

# Explainer

## Audit Arrangements in the ACCU Scheme



### Overview

This fact sheet provides an overview of the audit processes in the ACCU Scheme, which are integrity measures that provide assurance that ACCU Scheme projects are delivering genuine abatement. Areas covered in this explainer are:

- Types of audits;
- Information examined; and
- Audit outcomes;
- Auditor eligibility requirements.

### Introduction

The Australian Carbon Credit Unit (ACCU) Scheme is Australia's national carbon market. It is supported by several federal government bodies, including the Clean Energy Regulator (CER), the Department of Climate Change, Energy, the Environment and Water (DCCEEW), and the Emissions Reduction Assurance Committee (ERAC).<sup>1</sup>

ACCU Scheme methods are legislative instruments under which projects can be registered. When an ACCU project submits a request for ACCUs, the CER must ensure that the project is compliant with the method under which it is registered prior to issuing any ACCUs. Scheduled audits are one tool that the CER uses to verify carbon projects. This explainer describes how the scheduled auditing process works to support additionality and integrity within the ACCU Scheme. This explainer can be read in conjunction with the [ACCU Scheme Integrity Explainer](#).

### Scheduled audits

Scheduled audits are intended to provide assurance that a project is compliant with statutory requirements, and that the abatement being credited is genuine and accurate. Unless covered by an alternative assurance agreement, each ACCU project has a minimum of three scheduled audits across its crediting period and may have additional audits at the request of the CER or as required by the project method.

### Chart: Steps in a scheduled audit



1. **Establish terms of the assurance agreement**



1a. **Prepare assurance engagement plan**



1b. **Nominate peer reviewer**



2. **Initial meeting: information gathering plan**



3. **Evidence gathering and desktop analysis**



4. **Draft report & peer review**



5. **Report finalisation**



6. **Submission of report to the Clean Energy Regulator**

For details of activities undertaken in each step, refer to the appendix.

<sup>1</sup> For more information about the ACCU Scheme, please view the fact sheet: [Key Stakeholders in the Carbon Market](#).



# Audit Arrangements in the ACCU Scheme

There are two main types of audit engagements: reasonable assurance, and limited assurance. These refer to the level of testing undertaken by the auditor.

To have ACCUs issued, a project must undergo a reasonable assurance engagement, which must deliver a reasonable assurance conclusion. This means that the auditor has a high level of confidence that the project has complied with the method requirements, and that there is no material misalignment between the abatement reported, and the ACCUs claimed.

An audit schedule is established by the CER when the project is registered, based on project size and the expected abatement. The first scheduled audit (initial audit) must be submitted to the CER no later than when the first application for ACCUs is submitted and includes reviewing project eligibility, legal rights and baseline (where relevant). The initial audit is one of the most important audits in a project's lifecycle, as it is where any errors in calculations for the project can be uncovered and result in recalculating a project's abatement trajectory. Subsequent scheduled audit reports assure confirmation of net abatement and must also be submitted to the CER with future requests for ACCUs.

## **Box 1: Alternative Assurance**

Some projects are deemed to be low risk by the CER and are eligible for reduced audit requirements through alternative assurance methods, like geospatial monitoring. To be eligible for an alternative assurance agreement, a project must meet the following criteria:

- Be classed as a Low-Risk Environmental Plantings (2014 or 2024) or Plantation Forestry (2022) project
- Project proponent is the landholder, leaseholder or Native Title holder (for EP projects)
- Total size of carbon estimation areas is under the threshold of 200 hectares
- The project is subject to geospatial tool monitoring by the CER

## **Other types of audits**

In addition to scheduled audits, there are several other audits legislated in the *Carbon Credits (Carbon Farming Initiative) Act 2011* (CFI Act). These audits are:



**Threshold audits:** If a project claims over 100,000 tCO<sup>2</sup>-e of abatement for a reporting period, this automatically triggers a second audit known as a threshold, or triggered audit. The CER will establish the required scope of the audit, and the project proponent will appoint the audit team and cover costs.



**s214 (compliance) audits:** If the CER suspects that a project is not compliant with the legislative requirements of the methodology, they may request a compliance audit to be completed by a third-party, approved Category 2 or company registered auditor. The CER may specify the auditor to be engaged with.



**s215 audits:** A s215 audit is another compliance audit, but the key difference is that for a s215 audit, the CER will appoint an approved auditor and manage the audit process, not the project proponent. In these instances, the CER will cover costs associated with the audit.



**Gateway checks:** Gateway checks are an audit required under the Human Induced Regeneration method. Gateway checks occur at least every 5 years to check regeneration within the carbon estimation areas (CEAs), and at 15 years from project commencement to see if the CEA has attained forest cover. For a gateway check, the CER appoints the auditor, who cannot be the same auditor used for any of the project's previously scheduled audits.

# Audit Arrangements in the ACCU Scheme

## What information is examined?

To complete an audit report, the audit team must work with the project proponent or manager to gather a broad base of information pertaining to the project. Often this begins with a consideration of the project's Offsets Report, which is the key document outlining how it has met the legislative requirements of the method. Other information examined may include:

- Information demonstrating the proponent has the legal right to run the project;
- Raw data and abatement calculations;
- Information on the proponent's systems, processes and record keeping; and
- For area-based projects: detailed geographic (GIS) data to check which areas are eligible to earn ACCUs.

If further information or clarifications are deemed necessary, the audit team has the power to require that the proponent provide this, as mandated in the legislation. In addition to physical records and documents, the audit team may also validate information through:

- Observation of the project proponent's staff carrying out duties related to the project;
- Checking the equipment used is working properly;
- Inspecting vegetation in the CEA; and
- Re-calculating and computing the project proponent's calculations.

The audit team must gather reliable, relevant evidence and use professional judgement and scepticism to evaluate whether the evidence is sufficient to support the conclusion of the audit.<sup>2</sup>

## Types of audit conclusions

To be issued ACCUs, a project must undergo a reasonable assurance audit, which can deliver four types of conclusions:

**Reasonable assurance conclusion:** sufficient evidence was gathered/provided to the audit team, who found no material misstatement between the evidence and the report submitted to the CER. The CER will only issue ACCUs to a project with a reasonable assurance conclusion on its audit.

**Qualified reasonable assurance conclusion:** there were one or more material misstatements in the information provided, or there was insufficient evidence provided for one or more components of the audit, but neither of these are considered pervasive enough to affect the overall audit. The CER may still issue ACCUs, but with conditions to be met for future issuances.



Figure 1: Map of Australia depicting land cover, observed across 30 years using Landsat imagery at a 30m resolution. Green refers to vegetation at varying densities. Source: Digital Atlas of Australia with DEA Land Cover Level 4.



Figure 2: Site visit to inspect vegetation growth at WeAct Forest Aggregation Project 1.

<sup>2</sup> Auditing and Assurance Standards Board, Auditing Standard ASA200, 2015, p. 9.

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**Adverse conclusion:** there were one or more material misstatements, with sufficient evidence to suggest that one or more components of the project are not compliant with the legislative requirements of the methodology. The CER will require the proponent to address matters leading to the adverse conclusion must be addressed, and a new audit completed confirming that the misstatements have been corrected, before credits can be issued to the project.

**Unable to form an opinion:** not enough evidence was provided for the auditor to form an opinion on the project's compliance. The CER will advise of next steps.

## Who can audit a project?

ACCU Scheme projects must be conducted by a certified Category 2 auditor under the National Greenhouse and Energy Reporting (NGER) Scheme. To achieve this certification, an auditor must meet several requirements, including:

- Having over 1,000 hours experience in auditing;
- Having 700 hours experience in audit team leadership;
- Demonstration of knowledge of relevant legislation administered by the CER;
- Having relevant tertiary qualifications; and
- Passing a fit and proper person test, as defined in the National Greenhouse and Energy Reporting Regulation 2008

The Category 2 auditor must ensure that the audit team has relevant experience and qualifications and must also decide whether it is necessary to bring an

external expert into the audit team to assist. To maintain their certification, Category 2 auditors must also demonstrate to the CER that they are undertaking ongoing training and regularly participating in audits.

### Box 2: Material Misstatement

For a misstatement to be "material" the audit team leader must take the following into account:

- Significance to the project
- Pervasiveness to the project
- Effect on the project.

They must also consider if the misstatement is material individually, or when considered with other identified misstatements.

### Box 3: Additional Safeguards

There is a statutory limit of 5 consecutive audits by the same auditor for the same project proponent or manager. Where 5 consecutive audits have been undertaken by a single auditor for the one organisation, the next 2 must be undertaken by another Category 2 auditor.

All audit findings must also be peer-reviewed by an independent Category 2, or company registered auditor to provide an additional layer of certainty to findings.

# Audit Arrangements in the ACCU Scheme

## Appendix

### *Steps in a scheduled audit*

#### **1. Establish terms of the assurance engagement**

The project proponent or manager and lead auditor discuss the objectives of the audit and the matters it will cover. The assurance engagement will also specify which period of the project's lifecycle is to be audited.

##### **1a) Prepare assurance engagement plan**

Once the terms are agreed, the audit team leader will prepare an assurance engagement plan, which describes the proposed evidence-gathering processes, and how the team will draw conclusions about the project's compliance. In this step, the lead auditor will also provide an initial data gap analysis.

##### **1b) Nominate peer reviewer**

As part of the Assurance Engagement Plan, the audit team leader will nominate an impartial peer reviewer who must be either a Category 2 auditor, or a company registered auditor.

#### **2. Initial meeting: information gathering plan**

The audit team meets with the project proponent or manager to develop a formal plan to gather the evidence necessary for the audit. This may be based on a checklist of information needed.

#### **3. Evidence gathering and desktop analysis**

The audit team analyses information provided, and may request further information from the project manager, which the legislation mandates they provide. An Offsets Report is a key proponent document that outlines how the project has met the legislative requirements and is a key focus of the audit. At this stage the audit team may also determine it necessary to interview staff, inspect growth of vegetation at the project site, check function of equipment used to make measurements, or re-run the calculations used by the project proponent when submitting their request for ACCUs.

#### **4. Draft report & peer review**

The audit team prepares a draft audit report summarising their findings, as well as the lead auditor's opinion on the level of confidence that can be placed in the audited information (conclusion). A copy of the draft report, along with key documentation, is sent to the peer reviewer, and the project proponent or manager receives a copy following the peer review. They can highlight elements they consider factually incorrect but not request a change to the audit opinion. For audits submitted before the Offsets Report, the project proponent or manager can correct any misstatements ahead of submitting a request for ACCUs.

#### **5. Report finalisation**

Following receipt of feedback from the peer reviewer and project proponent or manager, the audit team incorporates any necessary changes and finalises the report.

#### **6. Submission of report to the Clean Energy Regulator**

Once the report is finalised, the project proponent or manager provides a copy of it to the CER when submitting a request for ACCUs. Note that the audit period must align with the period for which credits are being requested. The CER checks the audit report as part of their assessment prior to issuing any ACCUs.