Renewable Fuels Agency

RFA Guidance for Verifiers

Renewable Fuels Agency

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The RFA is the UK's independent sustainable fuels regulator. Further information about biofuels in the UK can be found on the RFA website, www.renewablefuelsagency.org

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Preface

Purpose of the guidance for verifiers

This document provides draft guidance for verifiers in order to inform the verification process for suppliers' annual reports under the RTFO, due in September each year. This is in response to stakeholder feedback and requests for further guidance on the steps needed for verifiers and suppliers to meet the RFA's verification requirements. This document is aimed at verifiers for the RTFO C&S annual reports made by fuel suppliers to the RFA, though it may also be a useful resource for obligated and other reporting parties preparing for verification. It includes:-

- an overview of the purpose of verification;
- a description of the assurance process, including the key features of ISAE 3000 and the steps in an assurance engagement for RTFO C&S annual reports;
- the criteria for undertaking an RTFO assurance engagement;
- the testing procedures that will be required;
- the evidence that should be obtained;
- an overview of the main features of an assurance statement; and,
- a description of the competencies for verifiers.

Consultation

The RFA consulted publically on a draft version of this Guidance for Verifiers from 17 December 2008 for 8 weeks. This Guidance for Verifiers was published in May 2009 following further discussion of the responses to the consultation with a number of verifiers.

Acknowledgements

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Ecofys

Ernst & Young

Greenergy

Ineos

KPMG

Neste Oil

National Farmers Union

Oleochemical & Soap Industries (UK)

PricewaterhouseCoopers

ProForest

SGS

Shell

UK Petroleum Industry Association (UKPIA)

Vireol

1 Introduction

The UK's Renewable Transport Fuel Obligation (RTFO) imposes a legal obligation on suppliers of fossil fuel for road transport (obligated suppliers) to produce Renewable Transport Fuel Certificates (RTFCs) demonstrating that a specified percentage of the transport fuels supplied is from renewable fuels. It is a pre-condition of issuing an RTFC that the Renewable Fuels Agency (RFA) has received from the relevant reporting party a report detailing the carbon and sustainability (C&S) impacts of the biofuel supplied[1]. C&S information that reporting parties applying for RTFCs are required to report relate to:

- Fuel type;
- Biofuel feedstock;
- Feedstock origin;
- Standards (including supplementary checks where these have been performed);
- Land use on 30 November 2005.

These reports must be submitted monthly[2] and, at the end of each annual obligation period, reporting parties that have applied for 450,000 or more RTFCs must submit an annual report containing aggregated data and additional details of C&S performance. The RFA requires reporting parties to obtain independent verification (assurance) over these annual reports.

The RFA has developed a Technical Guidance document on Carbon and Sustainability reporting within the RTFO (C&S Technical Guidance), which provides details of the reporting requirements, including how and what reporting parties should report. The document includes a section on verification; however, following consultation with stakeholders, the RFA has decided to issue this Verifiers' Guidance document in order to provide further details on the RFA's verification requirements and the steps needed for verifiers and reporting parties to meet these requirements.

This document is supplementary to, and designed to be read in conjunction with, the C&S Technical Guidance. This document is aimed

[1] The RTFO requirements regarding C&S information provision are not just for obligated parties; other fuel suppliers wishing to claim RTFCs must also provide C&S data on the biofuels they have supplied. For further guidance regarding C&S reporting see the RFA C&S Technical Guidance.

[2] Certain suppliers are permitted by the RFA to report quarterly.

at verifiers of the RTFO C&S annual reports, though it may also be a useful resource for reporting parties preparing for verification. This document is a guidance document, not an assurance standard, and does not replace the need for users to familiarise themselves with relevant external assurance standards and methodologies.

Similarly, this document is not intended to provide details of all possible activities that verifiers may need to carry out in order to provide assurance. It is anticipated that reporting parties will appoint competent verifiers who are experienced in providing assurance over carbon and sustainability information. Rather, the intention of this document is to highlight the key requirements of the RFA in relation to assurance activities, and to describe the approach that verifiers should consider to address some of the issues that will be particular to the reporting of C&S information for biofuels.

This document is presented over seven sections:

i. An overview of the purpose of verification;

ii. A description of the assurance process, including the key features of ISAE 3000 and the steps in an assurance engagement for RTFO C&S annual reports;

iii. The criteria for undertaking an RTFO assurance engagement;

iv. The testing procedures that will be required;

v. The evidence that should be obtained;

vi. An overview of the main features of an assurance statement; and,

vii. A description of the competencies for verifiers.

2 The purpose and scope of verification

2.1 The purpose of verification

In order to provide the RFA with confidence in the reliability of the C&S information provided by reporting parties, the RFA requires the RTFO C&S annual reports to be independently verified. The C&S Technical Guidance states that reporting parties must provide an independent verification opinion (assurance statement) to the RFA by 28 September each year, and that reporting parties failing to provide this independent opinion may be subject to a civil penalty.

The C&S Technical Guidance describes the RFA's requirements in relation to the chain of custody systems that reporting parties should establish in order to provide C&S information in the monthly and annual reports. This includes guidance on responsibilities and procedures for each company in the chain of custody; information requirements for invoices or transfer documentation; and details of the records that should be kept by each company in the chain of custody.

The RFA's reporting requirements form the basis for verifiers' assessment activities, and reporting parties' chain of custody systems and processes will be tested through the verifiers' assurance activities. However, it is important to note that the purpose of verification is not to provide assurance on reporting parties' systems and processes for gathering and reporting C&S information. Assurance is provided on the information contained within the annual reports – inevitably this will involve testing the systems and processes that generated the information, but the systems and processes themselves are not the focus of the assurance opinion.

Verifiers are appointed by, and are responsible to, the reporting parties. Consequently, the assurance opinion is addressed to the commissioning authority – the management of the reporting party. However, in providing this assurance opinion verifiers need to be cognisant of the RFA's specific requirements.

2.2 The scope of verification

The core information in the RTFO C&S annual report consists of monthly C&S data aggregated over a single obligation period (15 April to 14 April), as amended by any variance reports received. The RFA also requires qualitative information about the operations of the reporting party. The RFA's requirements for the RTFO C&S annual report are set out in the C&S Technical Guidance, and include:

- a general introduction setting out the scope and context of the report and the overall approach and philosophy of the reporting party in sourcing renewable transport fuels;
- aggregate summaries of the C&S characteristics of the fuel supplied during the obligation period;
- reporting party information:
  - past year's and planned activities to improve the proportion of sustainably sourced feedstock and reduce average carbon intensity;
  - past year's and planned activities to support standard development for sustainable biofuel feedstock (membership of RSPO, RTRS, BSI, etc);
  - past year's and planned activities to promote feedstock production on idle land and, where possible, an indication of the volume of fuel originating from such idle land;
  - past year's and planned activities to improve the type of carbon data which is being used e.g. the different default values or actual data;
  - environmental management system certificates;
  - successful prosecutions for breaches of compliance with any environmental and/or social regulations related to biofuels activities;
  - existing verified environmental / corporate responsibility reports.
- Information on other parties within the supply chain:
  - where fuel suppliers have information on their main crop producers, information should be provided on the percentage of that company's total production which meets respected sustainability standards. If parties do not wish to disclose the identity of crop producers and intermediate processors, anonymous information can be reported. The information has to be verifiable by the verifier but the identity will not be published.
  - environmental management system certificates held, e.g. ISO14001;
  - successful prosecutions for breaches of compliance with any

environmental and/or social regulations related to biofuels activities.

The RFA C&S Technical Guidance provides guidance on the verification requirements for suppliers who submit annual C&S reports as part of the RTFO, and provides examples of good practice to assist with verification procedures.

The scope of the assurance opinion will relate to both the qualitative and quantitative information contained within the RTFO C&S annual report. The verifier should consider whether the qualitative information is consistent with the quantitative information including the implications for their assurance opinion.

3 An overview of assurance

3.1 ISAE 3000

Historically, external assurance has been primarily confined to an external audit of financial information; however, external assurance is increasingly being sought to build confidence in non-financial information, such as corporate responsibility / sustainability reports, and for the reporting of non-financial performance to regulatory authorities. The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) developed an International Standard on Assurance Engagements (ISAE 100), which was released in June 2000 and was designed to provide a basic framework for large scale audits concerned with non-financial data process monitoring. This was later replaced by ISAE 3000. Verifiers should refer also to the 'International Framework for Assurance Engagements', which is the foundation for ISAE 3000.

The IAASB state that the purpose of ISAE 3000 is:

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

ISAE 3000 is the Standard for non-financial assurance that the RFA requires verifiers to apply. The Standard, whilst developed to apply to a broad range of non-financial assurance engagements, sets out a number of specific requirements that verifiers must apply in the course of an assurance engagement. These include requirements on:

Engagement acceptance and quality control

This includes the requirement for verifiers to accept engagements only if they are satisfied that the personnel performing the engagement collectively possess the necessary professional competencies, and that an appropriate system of quality control is in place. Assurance providers are required by ISAE 3000 to maintain adequate documentation that meets professional standards.

Criteria for evaluating the subject matter

Verifiers are required to use criteria that:

- are relevant to decisions that may be made by users of the RTFO C&S Annual Report;
- provide a sufficiently complete evaluation of the key factors that may affect the report;
- are sufficiently reliable to allow a reasonably consistent evaluation when applied by different verifiers;
- enable neutral conclusions to be reached; and,
- are understandable to users of the RTFO C&S Annual Report.

Evidence

Verifiers are required to obtain sufficient appropriate evidence upon which to base their conclusions. Sufficiency is the quantity of evidence needed to reach a conclusion, and appropriateness is the relevance and reliability of this evidence.

Levels of assurance

Two levels of assurance are defined: limited and reasonable. The level of assurance relates to the level of engagement risk, with the level of risk being higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence gathering procedures.

Assurance statements

Minimum requirements for the content of assurance statements are provided by the Standard. Verifiers are recommended to familiarise themselves with the detailed requirements of ISAE 3000 prior to accepting an assurance engagement from a reporting party.

3.2 Levels of assurance

The RFA requires reporting parties to obtain a 'limited assurance' opinion on the RTFO C&S annual report. As noted above, ISAE 3000 provides for two levels of assurance: limited and reasonable. It is important that verifiers and reporting parties understand the differences between these two levels of assurance.

The level of assurance relates to the level of engagement risk, which is the risk that the verifier expresses an inappropriate

conclusion when there is a material error in the report. According to IAASB, engagement risk comprises of the following:

- Inherent risk: the susceptibility of information on a particular subject to a material misstatement, assuming that there are no related controls. An example of this might be land use information. This type of information can be difficult to support with appropriate evidence because it relies, in many cases, on information being passed correctly through the supply chain. Therefore, there is a higher inherent risk that land use information may be wrong as compared to some other forms of C&S information, such as feedstock type, for which appropriate evidence is more readily obtainable (see Section 6 for a further discussion of evidence).
- Control risk: the risk that a material misstatement that could occur will not be prevented, or detected and corrected, on a timely basis by related internal controls. Control risk may be determined by verifiers assessing the extent to which controls are in place across the chain of custody for the C&S information that is reported by reporting parties to the RFA. Where these controls are missing, immature, or are not subject to review (e.g. by internal audit), the level of control risk will be greater than for an area with established and regularly reviewed controls. Verifiers should note that some control risk will always exist no matter what control framework is in place, due to the inherent limitations of the design and operation of internal controls.
- Detection risk: the risk that the verifier will not detect a material misstatement that exists. Detection risk can arise if the scope of the verifier's activities does not enable a sufficient level of testing.

In a reasonable assurance engagement the level of assurance risk is reduced to a lower level than for a limited assurance engagement where, by its very nature, the type and extent of evidence gathering activities are limited. Nonetheless, it is important to note that limited evidence gathering does not mean that verifiers might not need to audit down the chain of custody to the same level of supplier organisation as they would for a reasonable assurance engagement. Traceability down the chain of custody to the source of C&S information is an RFA requirement and is not affected by whether a verifier is providing limited or reasonable assurance – the difference between reasonable and limited assurance is in the amount of evidence gathering that is done.

However, it is important to note that regardless of whether limited or reasonable assurance is being provided, if during the course of

an engagement the verifier becomes aware of an issue that may require a material modification to the report, ISAE 3000 requires the verifier to continue evidence gathering activities until sufficient information has been obtained to enable the verifier to draw a conclusion. For example, during sample testing a verifier may identify that traceability down the supply chain cannot be established for a certain type of C&S information (e.g. previous land use). The verifier would then need to use their judgement to determine whether further testing beyond the original sample would enable a conclusion to be made, or whether 'unknown' should be reported in relation to that particular type of C&S information.

For limited assurance engagements the assurance opinion is expressed in a different form than for reasonable assurance engagements. As limited assurance involves limited evidence gathering activities, and therefore a higher level of engagement risk, conclusions are expressed in the negative form, for example:

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

By expressing the conclusion in this manner, the verifier is being clear that the level of confidence users of the assurance statement place in the statement must be taken in the context of the nature and extent of evidence gathering that the verifier has undertaken.

A reasonable assurance engagement, on the other hand, involves significantly more extensive evidence gathering activities that reduce the level of engagement risk to a level whereby the verifier is able to express an opinion in the positive form, for example:

"In our opinion, the data in the report is fairly stated in all material respects."

This positive form of conclusion is intended to provide users of the assurance statement with a significantly higher level of confidence based on the nature and extent of evidence gathering activities undertaken by the verifier.

The decision to commission a limited or reasonable level assurance engagement requires a consideration of both the level of assurance engagement risk that is acceptable in order for assurance to be meaningful, and the resource commitments that a reasonable assurance engagement would require compared to a limited assurance engagement. As noted above, the RFA have determined that, for the commencement of the RTFO, limited assurance reduces engagement risk to an acceptable level for the RTFO C&S annual reports. This may be reviewed in the future.

3.3 The assurance process

Figure 1 below describes the four key steps involved in an assurance process for an RTFO C&S annual report.

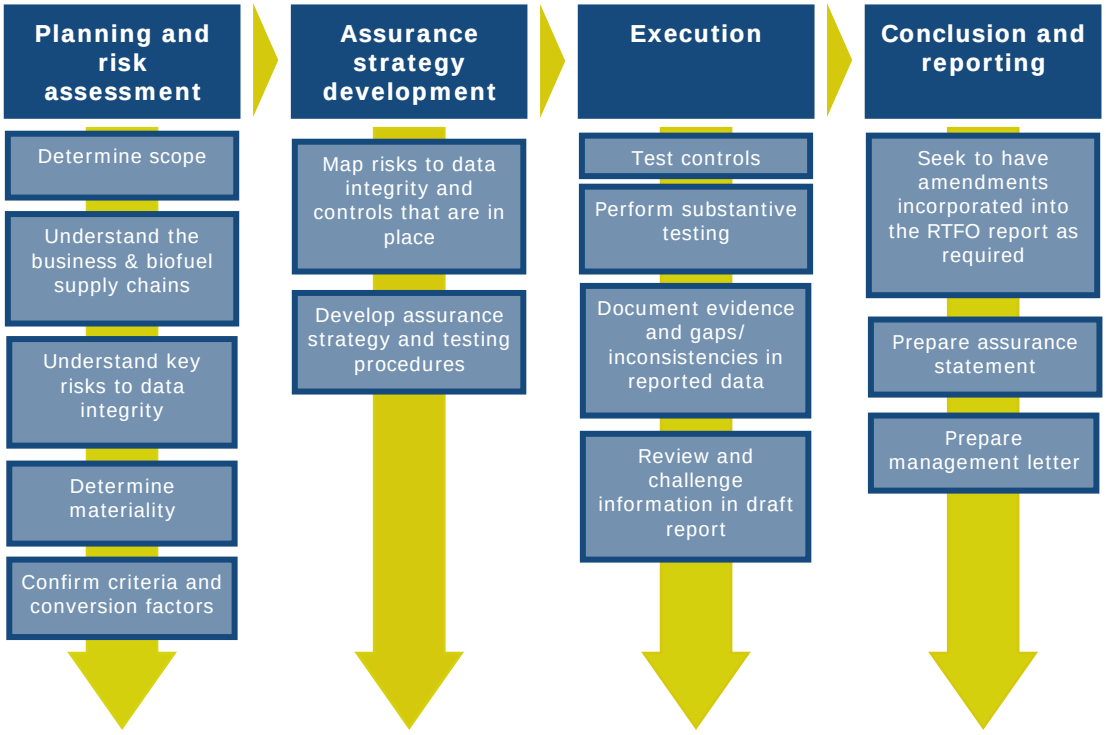

Figure 1 A typical assurance process for an RTFO C&S annual report

Source: Ernst & Young LLP

1. Planning and risk assessment

The first stage in the assurance process involves assessing the engagement risk and determining what assurance activities are likely to be required in order to reduce engagement risk to an acceptable level such that assurance conclusions can be provided. The verifier should engage with the reporting party in order to gain an understanding of the reporting party's activities and biofuel supply chain(s), for example, by reviewing the company's chain of custody mapping. This will include understanding the nature and extent of processes and controls to collect, collate and report C&S information to the RFA, identifying any known risks to data integrity (such as particular sources of information where the reporting party has doubts over the information reliability), and confirming what conversion factors have been used (if applicable). Using this information, the verifier will determine materiality in order to guide and inform the testing procedures that will be carried out. For further discussion on assessing materiality and

understanding processes and controls see Sections 5.1 and 5.3, respectively.

It is important that a risk based assessment is applied to verification. Feedstocks and claims should be more rigorously tested where:

- they could have more impact;
- there are weak audit and verification controls in place.

2. Assurance strategy development

The second stage is the design of the assurance strategy. This will involve verifiers mapping out the risks of C&S information being materially misstated in the annual report, based on the information gathered during the planning and risk assessment phase. Verifiers need to determine what tests they will need to carry out in order for assurance conclusions to be drawn against the criteria for the assurance engagement. Criteria are the benchmarks against which the C&S report will be assessed; suitable criteria for the C&S reports are described in Section 4.

During the planning and risk assessment phase, verifiers may have identified areas where the reporting party or its suppliers have put in place controls to mitigate risks of errors in C&S information that is provided in the annual report. Where these controls are in place, verifiers will develop testing procedures to enable them to determine whether the controls are working effectively and the verifier is able to rely on the controls. It is expected that substantive procedures should be undertaken on the data reported as well as controls testing. Further details on testing procedures are provided in Section 5.

3. Execution

The third phase is the execution of the testing activities. This will include testing controls for C&S information down the chain(s) of custody and performing substantive testing of the reliability of information provided where controls have not been developed or are not functioning correctly. The verifier will document evidence found during the testing process and identify where there are any material gaps or inconsistencies in the reported data. The verifier will also review and challenge the draft narrative report to consider whether qualitative claims about performance contained within the report are consistent with evidence observed during the assurance activities. Where qualitative claims are identified in the draft report that are inconsistent with the evidence obtained or the verifier's observations during the course of the engagement, verifiers will need to seek to obtain further evidence or have the claim(s)

amended. Section 6 of this document discusses the type of evidence that verifiers are likely to obtain in the course of an RTFO assurance engagement and some of the key considerations that need to be taken into account for different types of evidence.

4. Conclusion and reporting

In the final stage of the assurance process the verifier will discuss with the reporting party any proposed adjustments to the C&S data or qualitative performance claims that may be necessary for the final report. The verifier will then issue an assurance statement for inclusion in the final report, and may also provide a more detailed report to management that describes the strengths and weaknesses in the reporting party's processes for collecting, collating and reporting C&S information, and makes recommendations for improvements to these processes. Section 7 discusses some of the key requirements for assurance statements under ISAE 3000.

3.4 Respective responsibilities

The respective responsibilities of the RFA as regulator, the reporting party and the verifier are as follows:

- The nature, form and content of the RTFO C&S annual report by reporting parties are determined by the RFA as regulator;
- The directors of the reporting party are responsible for preparing the RTFO C&S annual report of the company;
- The responsibility of the verifier is to provide an independent limited assurance opinion addressed to the directors of the reporting party, in accordance with the International Auditing and Assurance Board standard ISAE3000.

4 Criteria

4.1 Criteria used by the reporting party

Criteria are defined by IFAC as the benchmarks used to evaluate or measure the subject matter of an assurance engagement including, where relevant, benchmarks for presentation and disclosure. The characteristics of suitable criteria are that they:

1) are relevant to decisions that may be made by users of the report;
2) provide a sufficiently complete evaluation of the key factors that may affect the report;
3) are sufficiently reliable to allow a reasonably consistent evaluation when applied by different verifiers;
4) enable neutral conclusions to be reached; and,
5) are understandable, being clear and comprehensive and not subject to significantly different interpretation.

ISAE 3000 requires that the verifier should assess the suitability of the criteria used by the reporting party to measure the subject matter. The criteria used by the reporting party to prepare the RTFO C&S annual report are set out in the RFA C&S Technical Guidance.

4.2 Assurance criteria

The RFA C&S Technical Guidance sets out the RFA's requirements for the reporting of C&S information and specifically states that:

"…the C&S data reported by the fuel supplier has to be traceable back to the party or parties who generated the information."

This requirement forms the key benchmark for verifiers evaluating the C&S information reported by reporting parties, and verifiers need to use assurance criteria that enable opinions to be provided against this benchmark. In addition, it is common practice in sustainability assurance to use assurance criteria that attest to the completeness of the reported information; the consistency of any methodologies used; and the accuracy of the collated information.

Assurance criteria are established as a basis for providing conclusions on the reporting party's application of the RFA C&S

Technical Guidance in preparing the RTFO C&S annual reports. Suggested assurance criteria for the verification of RTFO C&S annual reports are set out below.
These assurance criteria cover four 'themes':

1. the traceability of C&S information down the supply chain;
2. the extent to which the annual report provides complete coverage of the C&S information for the period;
3. the consistency of methodologies used in calculating actual carbon data and mass balances for feedstock types; and,
4. the accuracy of the reporting party's collation and reporting of C&S information.

Traceability

- Is the reported C&S information traceable back to the party or parties that generated the original source information through an appropriate chain of custody?
- Is sufficient and appropriate evidence available to support all reported information, both quantitative and qualitative?

Completeness

- Has C&S information been provided for each administrative batch?
- Does the annual report reflect the total volume of fuel reported on the RFA Operating System (ROS)?

Consistency

- Have consistent methodologies been followed for calculating and reporting actual carbon data?
- Are reported feedstock types for biofuel blends representative of actual feedstock types for the fuel supplied?

Accuracy

- Has the reported information been accurately collated?

Section 5 below provides further information on considerations verifiers will need to take into account when developing testing procedures that respond to these assurance criteria.

Not all these assurance criteria may be applicable for every RTFO assurance engagement (for example, not all reporting parties may use actual carbon data in reporting the carbon saving of the fuel supplied). Further, some verifiers may wish to consider additional assurance criteria.

5 Testing procedures

Verifiers will develop testing procedures based on the outcomes of the 'planning and risk assessment' phase of the assurance process, which will be designed to obtain sufficient appropriate evidence to enable the engagement risk to be reduced to a level whereby an assurance opinion can be provided.

An example of the data table that reporting parties should provide to summarise the feedstock mix and C&S characteristics of these feedstocks is set out in Table 5 of the RFA C&S Technical Guidance. This table has a different 'line' of data for each feedstock. Verifiers should expect to test, at some level, each material line of data in this table. This testing should consider, as a minimum, how the reporting party has collated the data from its monthly reporting into the table in the annual report. However, in itself this review of each line of data in the report is not anticipated to be a particularly significant component of the assurance process. The bulk of the assurance process will be the execution of testing procedures for specific aspects of the information included within the RTFO C&S annual report.

The exact testing procedures developed by a verifier will vary depending upon the nature of the reporting party's supply chains, the biofuel feedstock and the C&S information being reported. However, in designing these procedures there are common considerations that all RTFO verifiers should take into account.

These relate to:

- The materiality of reported information;
- The assurance criteria;
- The maturity of existing controls ;

These considerations are described in more detail below.

5.1 Materiality of reported information

Verifiers should use a risk-based sampling approach to testing procedures. In order for a limited sample of testing procedures to most effectively reduce the engagement risk, the testing procedures must be focused on those aspects of the report that could have the most significant impact for intended users of the report. Information becomes material if its presence or absence will

impact the decisions, actions or performance of the reporting party or its stakeholders (i.e. readers of the RTFO C&S annual report).

Materiality for the RTFO C&S annual reports will involve a combination of four key factors:

1. Biofuel volumes

A reporting party's annual report is likely to show that the total volume of biofuel supplied during the obligation period is made up of a number of different feedstocks, in varying proportions. Verifiers should ensure that testing procedures are carried out for those feedstock types that comprise the greatest proportion of biofuels supplied under the RTFO, as any errors within the reported information for these feedstocks will have the greatest impact on the accuracy of the overall report. For example, if the feedstock for 10% of the biodiesel supplied by a reporting party was palm oil, 70% was rapeseed and 20% was soy oil, it would be appropriate to undertake testing procedures on the C&S information provided for the rapeseed as in volume terms this is the most significant feedstock.

2. Carbon saving

As set out in the RFA C&S Technical Guidance, different combinations of feedstock types, origins and C&S information enable reporting parties to report different carbon intensities for the biofuel supplied using the RFA default values. As a key objective of the RTFO is to drive carbon reductions in the transport fuels supplied into the UK, an important feed into a verifier's assessment of materiality should include the carbon savings that the reporting party is claiming for the fuel supplied during the obligation period. Reported carbon savings should be considered separately from volume. For example, using the default values in the RFA C&S Technical Guidance a reporting party may be able to report particularly high carbon savings for some feedstocks compared to others, or a high level of carbon saving may be reported relative to the default values. In these circumstances, verifiers need to satisfy themselves that the calculation of those carbon savings is accurate even if other feedstocks which account for a greater proportion of the overall volume are not claimed to provide the same level of carbon saving. The reason for this is the importance of carbon information for users of the RTFO C&S annual reports and assurance statements, as this elevates the level of risk for the verifier should the information be misstated. Calculations of carbon savings include the use of default values as well as actual carbon data (in which case the verifier needs to determine whether the evidence that drives these calculations can be relied upon). Carbon savings calculations will also impact the accuracy level

reported; the verifier should also therefore determine whether an appropriate accuracy level has been reported for a particular batch of fuel. (See Sections 6.3, 6.6 and 6.6.67 for further information on the evidence for, and verification of, actual carbon data).

3. Sustainability risk

The reported sustainability characteristics of the biofuels supplied into the UK by a reporting party are a key feed into the verifier's assessment of materiality. As with carbon, sustainability risk needs to be considered separately from volume as some biofuel feedstocks have a significantly greater inherent sustainability risk than others. The determination of inherent sustainability risk will be down to the professional judgement of the verifier. However, these judgements need be guided by the consideration of the likelihood that production of a feedstock may typically be undertaken in a manner that is inconsistent with the seven environmental and social principles that form the RTFO Meta-Standard. The likelihood of inconsistency with these principles may be significantly impacted by factors including:

- The biome in which the feedstock is produced and, in turn, the biodiversity values and environmental sensitivities that may typically be associated with that biome;
- Socio-economic and political factors in the country/region where the feedstock is produced;
- The nature of the production process for the feedstock (e.g. extent of reliance on labour, potential for pollution of air, water or soil during production);
- The availability of operational certification schemes for the feedstock.

For example, the feedstock for the biodiesel supplied by a reporting party is 10% palm oil, 70% rapeseed and 20% soy oil, and the palm oil is reported as meeting an RTFO qualifying standard. It is likely that the verifier will judge palm oil to have a high inherent sustainability risk; therefore, it will be important that the verifier assesses whether there is sufficient appropriate evidence to support the reporting party's claim that it meets the qualifying standard.

If in this example the reporting party has purchased GreenPalm certificates, despite the environmental and socio-economic risk factors that can be associated with palm oil production, the verifier only needs to assess whether the Green Palm certificates are genuine, and cover the volumes purchased (see 6.2 below).

The inherent risk of material misstatement increases when field verification is undertaken outside of an operational certification scheme. If that was the case in the above example, it will be important that the verifier assesses whether there is sufficient appropriate evidence to support the reporting party's claim that the standard used in the field met the Qualifying Standard or Meta-standard requirements, that the results of the audit found field production met the requirements, and that the auditor(s) met the RFA audit norm. No assessment of the content of audit reports is necessary, as the audit norm serves as a proxy for audit quality.

4. Nature of the C&S information being reported

The C&S information being reported is an important consideration in determining materiality. For example, from a sustainability risk perspective palm oil will be considered a greater risk than rapeseed. However, if a reporting party is only reporting the feedstock type for both the rapeseed and the palm oil it sources, (leaving aside volume considerations) there is no reason for the reported information on palm oil to be considered more at risk of misstatement than the reported information for rapeseed.

Information that can be supported by evidence which is held directly by Reporting Parties or their direct suppliers for technical purposes (i.e. feedstock type) has a lower inherent risk than where the reporting party relies on information being passed accurately through the supply chain (i.e. land use, sustainability standards and actual carbon data).

Furthermore, the varying complexity of supply chains for different feedstocks may mean that the risks associated with certain C&S information becomes more material for some feedstocks than for others. For example, soy is the feedstock type that typically has the most complex supply chain, with the products from potentially hundreds, if not thousands, of individual farms being combined, via various intermediaries (such as storage, crushers and transportation) to an aggregator that then sells the soy oil onto the market. Therefore, if a reporting party is reporting C&S information for soy that has originated at the farm level, there is a greater risk of misstatement in this C&S information than there may be for the C&S information that has originated from the farm level of a different feedstock with a less complex supply chain, such as sugar beet. The inherent risk of information being misstated increases with the length and complexity of the supply chain, and in order for a verifier to judge this, they may need to rely on proxies such as the likely type of supply chain to be associated with a particular feedstock. In cases where the supply chain is likely to be complex, it will be important that the verifier assesses whether there is

sufficient appropriate evidence to support the Reporting Party's claim of origin.

Verifiers also need to consider the extent to which 'unknown' C&S information is reported to the RFA. Whilst it is not always practicable for verifiers to obtain evidence to prove a negative, in determining materiality verifiers need to be cognisant of areas where a reporting party may, intentionally or unintentionally, be reporting 'unknown' despite a particular piece of C&S information being verifiable. There is the potential for carbon savings that have been calculated using the default values in the RFA C&S Technical Guidance to be materially misstated where 'unknown' has been reported instead of the relative piece of C&S information, should that C&S information reasonably be available. For example, in the obligation year 2008/09, a reporting party reporting biodiesel with the feedstock 'unknown' would be able to claim a greater carbon saving than if the reporting party disclosed that the biodiesel feedstock was soy. Verifiers need to be particularly mindful of what information it is reasonable to expect that a reporting party will be able to obtain before forming conclusions about 'unknown' reporting. The verifier applies an attitude of professional scepticism and takes into account relevant information obtained through their other procedures. See Section 6 for a discussion of the relative availability of C&S information and how it can be evidenced.

Verifiers should consult with the reporting party when making their determination of materiality, but verification organisations retain the right to define the material issues for their testing procedures. This is a necessary part of maintaining independence from the reporting party.

5.2 Testing against the assurance criteria

Verifiers will need to ensure that testing procedures are designed to obtain sufficient appropriate evidence to enable a conclusion to be reached against each of the assurance criteria. Suggested criteria for the assurance of RTFO C&S annual reports are provided in Section 4 above. These criteria are divided into four 'themes'; for each theme there are considerations that verifiers will need to take into account in developing testing procedures:

1. Traceability

Access to the supply chain will be a key factor in determining the assurance conclusions that verifiers are able to provide. It is the RFA's expectation that reporting parties will engage with their suppliers to obtain access for their verifiers; however, in some instances there may be difficulties in obtaining this access, such as where rights of audit have not been written into contracts between the reporting party and their suppliers. In these instances, verifiers may not be able to obtain sufficient appropriate evidence that C&S information can be traced down the chain of custody to the originator of the information. The impact of this will be that certain C&S information may have to be reported as 'unknown' until the necessary information is available.

In developing procedures for assessing the traceability of reported information, verifiers need to be mindful of the complexity of the reporting party's supply chains. The complexity of biofuel supply chains varies significantly between different feedstocks and also between different reporting parties (though feedstock type is the more significant driver of supply chain complexity).

Figure 2 below provides examples of the types of assurance activities verifiers may seek to undertake down different levels of the supply chain. The C&S information that the reporting party has reported will impact upon how far down the supply chain the verifier will need to carry out assurance procedures. It will be important for verifiers to consider whether it is necessary to go down the full length of the supply chain to obtain evidence that supports the chain of custody from the source of the information up to the reporting party. For example, in order to determine country of origin for a feedstock there may be other stages in the supply chain, such as feedstock aggregators, where the verifier is able to determine that all feedstock from a given aggregator could only have come from the same country.

For some C&S information, such as feedstock type, verifiers may not need to go far down the supply chain to assess whether there is sufficient appropriate evidence of feedstock type, whereas for others, such as previous land use, verifiers may need to be able to trace the supply chain back to the level of the farm in order to assess whether there is sufficient appropriate evidence to support the Reporting Party's claim. To reach judgements such as these, verifiers will need to obtain a sufficiently in-depth understanding of the reporting party's supply chain.

Mass balance systems are designed to contain information about direct suppliers and direct customers only. Mass balance systems are not designed to trace back to a single farm or plantation,

instead a potential pool of tens or hundreds of farms or plantations can be identified by working backwards up the supply chain. As set out in the RFA C&S Technical Guidance, there is no requirement to pass physical evidence along the supply chain, and verifiers may expect to work back up the supply chain using chain of custody records. Sampling a proportion of mass balance systems at each stage in the chain, and ultimately a proportion of the potential pool of farmers and plantations would allow verifiers to express a level of confidence about the accuracy of the information reported by the reporting party. In practice, suppliers to Reporting Parties and their subsequent supply chains may not operate mass balance systems, in which case actual deliveries could be identified and traced back up the supply chain.

In certain circumstances verifiers may not need to test down a reporting party's supply chain in order to identify evidence of traceability of C&S information, provided that there are sufficient assurance mechanisms in place to enable a verifier to rely on this information. Suitable evidence for this is discussed in Section 6.

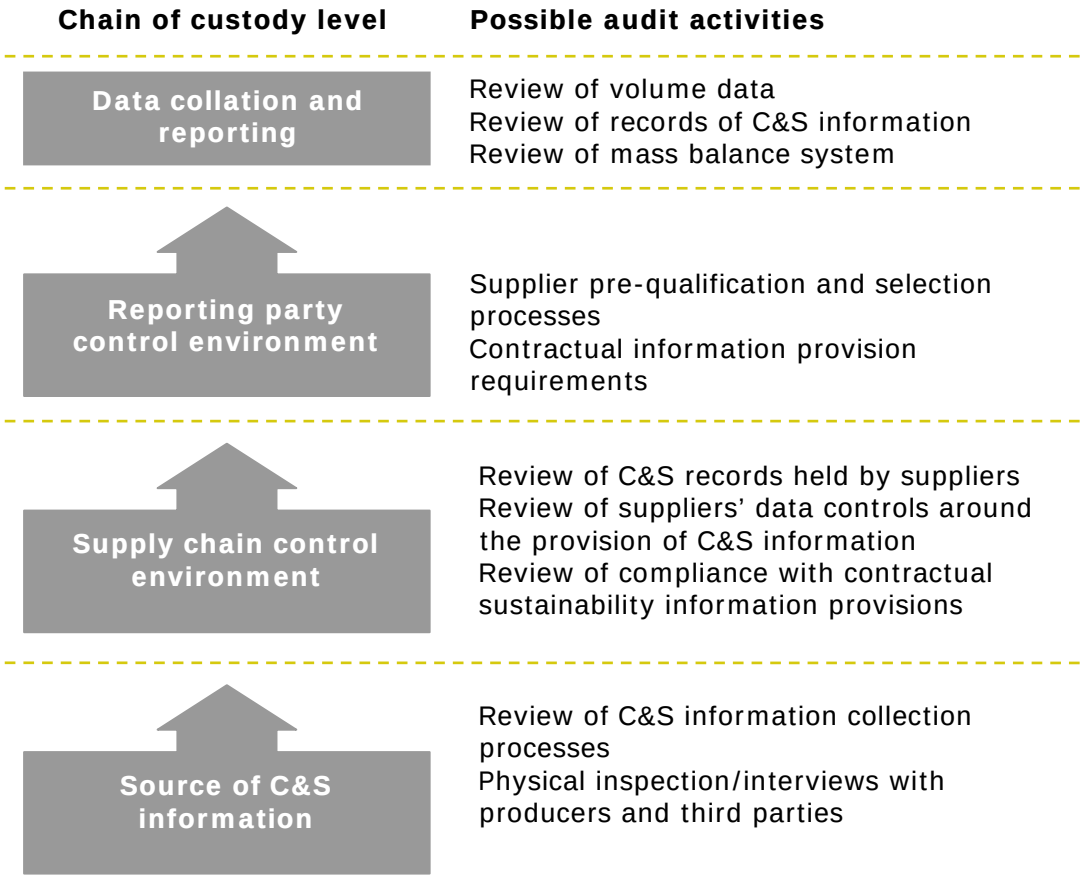

Figure 2 Potential assurance activities down the chain of custody

Source: Ernst & Young LLP

2. Completeness

Testing procedures for 'completeness' will focus on whether C&S information has been provided for each administrative batch of biofuel supplied during the obligation period, and on whether the reporting party has accurately collated feedstock volume data for the obligation period. Verifiers should assume that total bioethanol and biodiesel volumes reported into the RFA Operating System (ROS) are accurate, as the RFA already undertake their own checks on the accuracy of this data against that reported to HMRC. The RFA will check that the C&S data submitted in the RTFO C&S annual report to the RFA is the same as that in ROS.

Instead, the focus should be on the accuracy of the volume split by feedstock type, and the reporting party's conversion of data from the monthly reporting format to the annual report. For example, if a reporting party has claimed that 30% of the soy oil supplied during the year meets an RTFO qualifying environmental standard, the volume of soy oil reported on ROS as meeting a qualifying environmental standard needs to be 30% of the total volume of soy oil supplied. Similarly, if a reporting party has reported that feedstock for 10% of the total biodiesel supplied in the obligation period was palm oil and, of this, C&S information was provided for 30% of the palm oil supplied, the verifier should be able to re-perform calculations based on the data in ROS and produce the same result. Verifiers need to satisfy themselves that they are able to provide conclusions against the completeness assurance criteria, but should be aware that the RFA also intends to undertake this type of testing itself on the data held within ROS.

3. Consistency

Where reporting parties have used actual carbon data in their C&S reporting, rather than the RFA default values, verifiers will have to develop testing procedures to satisfy themselves that consistent methodologies have been used in collecting and reporting carbon data, and applying this data to the carbon intensity of the relevant feedstock. Verifiers should refer to Part Two of the RFA C&S Technical Guidance: 'Carbon reporting – Default values and fuel chains' for appropriate methodologies for applying actual carbon data to feedstock carbon intensity. Suitable evidence for actual carbon data is discussed in Sections 6.3 and 6.7 of this Verifiers' Guidance.

Verifiers' testing procedures will also need to test that a reporting party has consistently applied the RFA's requirements in relation to proportionate feedstock reporting. As described in the RFA C&S Technical Guidance the RFA requires the feedstock type for biofuel blends to be consistent with the actual feedstock type supplied.

For example:

- Company X supplies 100 litres of biodiesel to Customer A and 100 litres of biodiesel from the same tank to Customer B;
- The biodiesel is made with 50/50 rape and palm;
- Company X have RSPO certificates for 50% of the palm and ACCS certificates for 50% of the rape;
- Company X can sell the 100 litres of biodiesel with RSPO & ACCS certificates for all of that fuel to Customer A, provided that they make no such claims about the 100 litres of fuel sold to Customer B (no double counting);
- Company X cannot say that the 100 litres of biodiesel to Customer A is all rape, and the 100 litres of biodiesel sold to Customer B is all palm.

Verifiers' testing procedures will need to allow a conclusion to be reached on whether the reporting party has correctly implemented the RFA's requirements, as illustrated in the example above.

4. Accuracy

Testing procedures in respect of the accuracy of the collated information will primarily be focused on the systems, processes and controls used by the reporting party in collating information for the RTFO C&S annual report. This will be informed by the maturity of the controls (see below) and will also include an element of recalculation to verify the accuracy of reported data. The amount of recalculation required is likely to be informed by the effectiveness of the reporting party's control framework.

An additional accuracy test relates to the use of conversion factors as feedstock moves up the supply chain. As set out in the RFA C&S Technical Guidance, reporting parties are required to maintain records of conversion factors where appropriate to the information being reported. These factors may relate to the conversion of inputs to outputs (e.g. rapeseed to rapeseed oil) and would be relevant to the assurance process when C&S information is being tracked on a mass balance basis from the farm upwards along the supply chain. For example, if a reporting party was claiming that a certain quantity of biodiesel from soy had been sourced from a farm that had been independently audited against the Meta-standard, the verifier would need to determine that the quantity of soy oil reported as meeting the Meta-standard was consistent with the quantity of soy beans sourced from the farm.

Verifiers will need to establish whether conversion factors are relevant for the information they are reviewing and, if necessary, develop testing procedures that enable the verifier to determine if

an appropriate methodology has been followed for calculating conversion factors.

5.3 The maturity of existing controls

During the 'Planning and risk assessment' stage of the assurance process verifiers will need to obtain an understanding of the nature and extent of the control framework for C&S information that is in place within the reporting party and down its supply chain(s). Where controls are in place, verifiers will need to develop procedures to test the effectiveness of these controls. Where information is being provided, but no controls are in place, verifiers will need to develop procedures for substantive testing to understand the reliability and accuracy of this information.

There are three main categories for the controls over C&S information that may be in place:

1. Internal assurance mechanisms

Some reporting parties may have established an internal audit process for reviewing and challenging the processes and controls around C&S information. This may be focused just on the reporting party's internal systems and processes, or it may extend to supply chain audits. Similarly, suppliers to the reporting parties may have their own internal assurance mechanisms that they are prepared to share with verifiers. Where internal assurance mechanisms are in place, verifiers will need to develop testing procedures to assess the reliance that can be placed on the outputs of the internal assurance (e.g. audit reports). Where such internal assurance mechanisms are mature and functioning effectively, verifiers may be able to place a significant degree of reliance on the outputs of this assurance. However, where such systems are relatively immature or are not functioning effectively, verifiers will be unable to rely on the assurance outputs and will have to undertake substantive testing in order to obtain sufficient appropriate evidence.

2. Documentation to support C&S claims

Documentation to support C&S claims, such as declarations from suppliers or requirements written into suppliers' contracts, is a form of control over C&S information used by many reporting parties. Verifiers need to understand the availability of this documentation across the reporting party's supply chains, and develop procedures to assess the reliability of such documentation and determine whether it provides sufficient appropriate evidence

to support the C&S information being provided, or whether further substantive testing is required. Supplier declarations are discussed in more depth in Section 6.4.

3. External assurance mechanisms

The third category of controls that reporting parties may have over C&S information is external assurance. External assurance may be provided in the form of certificates from an RFA-defined qualifying or benchmarked environmental or social standard (such as RSPO) or it may be in the form of a third party audit over aspects of the supply chain. Verifiers should not seek to duplicate other forms of external assurance that an organisation has in place, though they do need to develop procedures that enable them to test whether the third party assurance can be relied upon. Further information is provided in Section 6.

The reliance that verifiers place on existing controls over C&S information needs to be considered in the light of the materiality of that information and the inherent risks of misstatement. It is a verifier's professional judgement whether or not a control can be relied upon – this judgement needs to be made following a consideration of the evidence that a control is effective. The next section of this document discusses evidence. Verifiers need to ensure that where a reporting party's controls over C&S information have been relied upon, this is transparent in the assurance statement.

6 Quality and nature of evidence

As noted above in Section 5.3, ISAE 3000 requires verifiers to obtain sufficient appropriate evidence upon which to base their conclusions. Sufficiency is the quantity of evidence needed to reach a conclusion, and appropriateness is the relevance and reliability of this evidence. The Standard states that verifiers must use their professional judgement and exercise professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance conclusions.

It may be appropriate for assurance providers to consider the reporting entity's governance activities around the RTFO C&S annual reporting, for instance, board and audit committee review and approval.

Evidence will be assessed based on its nature and source. Some sources are more reliable than others, for example:

- Audit evidence from independent external sources (e.g. third party auditor or research body) is more reliable than that generated internally by the reporting party or its suppliers;
- Evidence in the form of physical (visual) verification is more reliable than documentary or oral representations;
- Evidence in the form of documents and written representations is more reliable than oral representations;
- Evidence is more persuasive when items from different sources or of a different nature are consistent.

For the RTFO C&S annual reports, verifiers will be seeking evidence that supports the volume of biofuels that the reporting party is reporting and the C&S characteristics of these biofuels.

The RFA C&S Technical Guidance specifies the C&S information that reporting parties are required to report for each administrative batch:

- Fuel type;
- Biofuel feedstock;
- Feedstock origin;
- Standards (including supplementary checks where these have been performed);
- Land use on 30 November 2005.

Verifiers should expect to find that evidence for some of this information is easier to obtain than for others. Evidence for fuel type and biofuel feedstock should be readily obtainable, as this is commercial product information that describes the nature of the biofuel that is being produced, traded or purchased and is essential for the biofuels market to function. Information on feedstock origin, however, may be more challenging to obtain as historically the participants in the biofuels market have been primarily interested in product specification and quality, and the country of origin has not been seen as an important factor for globally traded commodities. In response to requests from customers, fuel suppliers are establishing systems to provide country of origin information, but verifiers should expect to be required to carefully assess the reliability of evidence provided for claims of country of origin.

For RTFO C&S annual reports submitted in 2009, the majority of sustainability standards accepted by the RFA are (at the time of writing) either in their infancy or still under development. Consequently, in the early stages of the RTFO it is also unlikely that verifiers will be regularly faced with the need to obtain evidence of independent field audits of feedstocks against the gap criteria between a qualifying or other benchmarked standard and the RTFO meta-standard. Finally, verifiers should expect to find that evidence of previous land use will be difficult to obtain, and where previous land use has been reported verifiers will have to carefully consider the validity of this evidence. Suitable evidence is discussed in more detail below.

6.1 Contracts, transport documentation and technical testing

On receipt of biofuel deliveries, reporting parties usually perform tests of the feedstocks for conformance with required physical and chemical properties. These tests may provide additional evidence about the type of feedstock and the percentage split for mixed feedstocks.

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

Verifiers should expect to be able to obtain bills of lading for all biofuels and feedstocks that have been shipped into the UK. Bills of

lading will describe the fuel type and should also describe the feedstocks for blended biofuels. Reporting parties should also be able to provide contract documentation that describes the biofuel that the supplier was contracted to supply, and links to the bill(s) of lading that prove the specified biofuel was supplied.

Feedstocks produced within the UK (e.g. oilseed rape, tallow, used cooking oil) may not have bills of lading, but there should be equivalent contractual and transportation documentation that provides evidence of product type, quantity, delivery route and date of delivery.

The information from bills of lading and related documentation will normally be tracked on a reporting party's data systems linked to the company's processes for financial transactions. Verifiers should establish, through making due enquiries of management, whether these systems and processes are subject to audit and review, for example, by the company's financial auditors. In many cases verifiers may find that this is the case and the systems and processes for recording biofuel procurement activities are functioning properly. Verifiers need to clearly state in the 'limitations' section of the assurance statement where reliance has been placed on such systems and processes without testing them as part of the RTFO assurance activities.

Two forms of corroborating evidence will usually be required to confirm biofuel type, feedstock type and associated volume split where relevant for mixed cargoes, including contracts, transport documentation and/or technical testing results. Taken together, contracts and bills of lading (or related documentation) should be sufficient evidence for biofuel type and feedstock type. Verifiers will need to satisfy themselves that the systems and processes for collecting and collating this information for the monthly reports to the RFA are functioning properly. Biofuel volume data from bills of lading should be consistent with the data in the monthly reports. Reporting parties may have a separate system for preparing the ROS reports, for example a database that is populated with information obtained from the procurement department. Where this is the case, verifiers should expect to test the reliability of such systems (for example, confirming that the database has been accurately populated).

6.2 Certificates

Where a reporting party has reported feedstock meeting a qualifying or benchmarked environmental or social standard which is part of an operational certification scheme (as defined in the RFA

C&S Technical Guidance) verifiers should look for two types of evidence. First of all, the claim of the reporting party must be traceable back to the feedstock producer (e.g. farm). For this purpose the verifier should look for evidence for the reliable functioning of the Chain Of Custody (COC) throughout the supply chain (see also Section 5.1 and Section 6.1). In addition, the verifier should look for evidence that the feedstock producer is indeed certified by the certification scheme that is claimed by the reporting party. For this purpose the RFA C&S Technical Guidance states that certification is proof of compliance with the criteria of that standard, so verifiers need only satisfy themselves that the producers' certificate is genuine and that the volumes that have been reported as certified have been reported correctly (including any conversion factors in the supply chain).

If the COC system has been approved by the RFA, then the verifier only needs to obtain evidence that the certificates claimed by the reporting party were indeed issued by the owner of the COC-system. For example, if a reporting party has reported 100,000 litres of FAME from Roundtable on Sustainable Palm Oil (RSPO) certified palm oil through the GreenPalm book and claim system, there should be GreenPalm certificates for the same volume (including conversion factors). Currently GreenPalm is the only COC system approved by the RFA and verifiers should expect to have to look for additional evidence for the reliable functioning of the COC in case other COC systems are used.

Verifiers should note that if a certificate has been purchased by a reporting party from a book-and-claim chain of custody system, such as GreenPalm, the sustainability claims made by a reporting party need not relate directly to the physical feedstock. Equally, in a mass balance system, the certified volume purchased by a reporting party need not relate directly to the physical feedstock reported, but certified volumes claimed must be equal to the number of certificates held. Further details are provided in the RFA C&S Technical Guidance.

A statement from a supplier that a feedstock has been produced 'in accordance' with a qualifying or benchmarked standard is not sufficient evidence of compliance with the relevant standard, unless a third party audit report is also available as confirmation (see below). The scope of this third-party audit report should in this case minimally cover the traceability of the sustainability claim to the feedstock producer and the actual certification of this feedstock producer against the standard claimed by the supplier.

For the 2009 RTFO C&S annual reports, verifiers should anticipate that the only qualifying standards for which certificates are available are likely to be the Assured Combinable Crops Scheme

(ACCS) and possibly a small amount of RSPO. Some benchmarked standards, such as Qualitat and Sicherheit, may also be claimed. Consequently, in the first year of RTFO C&S annual reporting verifiers should anticipate that only certificates from these schemes will be presented as evidence of compliance with a qualifying or benchmarked standard. Over time, it is anticipated that there will be an increase in the availability and use of standards and therefore an increased use of certificates as evidence.

6.3 Independent verification

Third party audits

Evidence of third party audits may be provided in a number of circumstances.

These include:

- as evidence of a feedstock being produced 'in accordance' with a benchmarked or qualifying standard currently under development;
- as proof of compliance with 'gap criteria' between a benchmarked and qualifying standard; as proof of compliance with the Meta-Standard;
- as evidence for the use of actual carbon data; or
- as evidence that a supplier's C&S information can be relied upon in a chain of custody.

The latter is discussed below under 'Supplier declarations'. For the other circumstances in which evidence of a third party audit may be provided, verifiers need to be cognisant of the RFA's requirements which are set out in the RFA C&S Technical Guidance and detail the necessary third party auditor competencies and accreditations. For certain qualifying or benchmarked standards that are not yet fully operational, the RFA C&S Technical Guidance also specifies additional criteria for the feedstock producer. For example, in order to claim that soy production meets the standards of the Basel criteria, the RFA requires the feedstock producer to be a member of the Roundtable for Responsible Soy or an equivalent organisation.

In order to rely on third party audits, verifiers will need to review proof of relevant accreditation against a qualifying standard, or if the auditors are not accredited, proof of conformance with 'Major Must' criteria in the proposed RFA 'audit norm' and ensure that there is evidence of successful audits that relate to the appropriate

administrative batch. Verifiers will need to ensure that the farms that have been audited are linked, through a chain of custody which meets the RFA requirements set out in the RFA C&S Technical Guidance, to the feedstock that is being claimed to meet the qualifying or benchmarked standard, and that the audit reports demonstrate that the farms met all the necessary criteria of the relevant standard.

Third party auditors may be used to provide evidence that enables a reporting party to use actual carbon data to report the carbon savings of certain feedstocks. For example, a supplier within a reporting party's supply chain may have obtained data on the carbon emissions associated with their oilseed crushing or biofuel conversion plant. In order for the reporting party's verifier to rely on this carbon data, the verifier would need to get comfort that the data was accurate. This could be achieved by the reporting party's verifier testing the data directly, or by the verifier relying on the opinion of a third party auditor. Clearly, having the reporting party's verifier test the accuracy of the supplier's carbon data would significantly increase the verification workload. Further, from the perspective of the supplier this may not represent an efficient use of resources as if they supply other reporting parties, potentially the verifiers for these reporting parties may also need to audit the carbon data, subjecting the supplier to multiple audits. So obtaining a third party audit of carbon data is likely to be an attractive option for both the reporting party and the supplier, provided verifiers are able to rely on the work of the third party carbon audit.

The RFA C&S Technical Guidance does not set out specific requirements for auditors of carbon data. Suitable indicators of the competency of an auditor to provide assurance over carbon data may include:

- The auditor is accredited to issue annual GHG emission opinions under the EU Emissions Trading Scheme;
- The auditor meets the requirements for organisations that validate or verify GHG emission assertions or claims, as set out in ISO 14065;
- The auditor has experience of issuing public assurance statements on an organisation's GHG emissions in accordance with a recognised assurance methodology standard (e.g. ISAE 3000).

Verifiers need to clearly state in the 'limitations' section of the assurance statement where the work of third party auditors has been relied upon (see Section 7)

Second party verification

As noted above, third party audits must be used for field audits where a reporting party intends to report 'qualifying standard' and 'meta-standard'. However, for other aspects which a reporting party reports on, second party audits may also be appropriate in some cases. Second party checks could be used to verify land use, undertake supply chain work to verify country of origin, to check specific actual carbon data such as transport distances or to confirm that all field production of a supplier had been audited by a third party who meets the RFA audit norm, for example. A second party audit may include checks on suppliers, which the reporting party undertake themselves or hire experts to undertake on their behalf. It will be important for verifiers assessing evidence provided by second parties to consider the appropriateness of the methodology used and the experience or qualifications of the person/organisation undertaking the checks. It will also be important to consider the relationship between the individual or organisation undertaking the checks, the supplier and the subject matter of the checks. The level of independence required for undertaking credible checks will vary based on risk, including the complexity of information being checked.

6.4 Supplier declarations

As discussed in Section 5.3, declarations from suppliers on the C&S characteristics of a biofuel feedstock, supported by contractual obligations upon suppliers to provide such information, are a means of obtaining and maintaining control over C&S information that are used by many reporting parties. The availability of such declarations is likely to increase over time as more companies seek to obtain C&S information from their biofuel suppliers in response to evolving legislative requirements.

Whilst these declarations can be an important means of obtaining C&S information for the reporting party, verifiers should treat such declarations with care. The level of evidence required will depend on the characteristic of the fuel that is being tested. A supplier declaration in itself is unlikely to be sufficient evidence and should be supported by other corroborating evidence. Controls over non-financial information are frequently not as well established as controls for financial information may be and, in the attitude of professional scepticism required by ISAE 3000, verifiers must not assume that a contractual requirement for a supplier to provide C&S information to a reporting party means that the information is reliable. Similarly, as the RFA requires C&S information to be

traceable back to the source of that information a declaration from a supplier may, on its own, be insufficient evidence of chain of custody.

In order to rely on supplier declarations, the verifier will need to assess and have confidence in the control framework that is in place. In reviewing the controls framework verifiers should consider:

- **Supplier selection**

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

- **Contractual requirements**

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

- **Internal assurance mechanisms**

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

- **External assurance**

External assurance over supplier declarations is likely to play an important role in enabling suppliers to demonstrate the reliability of the C&S information they provide to their customers. Potentially, verifiers for the reporting parties could rely on supplier declarations without carrying out substantive testing further down the supply chain, provided the supplier's assurance is sufficiently robust. There will be significant drivers for some suppliers to obtain this assurance, as if a supplier supplies biofuels to a number of reporting parties they could be subjected to multiple audits from the verifiers to the reporting parties. Suppliers may also see a

competitive advantage in being able to demonstrate the reliability of the C&S information they provide to their customers.

For external assurance over supplier declarations to be credible enough for verifiers to rely upon, the external assurance needs to:

- involve the assurance provider testing (on a sample basis) that C&S information is traceable back to the party or parties that generated the original source information through an appropriate chain of custody;
- have involved the assurance provider testing C&S information relevant to that being provided by the supplier to the obligated party;
- be provided by an assurance provider working to the same standards as the RTFO verifiers (i.e. assurance using ISAE 3000);
- have been provided by an assurance provider with experience in providing assurance over carbon and sustainability information, and in working with agricultural supply chains.

Verifiers to the reporting parties will need to obtain the assurance statements provided by the supplier's external assurance provider and understand the scope of the assurance activities. As noted above, verifiers will also have to be clear in their assurance statement where they have relied upon the work of others.

In seeking to understand the sufficiency of a supplier's control framework around C&S declarations, verifiers should also consider how the nature of the supplier's activities will impact upon the control framework that is necessary. For example, if the supplier providing a declaration of C&S information is a biofuels trader, the nature of the control framework that would need to be in place for the declaration to be reliable would be different from that required if the supplier was a commodity producer with direct access to farms. Similarly, different feedstocks may require different control frameworks, depending upon the complexity of the supply chains.

6.5 Management representations

The need to obtain management representation letters from the preparers of the RTFO C&S annual reports is fundamental to reinforcing management's responsibility for preparing data that meets the RFA's requirements. However, management representations are not a substitute for obtaining sufficient appropriate evidence where it is efficient and effective to do so.

6.6 Using the work of other auditors

When using the work of other auditors, the key considerations are:

- Is the subject matter appropriate for the needs of the reporting party's verifier?
- Has the supplier's auditor used the same assurance criteria as the reporting party's verifier?
- Do the assurance conclusions provide sufficient information to mitigate the need for further testing?
- Is the assurance being provided by a suitably competent organisation?

6.7 Other forms of evidence

First-hand evidence, such as interviewing personnel, observing processes and controls and, potentially, physical inspections, are all important sources of evidence. Interviews and observations of processes and controls are likely to form part of the evidence gathered for every RTFO assurance engagement as, at a minimum, verifiers will need to understand the reporting party's business and its processes for collecting, collating and reporting information to the RFA. Physical inspections may be required for certain information where documented evidence can not be passed up the chain of custody, an example might be examining local land use records and speaking to local community members to determine the previous land use of an area.

Other forms of evidence may be available. For example, these could include research reports produced by independent third parties that support a claim being made by a reporting party. This might relate to an assertion that a biofuel feedstock sourced from a particular area had all originated from that area, or it may relate to the previous land use of a certain area. Where such evidence is being provided of previous land use, this is only likely to be appropriate if the area in question is not one where there are risks of land use conversion for feedstock production.

Evidence may also be provided for actual carbon data. As discussed above (Section 6.3), organisations that supply actual carbon data may have obtained external verification of carbon emissions that the verifier to the reporting party can rely upon. However, if this is not available the verifier will have to review supporting evidence. The RFA C&S Technical Guidance states that there are three key

areas that have the most influence on carbon intensity and that companies should therefore focus data collection efforts on, in order to calculate an actual carbon intensity:

Crop production

- Nitrogen fertiliser application rate;
- Crop yield and moisture content;
- Fuel consumption for cultivation.

Feedstock and liquid fuel transport

- Transport distances.

Conversion (either biofuel conversion or oil seed crushing)

- Yield;
- Fuel demand;
- Electricity demand;
- Co-product treatment.

Across these areas there is a large amount and variety of evidence that may be required in order to rely upon actual carbon data, and it is not within the scope of this document to discuss this. If faced with verifying actual carbon data, verifiers will need to consider whether they have the necessary expertise to verify such information and, if not, they can either consider partnering with an appropriately competent organisation or will only be able to provide assurance relating to the reporting party's use of default values for carbon emissions.

7 Assurance opinions

ISAE 3000 sets out the required content for assurance statements – verifiers will need to familiarise themselves with these requirements and ensure that their assurance statements comply with the Standard. This includes requirements to describe:

- **A title and addressee**

The title should clearly indicate that the statement is an independent assurance statement. The addressee is the party or parties to whom the statement is addressed – this will be the management of the reporting party, as it is the management of the reporting party who have commissioned the verifier.

- **Subject matter**

The assurance statement should state that the verifier's responsibilities were to provide assurance conclusions on the RTFO C&S annual report for the relevant obligation period. Verifiers should be clear that it is the report that is being assured, not the reporting party itself or its systems and processes.

- **Criteria**

The assurance report identifies the criteria against which the subject matter was evaluated and will refer to the RFA C&S Technical Guidance as the source of the criteria used by the reporting party to prepare the RTFO C&S annual report.

- **Limitations**

This section provides a description of any inherent limitations, such as the extent of evidence gathering activities and where the work of third parties was relied upon.

- **Work performed**

A description of the assurance activities should be provided. This needs to be sufficiently detailed for readers of the assurance statement to readily understand what work the verifier performed.

- **Assurance conclusions**

A conclusion is needed to confirm compliance with the RFA C&S Technical Guidance.

Conclusions will be provided against the assurance criteria. The language used must be appropriate to either a limited or reasonable assurance engagement.

There are two circumstances where verifiers should provide a qualified conclusion(s). Firstly, if despite engagement with the reporting party to discuss issues with the draft report, information in the final report is materially misstated. Secondly, if following the completion of testing procedures the verifier has not been able to obtain sufficient appropriate evidence for a subject area to enable an assurance opinion to be provided and 'unknown' has not been reported.

In the early stages of RTFO C&S annual reporting it is likely that 'unknown' reporting will be more common than qualified conclusions in the event that evidence cannot be obtained to support reported C&S information. However, as the RTFO becomes more established and the RFA tightens requirements on the levels of data reporting of biofuel characteristics, qualified conclusions may become more common against some of the criteria in the event that reporting parties' processes for C&S reporting have not evolved sufficiently to meet the RFA's requirements.

Reporting parties are responsible for ensuring that the verifier's assurance statement is included within the RTFO C&S annual report. However, the content of the assurance statement is the sole responsibility of the verifier.

In addition to an assurance statement, verifiers should consider the need to provide a more detailed report to management of the reporting party. This report, which is confidential between the verifier and the reporting party, will highlight any material weaknesses in the reporting party's systems and processes that the verifier has observed during the course of the engagement and may suggest areas for improvement, as appropriate.

8 Appointing a verifier

It is the responsibility of the reporting party to appoint a suitably qualified verifier. Verifiers are expected to be competent to determine sustainability risk, and should be prepared to demonstrate their competencies to reporting parties as part of the appointment process. Indicators of competency may include:

- Experience of carrying out ISAE 3000 assurance engagements;
- Experience of working with agricultural supply chains;
- Experience of providing external assurance over carbon and sustainability information.

Verifiers need to be demonstrably independent from the information they will be reviewing. For example, if a verifier has worked with a reporting party to design and/or implement controls over carbon and sustainability information, that verifier cannot be considered sufficiently independent to provide external assurance over that subject matter. The verifier should have a system in place to identify threats to independence and ensure appropriate safeguards to ensure independence.

As stated in the RFA C&S Technical Guidance, it is important for reporting parties to engage verifiers as early as possible in the process. Reporting parties should also consider whether their audit committee will wish to review the assurance report and, if so, factor this into the reporting timetable.

Annex A Version history

A.1 Version 1.0

Version 1.0 published on the RFA website in May 2009. This version includes feedback from the C&S consultation of 17th December 2008 to 12th February 2009.