supplier, the participant is likely to perform checks. As suppliers will provide information in different formats, the participant will want to be confident that the sustainability information can be provided in a reliable and timely manner.
- Quality assurance protocols. The participant may receive input data for GHG calculations with each fuel delivery. The participant may take a sample of this data to verify that the values are appropriate. This may entail desk-based research using the internet or scientific journals to substantiate the values.

2.48. **Robustness of data** – The auditor must consider the robustness of the data the participant would rely upon in preparing the sustainability report. Examples of these are external data, information and documentation, such as:

- input values, such as fertiliser use or crop yield, to be used as part of the GHG calculation
- voluntary scheme certification confirmation
- declarations
- certificates of laboratory analysis.

2.49. An example of a weak form of evidence to be relied upon would be a self-certification or declaration. To be considered robust enough, this would generally need to be supported with other forms of evidence, such as third-party verification.

2.50. **State whether anything has come to the attention of the auditor to indicate that the relevant sustainability information is not accurate.** As well as the requirements set out above, the auditor will have to state whether anything observed during the audit process indicated that the sustainability information was not accurate. This statement will be made as part of the conclusions and qualifications the auditor is required to express as a result of the audit. See the Conclusions and qualifications section in Chapter 3 for how this information needs to be provided within the report.

The verification process

- 2.51. As previously stated, to provide Ofgem with assurance over the sustainability information provided by the participant, this information must be independently verified. Though the independent auditor will verify the data and produce a conclusion, the auditor and participant will have to work together throughout the verification process.
- 2.52. The verification process will require the participant to go through a number of steps. Table 1 provides an overview of these.

Table 1: Steps for participants in the verification process

Step 1	Read and understand the auditing requirements as set out by the Regulations and their responsibilities in the verification process
Step 2	Engage a verification body that is appropriately qualified to undertake a limited assurance engagement of the participant’s sustainability data following ISAE 3000 standard or equivalent
Step 3	Continually engage with, and submit the relevant information and sustainability data and evidence to, the auditor
Step 4	Host any visits from the auditor
Step 5	Respond to any of the auditor’s questions
Step 6	Correct any material and non-material misstatement(s) identified by the auditor
Step 7	Read the audit report provided by the auditor and check that it includes all the information required (e.g. by using the checklist included in Appendix 1)
Step 8	Submit the annual sustainability audit report to Ofgem by the relevant date as noted in paragraph 2.3.

Appointing a verifier

- 2.53. The participant is responsible for engaging a verifier to carry out a limited assurance engagement in accordance with ISAE 3000 standard, or equivalent. They are responsible for satisfying themselves that their selected verifier is appropriately qualified and competent.

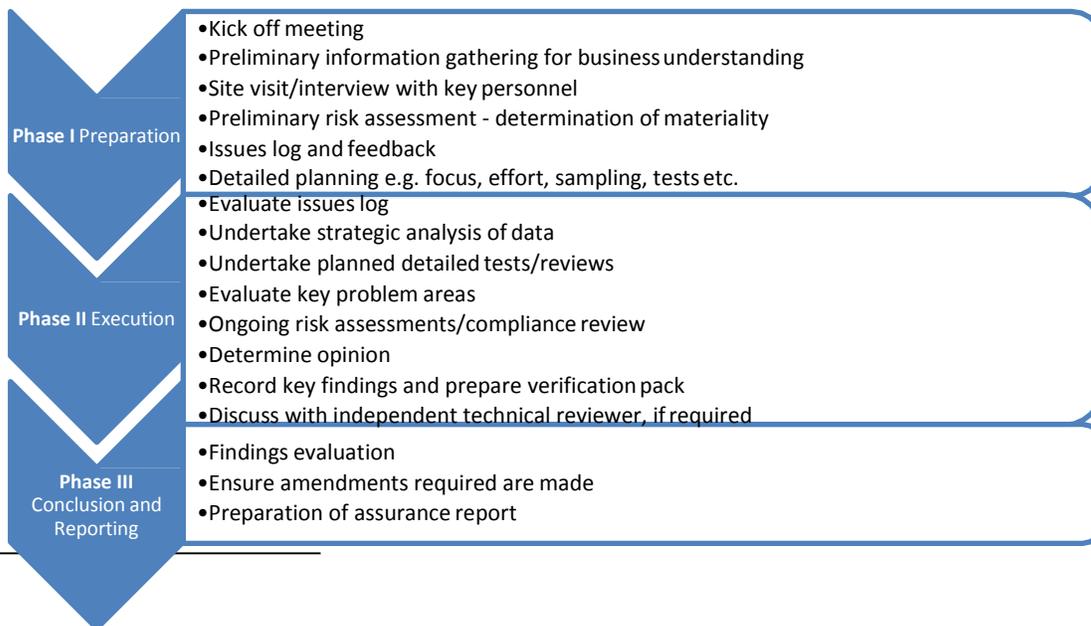
2.54. The following list includes some guidance on how the verification body may demonstrate their suitability:

- is not a connected person²⁰ to the owner or participant
- has experience in carrying out ISAE 3000 assurance engagements
- has experience in working with supply chains (the extent to which expert skills and knowledge relating to sustainability information for biomass are required will depend on the complexity of the fuel supply)
- has internal quality controls
- has established and maintains personnel records, which demonstrate that the verification personnel are competent
- has effective procedures for the training and recruitment of competent staff (employees, contractors and technical experts)
- ensures that the personnel involved in verification are competent for the functions they perform
- has systems to monitor the performance of verifiers and reviewers, which are reviewed regularly
- keeps up with verification best practice.

2.55. Whilst the participant is appointing an expert to conduct the verification process, they still needs to have an understanding of the process as the outcome of it will determine whether they are reporting correctly against the requirements under the RHI.

Performing the engagement

2.56. Following the appointment of the auditor, and with the terms of engagement agreed, the auditor plans and performs the engagement. Figure 1 describes examples of the actions that the appointed auditor may undertake during the engagement process.



²⁰ A connected person is deemed in the regulations to be any person connected to the participant within the meaning of [section 1122 of the Corporation Tax Act 2010\(a\)](#).

Figure 1: Typical steps undertaken by the auditor during the verification process

- 2.57. The first phase of the verification process involves engagement of the auditor appointed with the participant in order to agree a plan to perform the assurance engagement in accordance with the terms of engagement previously agreed (see paragraphs 2.16 and 2.17). An initial meeting is held allowing the auditor to gain further understanding of the subject matter and other engagement circumstances eg how the installation operates, its processes and supply chains. Having gathered sufficient information, the auditor will then assess the engagement risk, determine materiality and establish detailed planning.
- 2.58. During the second phase the auditor will perform the verification of the data and consideration of the processes and systems following the planning and testing defined in previous phase. As a result of the ongoing risk assessment, further scrutiny of the information under the scope of the audit may be required. At this phase the auditor will also determine whether any action is required to be implemented by the participant prior to producing their conclusions. Any action required to be undertaken should form part of the final report submitted to Ofgem, even if this has been completed prior to the submission of the report.
- 2.59. The final stage involves a final evaluation by the auditor of the findings arisen through the verification process. During this process the auditor may have recommended to the participant certain amendments which should be made before the verification process ends, which the auditor will check have been completed. Finally, the assurance report is prepared with all the information obtained during the verification process and the assurance opinion (the auditor's conclusions), both comprising the sustainability audit report to be submitted to Ofgem (see Chapter 3 for an explanation of the terminology used). It is considered best practice for an independent technical review of the audit report to be conducted at this stage as a quality check. Information on how to prepare this report and the details expected to be included within it is provided in chapter 3.
- 2.60. When undertaking the verification engagement, the auditor should use the following basic audit principles to inform their work:
- the **traceability** of the information down the supply chain, to the origin or during and from the process of collection (upon fuel classification) ie is the reported biomass data traceable back to the party or parties that generated the source information through an appropriate chain of custody system?
 - the **completeness** of the reported data ie has data been provided for each consignment? Does the available biomass data reflect the consignments reported under the RHI?
 - the **consistency** of methodologies used in calculating actual carbon data and operating mass balance system, ie have consistent methodologies been followed for calculating and reporting actual carbon data? Is there any pattern where volumes of biomass change significantly?
 - the **accuracy** of the reporting party's collation and reporting of data.

Good practice

- 2.61. We recommend the participant engages with an auditor as early as possible in the process to maximise the opportunity to learn from the auditor and help identify any discrepancy, error or gaps early on.
- 2.62. Common verification practice is for data to be supplied to the auditor in an organised evidence pack. This would normally be expected to include:
- the compiled biomass sustainability data (see Appendix 2)
 - description of the processes, systems or standard procedures the participant uses to generate their relevant sustainability information (eg the carbon calculator)
 - measures taken to protect the systems used to generate sustainability information against fraud or error and to ensure sustainability data produced is accurate and reliable (see 2.45 to 2.50)
 - high-level description of the supply chain
 - mass balance, chain of custody records
 - FMS procedures, including consignment information
 - contact details of the organisations in the supply chain
 - calculation spreadsheets (preferably supplied electronically so that auditors can test the formulae)
 - approved voluntary scheme certificates (see 2.77 and 2.78)
 - relevant supporting evidence to the above.

Later sections in this document refer to the data listed above in more detail and the checks required to be performed by the auditor.

- 2.63. All the above information and any other relevant to a particular installation would be needed to verify the data. If not provided in an ordered fashion, the verifier will likely need to request further information or clarifications, which increases the verification effort required and so will likely impact the time and cost to the participant.

What needs to be verified

- 2.64. The RHI sustainability self-reporting guidance describes the mandatory sustainability criteria in detail. This includes land criteria and greenhouse gas (GHG) emission criteria and the chain of custody system as described in the Woodfuel Advice Note²¹. An adequate chain of custody system is required to be used in order to trace back the

²¹ Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/352488/Woodfuel_Advice_Note.pdf

biomass data reported by the participant through all the parties in the supply chain who took legal ownership of the feedstocks or product at any point.

- 2.65. In undertaking the verification engagement, auditors are required to ensure the quantity of biomass reported to Ofgem on a quarterly basis, and the associated information against the RHI sustainability criteria, have been reported adequately. They are also required to verify that these can be traced back through the supply chain by use of an adequate chain of custody system for the entire annual reporting period.
- 2.66. Auditors are also required to consider the processes and systems used by the participant to produce the relevant sustainability information reported to Ofgem. Background information on the checks that need performing is provided in this chapter. Information on how to include these within the report is included in Chapter 3.

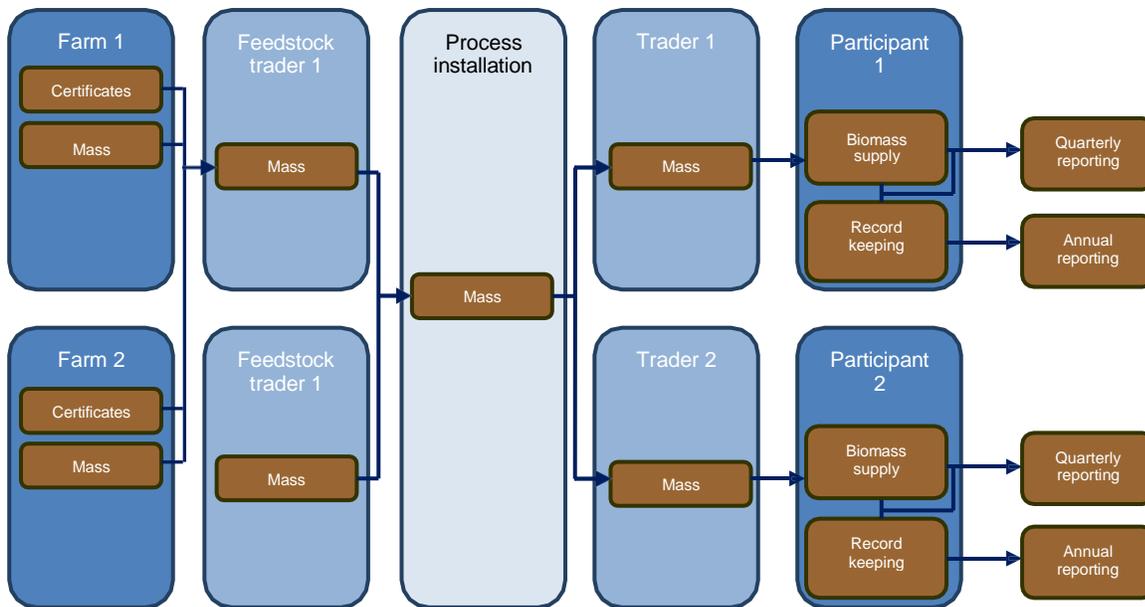
Sustainability compliance evidence

- 2.67. To demonstrate compliance with the sustainability requirements, participants will need to collect relevant information and/or make use of voluntary schemes as evidence for their annual sustainability audit.
- 2.68. Some of the evidence may lie with other parties in the supply chain (eg evidence for meeting land criteria). While the physical evidence does not need to move through the supply chain with the biomass, the participant should have sufficient information to report sustainability information to Ofgem appropriately.
- 2.69. For this the participant may be relying on contractual agreements. Any information or evidence should be kept and made available if required for verification purposes, even where it is held by parties in the supply chain. This does not necessarily need to be in paper copy, electronic format is acceptable.
- 2.70. For the biomass data subject to verification, the participant will need to give the auditor supporting information. This might include:
 - biomass type (e.g. rapeseed oil, miscanthus)
 - fuel classification (eg waste, processing residue)
 - biomass feedstock
 - production process type
 - chain of custody system records
 - country of origin of the biomass feedstock
 - consignment classification

- land use
- GHG calculation method (ie actual or default as appropriate)²².
- carbon intensity and associated data, for example if actual GHG values were used on, for example crop yield and nitrogen fertiliser use may need to be verified
- voluntary scheme(s) (including any additional checks/audits where these have been performed)
- sustainable forest management criteria (if using wood fuel)

2.71. To be able to produce biomass data that is of sufficient quality to demonstrate compliance with the sustainability criteria, participants need to ensure that they and others in their supply chain have effective systems for reporting and obtaining and retaining sufficient and appropriate evidence to support their data reporting.

Figure 2 shows an example of data flow in a simplified supply chain for a biomass fuel.



2.72. We recommend that participants appoint a single point of contact with responsibility for data reporting.

²² Solid biomass and biogas $\geq 1\text{MW}$ using heat for process heating, and biomethane producers, are not eligible to use the default value method. See Chapter 5 of RHI sustainability self-reporting guidance for further information on GHG calculations

- 2.73. All parties in the supply chain must have a document management system in place. This means they must have a verifiable system for the evidence related to the claims they make, that evidence should be kept for a minimum of six years and they must accept responsibility for preparing any information related to the verification of such evidence.
- 2.74. It is good practice to:
- liaise with the parties in the supply chain to ensure awareness of the need for co-operation and for a chain of custody system
 - produce data in a manner that is transparent and is as consistent as possible between years (allowing for improvements in method)
 - remove unnecessary complexity from the reporting system
 - organise internal checks of the data
 - ensure all parties supplying data are aware of the rigour required and that responsibility for supplying the data is allocated
 - map the data flow within the organisation, such as between spreadsheets
 - minimise the manual transfer of data
 - ensure adequate controls around the data
 - document the system (who does what, when etc.)
 - track data over time to help identify any misstatement.
- 2.75. Good systems reduce the cost of verification. The greater the confidence that can be placed on controls the less effort that needs to be given to verifying the data for the same level of assurance. The cost of verification can, therefore, be reduced if the verifier has confidence in the system that produced the data.
- 2.76. Evidence of the effectiveness of controls can come from internal sources, such as management reviews and internal audits, as well as external audits, for example, of the chain of custody.

The role of recognised voluntary schemes

- 2.77. Evidence of compliance with an approved voluntary scheme²³ can be sufficient proof of compliance with the RHI requirements for which the voluntary scheme has been recognised. In other words, the verifier can rely on the voluntary scheme and does not need to separately check that the party has complied with the sustainability requirements for which the voluntary scheme is recognised. The verifier would simply need to verify that the party is actually certified by the relevant voluntary scheme.

²³ Please see Chapter 3 of the sustainability self-reporting guidance

- 2.78. It may occur that some parties in the supply chain are certified by a recognised voluntary scheme and other parties in the supply chain are not. In that case further verification will need to be undertaken. It may also occur that a party is certified by a voluntary scheme that is recognised for part of the sustainability requirements but not all, for example a voluntary scheme that is approved for the GHG data but not for the mass balance. In that case, the party is still subject to verification on those sustainability requirements for which the voluntary scheme is not recognised. For more information on the use of voluntary schemes see Chapter 3 of the RHI sustainability self-reporting guidance.

Participants' documentation to Ofgem

- 2.79. Participants are required to provide information to Ofgem as to how fuel used is measured and sampled, the number of fuel consignments used, whether a mass balance system is required and the fuel classification (see *Fuel Classification Review* section below). This information determines how the participant will report to Ofgem quarterly. This information is provided by the participant by using the Ofgem Fuel Measurement and Sampling (FMS) Questionnaire²⁴ which we subsequently review. Please see our FMS guidance and sustainability self-reporting guidance for further information on what information is required during the application stage as well as during participation on the scheme.²⁵
- 2.80. Biomass, biogas and biomethane participants must follow the agreed FMS procedures. They should hold a copy of these forms which should be made available to the auditor and used to support the audit process.

Fuel measuring and sampling (FMS) procedures

- 2.81. The FMS procedures are required to determine the quantity of fuel used in a month, the energy content of this fuel and the level of any fossil-fuel-derived contamination, if any. These procedures will also determine how the relevant sustainability information will be reported by the participant as part of their output submissions.
- 2.82. These procedures determine the quantity of fuel reported, generally an important aspect of verifying reporting of sustainability information. For instance, feedback from auditors has been that for the purposes of tracking mass balance, quantities of fuel used are important. In addition to this, should the auditor determine any of the consignments to be unsustainable, Ofgem may withhold or revoke payment for the relevant consignments. Therefore, as part of the audit process, the auditor will need to identify whether the installation has FMS procedures, whether these have been

²⁴ <https://www.ofgem.gov.uk/publications-and-updates/fuel-measurement-and-sampling-questionnaire>

²⁵ www.ofgem.gov.uk/ndrhi-guidance

approved by Ofgem and whether they are being followed. These checks form part of the audit report requirements set out by the Regulations to consider the sampling frequency and methodology.

- 2.83. Where the participant does not have agreed FMS procedures, the auditor will need to consider whether the procedures that are being followed are suitable and provide accurate and reliable data. It may be appropriate to qualify an assurance opinion based on there not being FMS procedures agreed with Ofgem (see *materiality* details in paragraphs 3.27 and 3.29).

Consignment information

- 2.84. As part of the FMS process we ask biomass participants to consider whether they use multiple consignments of fuels and whether any mixing of these consignments occurs either at the installation or further down the supply chain. This information is provided by the participant within the FMS questionnaire provided by Ofgem and it identifies whether multiple fuel consignments are used as well as the chain of custody system implemented.
- 2.85. Auditors are required to confirm that the number of fuel consignments against which the installation reports is correct as well as the chain of custody system used is consistent with that declared. Guidance on determining consignments is provided in chapter 7 of the RHI sustainability self-reporting guidance document.

Fuel Classification Review

- 2.86. When submitting their FMS proposal for review, the applicant will need to consider the classification of their fuel and whether it is catered for in the common classification tables in Appendix 2 of the RHI sustainability self-reporting guidance, for the purposes of the RHI sustainability requirements. There are some exemptions to sustainability reporting, based on whether the fuel is considered a waste or a type of residue. Where the participant considers the fuel to be a waste or a type of residue which is not covered in the common classification tables, we will ask them to provide evidence of the fuel classification. Participants can also request our view on the fuel classification when they consider the fuel classification indicated by these tables is not appropriate for a particular material. Chapter 4 of the RHI sustainability self-reporting guidance provides general information on fuel classification.
- 2.87. Ofgem views on fuel classification does not represent and should not be considered as 'a decision' or 'official approval'. We expect the participant's independent auditor to consider all the relevant evidence, and where necessary, seek further information, as part of the annual sustainability audit. Where it has identified that evidence of fuel classified as a waste or a type of residue has had to be provided to Ofgem, the auditor will also need to verify that the evidence provided is appropriate for the fuel. They will also need to verify that the fuel classification is correct. All views provided by Ofgem will be given on a case-by-case basis and based on the information given to us by the participant. As such, we will not consider sufficient for the auditor to rely solely on the correspondence between us and the participant as part of the fuel classification review.

Quarterly data submissions

- 2.88. As part of the engagement process, the participant will provide their auditor with the data reported to Ofgem within the quarterly data submissions. See Appendix 2 in this document for our comments as to how this information is to be provided.
- 2.89. As Ofgem do not have any involvement in the assurance process, and the auditor does not have access to the participant's account on the Register, it is vital that a breakdown of the verified data is provided. On submission of the audit report with accompanying data, we ensure the data verified by the auditor matches exactly with that which has been reported to Ofgem via the Register.
- 2.90. In undertaking the verification engagement, auditors are required to assess whether the quantities of biomass fuels reported to Ofgem, and their associated sustainability information, can be traced back through the supply chain by use of an appropriate chain of custody system for the entire annual reporting period.
- 2.91. Where a change of the fuel used occurs or an additional fuel is used at the installation the auditor will need to confirm that these have been reported correctly, i.e. that the 'new' fuel was reported separately to the 'old' fuel and that the associated data submitted are relevant, correct and refer to the 'new' fuel.
- 2.92. Where a quantity of fuel has been used at the installation and not reported to Ofgem (i.e. where no heat was generated or the fuel was consumed for another use elsewhere on site) this should still be considered. Each delivery of fuel will have a corresponding set of sustainability characteristics and it is important that the audit verifies that these have not continued to be reported once all the fuels have been used, regardless of the purpose.
- 2.93. It is, therefore, equally necessary for the auditor to review quarters where the RHI has not been claimed on the use of biomass, as those for months where such claims have been made. This is to confirm, for the purpose of verifying the annual mass balance, that no biomass has been used for periods of null return.
- 2.94. As each audit report is submitted annually²⁶, we require auditors to review months of both biomass usage as well as null/zero submissions. To assist this, we propose that the participant completes a summary table to provide to their auditor alongside their full data set. A template for this is set out in Appendix 2 of this document. When no biomass fuels have been used in any quarter, a reason for that needs to be given within the relevant column of the cited table.

²⁶ The first report may be for than one year. Please see paragraphs 2.5 and 2.6.

3. The sustainability audit report

Chapter summary

As a result of the verification process the participant and auditor will prepare a report presenting the outcomes of the audit. The participant will need to submit this to Ofgem.

In order to meet the requirements of the Regulations, the annual sustainability report must be presented with certain format and contents that are appropriate and facilitate the review. ISAE 3000 sets out the required sections within the report.

Format

- 3.1. Following verification, the independent auditor will provide the participant with a formal assurance opinion (a verification statement) on the data the participant holds. The assurance opinion is submitted by the participant to Ofgem as a key part of the annual sustainability audit report.
- 3.2. The Regulations refer specifically to the provision of a sustainability audit report. However, ISAE 3000 uses the term 'assurance report'. The bullets below set out the terminology we use:
 - **Sustainability audit report:** This term refers to the document that is submitted by the participant as required by the Regulations and must include the information set out in the checklist in Appendix 1. It is made up of the assurance report, assurance opinion, requirements under the audit report requirements of the Regulations²⁷ and biomass data summary.
 - **Assurance report:** This term refers to the sections required by ISAE 3000 and should be submitted as part of the sustainability audit report.
 - **Assurance opinion:** Also referred to as 'verification statement', this is the term used to describe the conclusion provided by the verifier within the assurance report.
 - **Other requirements of the Regulations:** Aside from the requirement for the audit to be conducted in accordance with ISAE 3000 (or equivalent), the Regulations set out other checks that the auditor needs to conduct as part of the audit and which outcome must also be included within the report. The outcome of these requirements will form part of the assurance report.
- 3.3. Where the participant has more than one biomass installation accredited under the RHI, the auditor will likely be engaged to conduct a multisite audit. In this case, parts of the audit may be shared by all the installations (eg they may have the same fuel and supplier). Even so, the auditor will need to produce a report for each installation.

²⁷ The Renewable Heat Incentive Scheme (Amendment) Regulations 2015, Regulation 36D

This should be tailored to each individual installation and contain relevant and specific details for that installation. It should also account for any special circumstances, eg where a particular installation has not yet received RHI accreditation or FMS procedures are not yet approved²⁸.

Author of report

- 3.4. While there is a need for consistency in the reports, we recognise that different auditors may have different styles. As such, we will accept reports in one of two structures:
- Written entirely by the auditor, including the requirements of ISAE 3000, information on systems and a representation of the data verified. This approach exists on the basis that the participant provides the raw data to the auditor rather than a summary report.
 - Two sections: the participant writes an initial 'report' containing a management assertion and its data on the sustainability systems, and the auditor writes the second section in accordance with ISAE 3000.
- 3.5. The Regulations specify that some parts of joint reports must be written by a party independent of the installation²⁹. In particular, the auditor must comment on the additional requirements of the Regulations. In both approaches, the participant remains responsible for the subject matter.

Documentation

- 3.6. We require that all the information is set out in a single document submitted by the participant. This document needs to include all the requirements of both the Regulations and ISAE 3000. The following sections and the supporting checklist in Appendix 1 will assist in providing us with this information.
- 3.7. After the initial review of a sustainability audit report, there may be times when Ofgem requires further information. Where this information is required, we will set this out formally and clearly to the participant. We may agree that this additional information can be provided in a supplementary document, but this will be determined on a case by case basis.

Provision of evidence

²⁸ Where a participant is awaiting a decision on an application for RHI accreditation for an installation, given that the RHI cannot be issued until an annual sustainability audit report has been submitted and accepted by Ofgem, the participant may wish to consider the auditing requirements and engage with auditors at an appropriate stage.

²⁹ The Renewable Heat Incentive Scheme (Amendment) Regulations 2015, Regulation 36D(4)(a)

- 3.8. The purpose of the annual audit is to require a qualified party independent from the installation to review and verify the biomass sustainability data, systems and draft the report. Generally, Ofgem will rely on the professional expertise of the auditor in evaluating the evidence as has been presented during the verification engagement, and as described in the sustainability audit report, and will therefore not need to see the evidence itself.
- 3.9. Sometimes we may need to see additional evidence to come to a final determination. In this case, we will ask the participant for the extra details in writing, after initial review of the sustainability audit report.

Contents

- 3.10. Paragraph 49 of ISAE 3000 sets out the required content that must be included in the sustainability audit report. Along with these requirements, those set out by the Regulations also need to be included in the report. As much as possible, these should be in clear distinct sections. This approach will help support and facilitate the efficiency of the Ofgem review process.
- 3.11. Alongside a clear structure of the report, satisfactory level of detail is also vital for Ofgem to be able to review the sustainability audit report as it is upon the reported information alone that Ofgem will determine whether the participant had reported correctly during the period and that the verification has been carried out in an appropriate manner to an acceptable standard. Likewise, the provision of irrelevant information will not add any value to the report but will increase the time required by Ofgem to review the reports.
- 3.12. Reports that fail to sufficiently address all the below sections or provide a sufficient level of detail will not be accepted as providing an adequate level of assurance. Ofgem expects each of the requirements to be appropriately addressed by the verifier within the sustainability audit report. Where evidence required to appropriately address a particular section is not available, we expect a statement to be made explaining the reasons for its absence.
- 3.13. To assist with structuring the sustainability audit reports, we have provided further information on the required contents including the ISAE 3000 requirements and other requirements set out by the Regulations in the sections below. Additionally, a checklist setting out the main points that need to be addressed within the report is provided in Appendix 1. This list should be used by both auditors and participant as a final check to ensure that requirements are met in advance of submission of the sustainability audit report to Ofgem.

Title

- 3.14. A relevant title must be located at the top of the document. This must include the words 'independent assurance report' and note the level of assurance provided. In the case of the sustainability audit reports, this is to a level of 'limited assurance'.

Date

- 3.15. The date the report has been compiled must be included. This is generally included either at the front of the document or alongside the signature at the end.

Addressee

- 3.16. The report must say who it has been prepared for. In the case of sustainability audit reporting, this would be the participant. While the report may name a specific person, the name and address of the organisation should also be included. This must be provided in addition to the address of the installation, to help us identify the relevant installation where they differ.
- 3.17. Sometimes the report is to be addressed to a party who is not the participant (see example in paragraph 3.28). In this situation, as the audit requirement lies on the participant, the participant has to authorise the third party to liaise with Ofgem and submit the report on their behalf. Evidence of this (e.g. written authorisation letters) must accompany the report. A clear explanation of the relationships between the parties will also need to be provided in the report. We will assess these on a case-by-case basis and determine if further details or actions are needed.

Responsibilities

- 3.18. It is important that both parties to the engagement fully understand and respect each other's responsibilities. Within ISAE 3000 the two parties to the verification engagement are referred to as the 'reporting party' and 'the practitioner', these being the participant and the verifier respectively. The following examples indicate some of the responsibilities that the participant and verifier should consider when preparing and submitting the sustainability audit report.
- 3.19. Participants' responsibilities include, among others:
- preparing and reporting their quarterly declarations and data to Ofgem on the Register
 - appointing a suitably qualified verifier
 - disclosing all necessary information to that verifier for them to fully understand the requirements of the proposed engagement
 - ensuring that they have evidence (or that it exists in the chain of custody) to support the information needed by the verifier in order for them to come to an opinion, to a limited assurance level, as to whether the reported data and information complies with the requirements of the assessment criteria
 - disclosing any significant changes or events that have occurred or are expected to occur that could have an effect on their opinion

- responding to queries from the verifier providing additional information/evidence when requested
- correcting any data which the verifier finds to be misstated or insufficiently supported by available evidence
- providing the completed sustainability audit report to Ofgem in accordance with the requirements of the legislation.

3.20. Some of the verifiers' responsibilities are:

- demonstrating to the participant that they are an appropriate party to carry out the verification engagement
- planning and carrying out such evidence gathering and testing activities as are necessary to form an opinion, to a limited assurance level, as to whether the reported systems and data are consistent with and/or meet the declared assessment criteria
- informing the participant both of any areas of non-compliance or misstatements within the systems and data which need to be addressed or corrected, and/or of any consignments which should be withdrawn from the verification
- writing the sustainability audit report, in part or in full, paying particular attention to the requirements set out in ISAE 3000 and other requirements set out by the Regulations and providing the assurance opinion.

Statement referencing ISAE 3000

3.21. A positive statement that the engagement was performed 'in accordance with' ISAE 3000 must be given within the report. Simply stating that the engagement was performed 'with reference to' ISAE 3000 is not sufficient. This statement is generally noted early on in the document as it is not just in respect of what is written in the report but the entire engagement is based on ISAE 3000. ISAE 3000 is not the assessment criteria and should not be referenced as such.

Identification of the assessment criteria

3.22. The Regulations set out the legislative framework with which the participant must comply. As such, we would expect the Regulations to be referenced as the assessment criteria for purposes of the verification engagement.

3.23. There may be instances where additional criteria are needed, for example to reference the residue definitions that are not set out within the legislation. Appendix 2 of the RHI sustainability self-reporting guidance provide information as to the definition of residues.

3.24. Though they must not be referenced as criteria, it is good practice for the audit principles of traceability, completeness, consistency and accuracy (referenced in chapter 2) to be stated in the audit report, alongside the assessment criteria, to make clear that they were used during the verification engagement.

Subject matter

- 3.25. Identification and description of the subject matter and the information it contains, including:
- the name of the installation should be clear in the report and should match the name on the Register
 - the reporting period that is subject to verification, e.g. 1 April 2017 to 31 March 2018
 - the relevant sustainability information, subject to verification.

Solid biomass, biogas and biomethane - waste

- 3.26. Participants using solid biomass which is waste or wholly derived from waste, biogas or biomethane made wholly from feedstock which is waste³⁰ are deemed to meet the sustainability requirements. Therefore, the auditor will see that these participants would have declared they are waste for GHG and land criteria in the Register. For these installations, the auditor will need to verify the categorisation of the consignments as waste.

Risk and materiality based assessments

- 3.27. Comments as to the approach taken by the auditor when considered risk assessment and materiality, and how this impacts the subsequent sampling strategy must be included within the report. This must cover both qualitative and quantitative aspects of reporting. For example if sample quarters are reviewed, rather than the complete years' data, then a comment as to why certain quarters were selected would be appropriate. Additionally, the justification for conducting or not conducting site visits to installations and/or suppliers should be stated.
- 3.28. The scenario in which the verification engagement is conducted with a party who is not the participant is particularly relevant. For example, where the participant has sourced the services of a third party (e.g. fuel supplier, consultant etc) to engage with an auditor and submit the audit report on their behalf. In this case, we need to be satisfied that the information is adequate and sufficient. As a result, we will expect the auditor to explain in the report how they ensured and were confident that this was the case. This will be especially important where all the audit activities have been conducted at the third-party site. We also advise that the participant is included in any correspondence with us. This way they will be aware of the information being submitted to us, and so confident that it is adequate and sufficient.
- 3.29. This information can be provided as a standalone section or as a short paragraph in an existing section. It should always be included before the *summary of work performed*, as the risk assessment and sampling strategy determines what work they do.

Summary of work performed

³⁰ See chapter 4 of the Sustainability Reporting Guidance for definition of waste.

- 3.30. As set out in ISAE 3000, the information described in the section, *summary of work performed*, needs to be sufficiently detailed to enable readers of the assurance report, in this case Ofgem, to readily understand what work the verifier has performed.
- 3.31. As Ofgem does not participate in the verification engagement we must use the audit report to determine whether we are satisfied that RHI payments should have been issued. We recognise that a significant amount of work is undertaken by both parties; however, a lack of transparency is likely to result in requests for further information or clarification.
- 3.32. This section of the report must include a description of what activities have been undertaken at the level of the participant and how the evidence for sustainability information up the supply chain has been tested. Some examples of typical activities that may be undertaken by the auditor are provided below:
- interviews have been undertaken with [*provide name*] (Technical Manager at the installation) to understand the systems and processes that are in place at the installation for collecting and collating sustainability information and data
 - an assessment was performed of the evidence that the participant holds to support the fuel classification applied to each of the fuels. This included a review of waste transfer notes and declarations by the fuel supplier in accordance with the waste definition and fuel classification tables within the Ofgem guidance
 - a check was performed against the application of Voluntary Scheme 'A' which was applied for the purpose of demonstrating compliance with the chain of custody system requirements through the supply chain
 - a review of the input and output of the carbon calculator was performed. This included a review of the input data including literature values and a check that the version of the calculator used was the most up to date.
 - a site visit to the installation was made on 4th May 2017. During this visit the auditor observed the delivery of fuel, measuring on site, storage and recording of information.
- 3.33. This section of the report must make clear where the auditor has visited – e.g. installation, participant's organisational headquarters, fuel supplier, etc. It should be noted that we would generally expect the auditor to visit the installation, otherwise a justification for this needs providing.

Other requirements of the Regulations

- 3.34. Chapter 2 introduced the specific audit report requirements points set out by the Regulations that must be addressed as part of the audit process. In order for Ofgem to accept the audit report submitted, it must clearly state that these points have been addressed by the auditor.
- 3.35. These specific points must be addressed within the section written by the independent auditor. As these points are part of the activities to be undertaken during the verification, this information should be included within the *summary of work performed* section. However, the auditor may prefer to address these points in a

distinct section e.g. 'Consideration of the Other requirements of the Regulations, which we would also accept.

- 3.36. Examples of how information on each of the requirements of Regulation 36D can be presented are given below. It is important that the auditor refers to and makes use of the wording in the Regulations.
- 3.37. **Consideration of the accuracy and reliability of the systems and existence of controls against fraud and error.** The auditor should confirm that these have been considered. We prefer this information to take the form of a statement in the *summary of work performed* or as a standalone section. For example:
- "We have considered whether the systems used to produce the relevant sustainability information are likely to produce information which is reasonably accurate and reliable. We have also considered whether there are controls to help protect against misstatements due to fraud or error".
- 3.38. Where the auditor feels the systems are not appropriate, they should make appropriate recommendations to the participant. These should be included in the written report in the *relevant remarks* sectioned. Any recommendations should not affect the auditor's conclusion.
- 3.39. **Consideration of sampling frequency and methodology** – Confirmation that this has been undertaken must be included in the auditor's section of the report, along with its results. This information should be provided in the *summary of work performed* section or as a standalone section.
- 3.40. Where the auditor feels the procedures are not appropriate, they should make appropriate recommendations to the participant. These should be included within the written report in the *relevant remarks* section as explained below. They should not form the basis of a material misstatement or material non-conformity and alter the outcome of the verification.
- 3.41. The report should state whether we have approved the installation's FMS procedures, whether the participant is following them, and the outcome of the auditor's consideration of their appropriateness. Where there is no evidence that the FMS procedures have been approved by Ofgem, this should be noted in the report as well as being listed as an outcome of the auditor's consideration of their adequacy (eg if they are still under Ofgem review or if the participant has changed the FMS procedures approved by Ofgem without notifying us). The auditor should also think about whether a qualification of the assurance statement is needed when FMS procedures have not been approved by Ofgem. For example, it may not be clear for the auditor what we consider suitable for sampling, measurement etc.
- 3.42. **Consideration of robustness of data** – As above, confirmation that this has been considered must be included in the report in the *summary of work performed* section or as a standalone section. Its results should also be included.

- 3.43. If there are any recommendations for improvements, these should be included in the written report in accordance with the *relevant remarks* section, as explained below. Any recommendations should not form the basis of a material misstatement or material non-conformity, as this would alter the outcome of the verification.
- 3.44. **Statement on accuracy and reliability of information.** As well as the requirements set out above, the auditor will have to state whether anything observed during the audit process could indicate that the sustainability information is not accurate or reliable. This statement will be made as part of the conclusions and qualifications the auditor is required to express as a result of the audit. See the Conclusions and qualifications section below for how this information needs to be provided within the report.
- 3.45. Where the auditor feels that the relevant sustainability information is not accurate or reliable, they should make recommendations to the participant. The auditor should then consider the implications of these inaccuracies in relation to the report (ie whether to include a qualification). Where a qualification is not needed (the audit conclusion is unaffected) these recommendations should be included in the written report in the *relevant remarks* section.

Limitations (if appropriate)

- 3.46. Any limitation in the evaluation against the criteria or of the report must be detailed, such as:
- the extent of evidence-gathering activities
 - where the work of third parties was relied on
 - where the company's systems or processes have been relied on without testing them
- 3.47. Stated limitations should be included only to clarify the extent of the verification activities. They should not contradict the verifier's opinion. Where the assurance engagement is conducted to a limited level it should not be regarded as a limitation and should not be included in this section.

Restrictions on use of report (if appropriate)

- 3.48. When the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, an installation restricting the use of the report should note this.

Conclusions and qualifications

- 3.49. This includes the auditor's opinion and any qualifications to that opinion. The opinion should be expressed accordingly to a 'limited' level of assurance engagement as defined by the Regulations.

- 3.50. In a limited assurance engagement, the opinion should be expressed in the negative form, for example for an unqualified opinion:

“Based on the work described in this report, nothing has come to our attention that causes us to believe that John Smith Plc’s reported data to Ofgem for the installation Smith Generating facility during the period of 1 April 2015 to 31 March 2016 is not accurate, in all material respects, based on XYZ criteria.”

- 3.51. There are times that it may be appropriate for the verifier to express a qualified opinion. This will be the case in circumstances where issues have been identified during the course of the verification, which whilst not sufficiently material as directly affecting the verification outcome are relevant to the manner in which the sustainability audit report has been prepared and should be viewed when read. A qualified opinion will be stated in the same manner as an unqualified opinion with the addition of “with the exception of X, Y and Z”.
- 3.52. Some examples of issues that could lead to a qualified opinion would be when FMS procedures for an installation have not been agreed with Ofgem, where the FMS procedures were agreed for part of the reporting period, when the site was non-operational during certain period (e.g. if the auditor was not able to reconcile opening and closing figures), where fuels were not used for heat generation for certain period or where the meter was out of routine calibration for certain months. Note that reports given with qualified opinions will be carefully assessed by Ofgem, particularly where a comment recurs year on year.

Details of the verifier and signature

- 3.53. A clear statement of the city or town where the verifier maintains the office that is responsible for the engagement must also be made. For example: “This report was prepared by Martin P of JJ Verifiers Ltd, London UK”.
- 3.54. The report should be endorsed either by the firm or by the lead verifier or technical reviewer themselves, as required by the verification body’s internal procedures.
- 3.55. While not a requirement, it is considered good practice under any auditing systems (e.g. ISAE 3000) to perform an independent technical review of the report. This would involve a second auditor who has had no involvement in the verification performing a final review of the report. If this review is conducted we recommend that the auditor says so in the report. Technical review is considered an essential part of many compliance audits, and improves the robustness of the audit process.

Relevant remarks

- 3.56. This section may include:
- details of the qualifications and experience of the verifier and others involved in the engagement
 - findings on particular aspects of the engagement

- recommendations, e.g. from the consideration of the sampling frequency and methodology or the robustness of data as mentioned in Regulation 36D³¹. It could also be any other recommendations which the verifier believes should be noted upon completing the engagement.

3.57. This section should be clearly separate from the verifier's opinion. It should be worded in a way that does not affect the verifier's opinion.

Other considerations

3.58. In addition to an assurance report, verifiers should consider the need to provide a more detailed report to the management of the reporting party (the participant). This report, which will be confidential between the verifier and the reporting party, may describe in greater detail the work undertaken by the verifier.

³¹The Renewable Heat Incentive Scheme (Amended) Regulations 2015, Regulation 36D(4)

Appendix 1 – Audit Report Checklist

This checklist has been developed to help allow both the verifier and the participant check that the sustainability audit report covers the relevant requirements. We consider that in addition to any responsibility held by the verifier - the participant has a responsibility to ensure they are satisfied the sustainability audit report meets the requirements of the regulations before submitting it to Ofgem.

Requirement

Checkbox

Title	<input type="checkbox"/>
Date	<input type="checkbox"/>
Addressee	<input type="checkbox"/>
Responsibilities of participant and auditor	<input type="checkbox"/>
Statement confirming ISAE 3000	<input type="checkbox"/>
Identification of the assessment criteria	<input type="checkbox"/>
Identification and description of subject matter	<input type="checkbox"/>
Risk and materiality assessment	<input type="checkbox"/>
Summary of work performed	<input type="checkbox"/>
Limitations (where appropriate)	<input type="checkbox"/>
Restrictions on use of the report (where appropriate)	<input type="checkbox"/>
Opinion (auditor’s conclusion)	<input type="checkbox"/>
Recommendations given, as appropriate	<input type="checkbox"/>
Details of the verifier and signature	<input type="checkbox"/>
Provision of data set (may be included under subject matter)	<input type="checkbox"/>
Consideration of accuracy and reliability	<input type="checkbox"/>
Consideration of controls to prevent fraud or error	<input type="checkbox"/>
Consideration of frequency and methodology of sampling	<input type="checkbox"/>
Consideration of data robustness	<input type="checkbox"/>

Appendix 2 – Data template

- 1.1 Participants are able to extract their fuel and sustainability data, as reported in their quarterly periodic data submission from the RHI Register. This data should be used to populate the data template below to form the basis of the dataset that needs to be provided to the auditor and included in the annual independent sustainability audit report.
- 1.2 To ensure the correct information is passed onto the auditor to verify and included in the annual independent sustainability audit report, the data should be presented in the two tables directly below.

1.3 In this example we have used a participant with a tariff anniversary date of 13 September 2016. Their audit report would be due within three months of 13 September 2016 and must cover the period of 5 October 2015 to 12 September 2016. The table in Part A indicates whether biomass fuel was used in each quarter and then the table in Part B lists the specific fuels used in each quarter that need to be included in the participant's first annual independent sustainability audit report. Note that the first quarter only considers fuels used on or after 5 October 2015 which is when the Sustainability requirements came into force.

Part A: Quarterly Biomass Usage

Start date	End date	Biomass fuel used?			If No or Not Applicable – state the reason
		Yes	No	N/A	
05/10/15	12/12/15	X			
13/12/15	12/03/16	X			
13/03/16	12/06/16			X	Installation offline for maintenance
13/06/16	12/09/16	X			

Part B: Quarterly Biomass Data

No.	Start date	End date	Consignment reference	Quantity		Fuel category	Meet Land Criteria?			GHG Emissions			Voluntary scheme
				Measure	Units		Yes	No	Exempt	Actual	Default	Except	
1	05/10/15	12/12/15	Woodchip - 1	350	Tonnes	Forestry residue ¹	X				29.4g CO _{2eq} /MJ of heat		N/A
2	13/12/15	12/03/16	Woodchip - 1	461	Tonnes	Forestry residue ¹	X				21.6g CO _{2eq} /MJ of heat		N/A
3	13/12/15	12/03/16	Straw – oilseed rape	133	Tonnes	Agricultural residue ¹	X			30.4g CO _{2eq} /MJ of heat			N/A
4	13/03/16	12/06/16	Waste wood	238	Tonnes	Waste ¹	-	-	X	-	-	X	-
5	13/06/16	12/09/16	Woodchip - 1	618	Tonnes	Forestry residue ¹	X				25.2g CO _{2eq} /MJ of heat		N/A

¹ Please refer to your Fuel Measurement and Sampling agreement email when entering the fuel category for the fuel used in a given quarter.

Appendix 3 – Glossary

B

BEIS Department of Business, Energy and Industrial Strategy

C

CHP Combined Heat and Power

D

DECC Department of Energy and Climate Change (from July 2016 the Department for Business, Energy and Industrial Strategy assumed the roles and responsibilities of the Department of Energy and Climate Change (DECC))

DNC Declared Net Capacity

E

EC European Commission

EU European Union

F

FMS Fuel Measurement and Sampling

G

GHG Greenhouse gas

I

IAASB International Auditing and Assurance Standards Board

ISAE International Standard on Assurance Engagement

N

NDA Non-disclosure agreement

NIAUR Northern Ireland Authority for Regulation

NIRHI Northern Ireland Renewable Heat Incentive

NUTs Nomenclature of Territorial Units for Statistics

O

Ofgem Office of Gas and Electricity Markets

R

RED Renewable Energy Directive

RHI Renewable Heat Incentive

RTFO Renewable Transport Fuels Obligation

S

SFM Sustainability Forest Management

SFR Sustainable Fuel Register