

**Environment and Sustainability –
Carbon Reduction Commitment (CRC) Scheme
City of York Council
Internal Audit Report 2013/14**

Business Unit: Carbon Management/Environment and Sustainability
Responsible Officer: Assistant Director, Development Services, Planning and Regeneration
Service Manager: Carbon and Energy Manager
Date Issued: 06/03/14
Status: Final
Reference: 10530/005

	P3	P2	P1
Findings	0	3	0
Overall Audit Opinion	Limited Assurance		

Summary and Overall Conclusions

Introduction

The CRC (Carbon Reduction Commitment) Energy Efficiency Scheme is a mandatory scheme involving large non-energy intensive public and private sector organisations. It was introduced in April 2010 and the council registered for the scheme in September 2010. The financial year 2012/13 is the third reporting year of the scheme, and the second in which the council must purchase allowances to cover its carbon emissions in the year.

The council was required to complete an annual report detailing energy usage and consequent carbon emissions and submit this information to the scheme's regulator, the Environment Agency, by 31st July 2013. Allowances must then be purchased from the Department for Energy and Climate Change (DECC) between 1st and 19th September 2013, at a price of £12 per tonne (with a 10% increase in the price for estimated supplies). A fine of £40 per tonne of CO₂ can be imposed for supplies that differ by more than 5% to those that should have been reported.

Objectives and Scope of the Audit

An internal audit review of the 2012/13 CRC annual report submission was conducted during July 2013. This data testing work was undertaken in order to provide assurance to the responsible officer regarding the completeness, accuracy and reliability of the information in the annual report and number of allowances to be purchased. Initial feedback was given to allow the report to be submitted before the deadline but the detailed findings and conclusions from this review are included in this report.

The evidence pack was reviewed by the auditor to assess compliance with the environment agency's guidelines for evidence packs. The guidance has been expanded since the start of the scheme and there is now a lot of detail available regarding what should be held as well as supporting tables and checklists to assist with completion of the evidence pack.

Key Findings

- A number of errors were identified in the data to be submitted for the annual report. Changes were made during the course of the audit before the report was submitted on 29th July.
- The council needs to improve its evidence pack in order to comply with the requirements of the scheme and avoid enforcement action being taken.

- A number of issues were identified during the course of the audit of both the data and the evidence pack that relate to the overall administration of the scheme. It was found that total reliance is being placed on the internal audit work to ensure the accuracy of the data, rather than any management checks taking place.

Overall Conclusions

It was found that the arrangements for managing risk were poor with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided Limited Assurance

Area Reviewed: Review of figures submitted to the CRC registry

Severity
Probability

1
1

1 Issue/ Control Weakness

Risk

Insufficient checks on the data submitted for the CRC scheme.

An inaccurate CRC annual report is submitted leading to either overpayment for carbon allowances or fines for under-reporting.

Findings

CRC guidance states that any gas meter supplying less than 73,200KWh should not be included in the energy usage report. It was found that a number of meters supplying below this amount had been included in the figures submitted for audit. This amounted to 174 tonnes of CO₂, which would have resulted in a cost of £2,085 for allowances if they had not been removed from the energy usage report.

The original figures included supplies for the communal areas of traveller's sites and caravan sites. Given these supplies have not been included in previous years and the guidance states that communal areas do not need to be included if they have been consistently excluded, it was recommended that they be taken out of the report, removing a total of 33 tonnes of CO₂ or £396.

The original figures included 119 tonnes of CO₂ (with a cost of £1,428 in allowances) for properties occupied by XXXXXXXXXXXXXXXX. This was incorrect – as a landlord the council is only required to buy allowances if it pays for energy supplies and this is not the case for XXXXXXXX.

The audit identified 3 sites that had been missed from the Npower CRC statement. This was queried with Npower and the supply information was provided and added to the report. This came to a total of 73 tonnes of CO₂, which could have resulted in a fine of £2,911.

The gas supply for West Offices had not been included in the energy usage figures because British Gas had not invoiced for the supply at the time the report was being prepared. The auditors advised that a failure to include an estimated supply for West Offices could result in a fine. An estimate was subsequently made based on recorded meter readings; this totalled 239 tonnes of CO₂ added to the report. The potential fine for this error would have been £9,560.

Based upon the audit work undertaken and after the adjustments listed above had been made, the final reported consumption figures submitted on 29/07/2013 were fairly stated.

1.1 Agreed Action

The errors identified with the reported figures were addressed during the audit so that

Priority

2

an accurate annual report could be submitted by 31st July 2013.

Responsible Officer

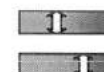
Carbon and Energy Manager

Timescale

Complete

Area Reviewed: Evidence Pack

Severity
Probability



2 Issue/ Control Weakness

Risk

The evidence pack is incomplete and does not contain information required by the Environment Agency.

The council does not comply with the requirements of the CRC scheme and enforcement action could be taken.

Findings

The CRC scheme requires that an evidence pack is maintained, containing all applicable records and working papers to support the information submitted. All participants will be audited by the Environment Agency at least once in each phase. The final reporting year in the current phase will be 2014/15.

The supporting documents relating to the CRC scheme were reviewed. It was found that not all of the required evidence has been collected to support the judgements made and energy usage figures reported. What evidence there is has not been retained and filed systematically. The documents held are not currently in a form that would constitute an evidence pack according the Environment Agency's guidelines.

Listed below are some of the required documents that were not found in the files supplied. Some of this information will be held elsewhere either within the service or in other council departments but the scheme requires that where the information is not held in the evidence pack itself, that the pack includes links to the documents, or at least details the location where the evidence is held.

Required documents not found in evidence pack

Status tracking of evidence pack contents

Internal audit reports

Registration information

Annual report with comparison to previous year

Document containing: organisation family tree, structure and relationships, nominated senior officer and CRC team members

Complete and up to date supply list

Supporting evidence for footprint data

Summary of annual report

Evidence to support estimations in annual report

In house checks to verify CRC statements

Evidence to support responses to carbon management questions

Record of any special event or changes during the year

Record of decisions taken to exclude any supply and a justification for that decision

2.1 Agreed Action

The Carbon and Energy Manager will complete the evidence pack using Environment Agency guidance to ensure that all required documents are included.

Priority	2
Responsible Officer	Carbon and Energy Manager
Timescale	30/06/2014

3	Issue/ Control Weakness	Risk
	Reliance is placed on internal audit work to ensure the accuracy of the data, rather than management checks taking place.	An inaccurate CRC annual report is submitted leading to either overpayment for carbon allowances or fines for under-reporting.

Findings

- 3.1 To obtain a CRC statement from the energy supplier, a request is sent listing all sites that should be included on the report. The supplier then returns the CRC statement, accompanied by an exception report containing the details of those sites that they were not able to supply any data for. Through tests done on the exception reports from the CRC statements it was identified that the request sent to Npower was significantly out of date and included several establishments that had closed. The out of date list sent to suppliers limits the effectiveness and time efficiency of a check on the exceptions report due to the large number of items that have to be gone through. The exceptions list should be a double check that nothing has been missed however at present it identifies a large number of supplies no longer linked to the council. There is currently no process in place to notify the Carbon and Energy Manager of the opening or closure of a site. There is therefore a risk that changes are missed and the council's carbon usage is incorrectly reported.
- 3.2 It was not possible to verify the CRC data for schools' gas supplies because invoices are held by individual schools and no information is collected from them against which checks could be made. No complete list of schools' energy suppliers is held by the carbon manager and there is no process that would inform the council if a school changed energy supplier. There is a risk of underreporting if a school has changed supplier as requests for CRC data are only sent to known suppliers and complete reliance is placed on the CRC statement.
- 3.3 The monitoring spreadsheet viewed during the audit, records invoice information rather than in house meter reads and no evidence was seen to show that checks are completed on an ongoing basis to ensure that the invoice information is correct and that it then matches the CRC statements from suppliers.
- 3.4 The CRC scheme is largely administered by only one council officer; no checks are made by a second officer or a wider team. No CRC procedures have been written, nor has anything been written into any existing procedures. Although this is not a mandatory part of the scheme it is considered best practice and at present there is a risk of inconsistency or non-compliance in treatment, resulting in overpaying for allowances or potential fines.
- 3.5 No correspondence was kept in the files viewed during the audit. During the first year of the scheme enquiries were made to the Environment Agency about whether travellers' sites should be included and it was agreed that they could be counted as domestic supply

and therefore excluded. During this year's audit of the data it was found that travellers' sites had been included despite specific guidance from the EA. The lack of documentation of this kind of advice increases the risk that it will not be followed in the years after it has been received, leading to extra time being spent and an increased risk of non-compliance.

3.0 Agreed Action		
3.1	A procedure will be put in place for Property Services to notify the Carbon and Energy Manager of changes to council controlled sites so that an up to date list will be held. Closer working with the Asset Management Team will be put in place by setting up quarterly meetings/correspondence to review council controlled sites database.	<div>Priority</div> <div>2</div>
3.2	A review of the carbon management process for schools will be undertaken so that an up to date list of schools' energy suppliers is held, with ongoing monitoring information to verify CRC statements. Procedures will be set up with Property FM and linked into the schools buy back scheme. A lot of this information already exists and can therefore be formally documented.	<div>Responsible Officer</div> <div>Carbon and Energy Manager</div>
3.3	In house meter reads taken during the year will be checked to invoices and CRC statements to ensure that they are accurate. This will be introduced as part of the annual Display Energy Certificate. Meter reads will be taken and kept as records for cross referencing.	<div>Timescale</div> <div>3.1 31/03/2014</div> <div>3.2 31/03/2014</div> <div>3.3 30/06/2014</div> <div>3.4 Ongoing</div> <div>3.5 30/06/2014</div>
3.4	Formalisation of CRC procedures and the role of other officers in the scheme, including assigning a second officer to undertake checks on the data prior to submission will be made. XXXXXXXXXXXX in the FM team is registered as the Secondary contact with the Environment Agency. Checks to the submission will in future be made by the secondary contact.	
3.5	Advice received from the Environment Agency will be incorporated into processes and procedures and the supply list will be updated accordingly so that excluded supplies are not included in the annual report and paid for unnecessarily.	

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.