

ICROA Validation Process

Version 2.0 - 19th April 2010



Contents

1.1.	Overview	3
1.2.	Audit Periods	4
1.3.	Carbon Foot printing	5
1.4.	Carbon Reduction Targets and Opportunities	6
1.5.	Offsets	7
1.6.	Communication	11
1.7.	Compliance with the ICROA Code of Best Practice	12

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1. Overview

1.1 Overview

ICROA requires a process to validate adherence to its Code of Best Practice. This will develop its credibility as a well-disciplined, authoritative and ethical organisation and, in turn, will help to attract members. In this way, membership will become increasingly recognised and respected within the industry and will provide competitive advantage over non-members.

ICROA is a young alliance and its members are mainly small organisations with limited resources. The Validation Process is therefore designed to be robust in order to ensure credibility, and as flexible and as low-cost as can sensibly be achieved.

The ICROA Code of Best Practice is applicable to ICROA members' activities in the voluntary carbon market and not in the compliance carbon market. For a definition of the compliance carbon market, please visit www.icroa.org/policy.

The validation process encompasses:

- Measurement of carbon footprints;
- Setting of carbon reduction targets;
- Assessment and prioritisation of carbon reduction opportunities;
- Related communication processes;
- The use of high quality accredited offsets (including consideration of sustainability and additionality), and;
- Reductions sold in advance of verification.

The basic structure of the auditing process is that:

- Annually, members will be asked to provide ICROA with certain information and a completed compliance self-assessment form and a Report of Agreed Upon Procedures/Report of Factual Findings.
- The Compliance Self-Assessment Form has specific questions that relate to the main dimensions of the Code. Selected questions will be subject to external review by the members' appointed primary auditors and members will be asked for documentary evidence to support their responses. Members will self-certify the 'minor' audit questions and a selection of the 'major' audit questions¹.
- The types of evidence that will be considered sufficient are indicated in the Examples of Suggested Evidence Requirements sections in these guidelines.
- On the Compliance Self-Assessment Form, the primary auditor will, for the indicated questions, complete the 'auditor tests' and the 'findings' column. The ICROA member will complete the 'my evidence' column.
- The completed version of the Compliance Self-Assessment Form and any documentation submitted is confidential and will only be viewed by the ICROA Secretariat and the primary auditor. Other ICROA members and the public will only be able to view a compilation of the Compliance Self-Assessment Forms and reports of Agreed Upon Procedures/Reports of Factual Findings. Other ICROA members and the public will not be able to view the documentation supplied to demonstrate the evidentiary requirements. The Secretariat will present to the Executive Committee for its agreement a compilation of the Compliance Self-Assessment Forms and Reports of Agreed Upon Procedures/Reports of Factual Findings which will be published on the ICROA website.
- ICROA has indicated different levels of failure to comply ('major' or 'minor'). Failing a 'major' requirement indicates that a member has failed to comply with the ICROA Code of Best Practice. If a member fails over 50 per cent of the 'minor' requirements their audit will be referred to the Executive Committee. These failures will be reflected in a set of 'sanctions' and an appeal process.

Self-Certification and External Review:

During the First External Audit Period and potentially going forward, the member company **will** self-certify

¹ This may be subject to change after the First External Audit Period.

the 'minor' audit questions. Certain 'major' audit questions have also been designated as self-certifiable. Please see the table overleaf for further information. Unless otherwise indicated, the 'major' questions need to be externally reviewed by the primary auditor and the requisite columns need to be completed on the Compliance Self-Assessment Form.

Conclusions on Compliance:

The Compliance Self-Assessment Form, with requisite sections completed by the ICROA member and their primary auditor, will be completed and submitted to the Secretariat, together with the Report of Agreed Upon Procedures/Report of Factual Findings. The Secretariat will then assess if any 'major' audit questions, of those subject to the external review process, have been failed, noting that the 'minor' audit questions and selected 'major' questions will be self-certified by the ICROA member. The Secretariat will write a conclusion on each Compliance Self-Assessment Form assessing, whether in their opinion, the member company has passed or failed the ICROA Audit Process and thus the ICROA Code of Best Practice. This conclusion is a subjective assessment by the Secretariat for which the Secretariat is not liable. If the ICROA member does not appear to be in compliance with the ICROA Audit Process, the Secretariat will obtain advice in the first instance from the ICROA Co-Chairs and potentially the Independent Advisory Board. As appropriate, the non-compliance issue/s will subsequently be presented to the Executive Committee for decision. The member will have the right to reply during all parts of this process.

1.2 Audit Periods:

Submission Process for First External Audit Period (9th June 2009-31st December 2009)

- The First Externally Audited Compliance Period covers the same time period for all members. The First Externally Audited Compliance Period runs from 9th June 2009 to 31st December 2009.
- Compliance Self-Assessment Forms for the First Externally Audited Compliance Period must be submitted by 7th June 2010.
- All ICROA members will be audited by their primary auditor after the First Externally Audited Compliance Period.
- The Compliance Self-Assessment Form is to be attached to a Report of Agreed Upon Procedures/Report of Factual Findings which is completed by the primary auditor when it is submitted on 7th June 2010 . The primary audit is organised by the ICROA member. Members may select an auditor of their choice for the primary audit (provided that the auditor meets the specified criteria: i) is CPA or equivalent certified and ii) has relevant market experience, i.e. has experience with carbon audits).
- Common themes and breaches arising from ICROA members' audited Compliance Self-Assessment Forms will be published as an anonymous compilation of data. This will be compiled by the Secretariat.

Future Audits:

- ICROA members will extend their existing carbon and/or financial audits to include the requirements of the ICROA Code of Best Practice and the correlating audit requirements in this Validation Process document.
- All members will submit an externally audited Compliance Self-Assessment Form together with a Report of Agreed Upon Procedures/ Report of Factual Findings /Assurance Statement completed by the primary auditor, to the ICROA Secretariat on an annual basis, and not later than three months after the financial year end of the member. The review of the ICROA Compliance Self-Assessment Form (and provision of the Report of Agreed Upon Procedures/ Report of Factual Findings/ Assurance Statement) by the primary auditor may be organised to fit in with the timing of members' financial audits. The specific time period which the Compliance Self-Assessment Form covers will be indicated on the members' Compliance Self-Assessment Form.
- Members may select an auditor of their choice for the primary audit (provided the auditor meets the specified criteria: i) is CPA or equivalent certified and ii) has relevant market experience, i.e. has experience with carbon audits).
- The primary auditor carries out site visits.

- Common themes and breaches arising from ICROA members' audited Compliance Self-Assessment Forms will be published as an anonymous compilation of data. This will be compiled by the ICROA Secretariat.

1.3 Carbon Footprinting

ICROA members are expected to encourage and help customers to measure their carbon footprints before purchasing offsets if they wish to claim that organisations/products/events/activities have been offset. This requirement will be audited through a review of the member's marketing material and, where applicable, the way in which the member's name is used to authenticate the offsetting transaction. This does not preclude members from selling carbon credits to customers who request them, nor from measuring footprints for customers in the absence of carbon offsetting.

The audit questions and acceptable evidence will be as follows:

	Level	Objectives	Response	Examples of suggested evidence
1	Major	Do you provide a carbon footprinting service that adheres to ICROA's published standards on protocols and emission factors, and do you actively encourage customers to use these services?		<ul style="list-style-type: none"> - Web site pages - Procedures manual - Evidence of checks undertaken (as per procedures manual) - Customer proposals and reports - Data capture sheets/system - Calculation tool/formulae
2		Do you undertake product and service footprints ² ?		<ul style="list-style-type: none"> - Website pages - Promotional material - Customer proposals
3	Major	Are product and service footprints always done on a basis that follows ICROA's published guidance?		<ul style="list-style-type: none"> - Procedures manual - Evidence of checks undertaken (as per procedures manual) - Data capture sheets/system - Calculation tool/formulae - Customer proposals and reports
4		Do you sub-contract any footprinting services?		<ul style="list-style-type: none"> - Carbon footprint calculators - Promotional material - Customer proposals.
5	Major	Are your sub-contractors contractually obliged to undertake work to the ICROA Code of Best Practice?		<ul style="list-style-type: none"> - Relevant contractual details
6		Do you refer customers to other companies to obtain footprinting services?		<ul style="list-style-type: none"> - Due diligence documentation. - Checks undertaken.
7		What due diligence do you undertake on these companies to ensure the quality of their work?		<ul style="list-style-type: none"> - Due diligence policy³ - Checks undertaken - Completed due diligence check list
8	Major	Are you publically communicating your position on Radiative Forcing Index?		<ul style="list-style-type: none"> - Website - Communications material

² Members are required to fulfil either guideline 1.3.2 or guideline 1.3.4 or guideline 1.3.6. Please see Guidance Notes for further information

³ Due diligence: Due diligence is a term used for a number of concepts involving either the performance of an investigation (of, say, a business) or the performance of an act with a certain standard of care and will commonly apply to voluntary investigations. The due diligence policies adopted by members should, as a minimum, address items 1.3.1 to 1.3.3 of the Validation Process and cover reviewing the stated evidence requirements.

1.4 Carbon Reduction Targets and Opportunities

ICROA wishes to ensure that members encourage and support their customers to strive for carbon reduction targets that are sufficiently ambitious, as assessed by credible opinion. Additionally, members are expected to encourage and help customers to identify and pursue the main opportunities for carbon reduction before or alongside the purchase of offsets. The audit questions and acceptable evidence will be as follows:

	Level	Objectives	Response	Examples of suggested evidence
1	Major	Do you actively encourage customers to pursue internal / personal carbon reduction opportunities?		<ul style="list-style-type: none"> - Web pages and marketing material - Customer proposals and reports
2		Do you encourage business customers to set emission reduction targets?		<ul style="list-style-type: none"> - Web pages and marketing material - Customer proposals and reports
3		Do you assess a). internal emission reduction opportunities for business customers and/or b). provide access to organisations that can do this to an acceptable quality?		<ul style="list-style-type: none"> - Customer proposals and reports - Quality checks on third party providers
4		Do you provide generic advice on how to cut emissions?		<ul style="list-style-type: none"> - Web pages - Other relevant guidelines and documents
5		Do you provide customised advice on cutting emissions or provide access to others who can provide this service?		<ul style="list-style-type: none"> - Customer proposals and reports - Quality checks on third party providers
6		Do you sub-contract any GHG reduction advisory services ⁴ ?		<ul style="list-style-type: none"> - Promotional material - Customer proposals.
7	Major	Are your sub-contractors contractually obliged to undertake work to the ICROA Code?		-Relevant contractual details

⁴ If the answer to 1.4.6 is no then 1.4.7 is not applicable.

1.5 Offsets

The Code requires members to use offsets that meet certain externally verified standards with, ideally, some additional due diligence relating to sustainability. Any reductions sold in advance of verification will need to follow the ICROA Code of Best Practice. The audit questions and acceptable evidence will be as follows:

	Level	Objectives	Response	Examples of suggested evidence
1	Major	Do you actively sell a service to retire/cancel ICROA Code compliant emissions reductions on behalf of businesses and/or individuals for the purpose of voluntarily offsetting their carbon emissions?		<ul style="list-style-type: none"> - Check services offered - Check contracts in which price information has been excluded - Registry statements
2	Major	Have all contracted emission reductions ⁵ in the compliance period been sourced from offset projects registered or in the process of being registered under one of ICROA's approved standards ⁶ ?		<ul style="list-style-type: none"> - List of project names, project identification codes and dates (traceable to the relevant project database) - Certification statement - Validation report. - Verification Report - ERPA - PDD - (Prior to verification): documentation from members' internal tracking system'
3	Major	Can the specific offsets that have been delivered in the compliance period and that have been generated be traced to those projects?		<ul style="list-style-type: none"> - List of unique offset serial numbers traceable to the relevant registry. Sample⁷ to be verified. - (Prior to verification): documentation from members' internal tracking system.
4	Major	Can clear title to and ownership of the offset be demonstrated?		<ul style="list-style-type: none"> - ERPA or other third party evidence that includes reference to the serial numbers or other identifying features of those offsets acquired - Transfer notice - Details of the registry account

5 Ex post. Applicable, as per the ICROA Code of Best Practice 2009, to offsets bought or contracted after 9th June 2009.

6 ICROA members must ensure that the provisions of the ICROA Code of Best Practice regarding offsets from Government schemes are met i.e. "Offsets from approved Government schemes may be provided by ICROA members to their clients, on the proviso that Government scheme certified offsets will only be used within the context of the Government scheme and will not be sold as voluntary offsets outside the context of the Government scheme, unless these methodologies have been separately approved by ICROA. Government approved schemes permitted for use by ICROA members are U.S. EPA Climate Leaders". ICROA Programme and Policy Framework 2009 p.8

7 **Sample:** "Audit sampling" (sampling) involves the application of audit procedures to less than 100% of items within a class of transactions or account balance such that all sampling units have a chance of selection. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the total data ("population") from which the sample is drawn. Audit sampling can use either a statistical or a non-statistical approach and the sample will take in to account both sampling and non-sampling risk factors in arriving at the sample size.

	Level	Objectives	Response	Examples of suggested evidence
5	Major	When offsets have been sold to customers or retired on the customer's behalf ⁸ , have those offsets been formally identified and removed from the company's carbon statement / internal offset database? (Providing assurance that these offsets will only be sold once.)		<ul style="list-style-type: none"> - Customer contract / invoice - Serial numbers / internal reference of offsets sold - Data capture sheets/system (particularly where there is no contract between company and customer) - List of reference numbers of those offsets held within the closing balance of the carbon statement at the period end
6	Major	When offsets have been retired on behalf of a customer, have the appropriate registers / databases been updated to reflect this?		<ul style="list-style-type: none"> - Serial numbers of offsets retired (traceable to register of relevant Approved Standard) - Retirement notice or equivalent issued documentation (no need to tag to client)
7	Major (Self-Certified)	Have the Code's additionality requirements been met in those cases where an approved standard permits performance-based additionality?		<ul style="list-style-type: none"> - Contract
8		Have the sustainability impacts of the project/offsets been assessed? If so, how?		<ul style="list-style-type: none"> - PDD - Validation report - Company documentation i.e. written report

⁸ For bulk removal of offsets: Individual orders need to be aggregated **then the** total volume then needs to be reconciled against the tranche of retirements.

Reductions Sold in Advance of Verification ⁹				
	Level	Objectives	Response	Examples of suggested evidence
9	Major	Do you have evidence that offset projects have been validated or are being validated on a timely ¹⁰ basis by an accredited independent third party ¹¹ ?		<ul style="list-style-type: none"> - Validation report - Verification report - Certification statement - Proof of engagement of a DOE - Contract with project developer/client
10	Major	Is the contracted period consistent with the time frame specified by the relevant approved standard?		<ul style="list-style-type: none"> - Validation report - Verification report - Contract with project developer/client
11 ¹²	Major	If a contractual delivery guarantee has been provided in the context of sales in advance of verification, can you demonstrate that either a) you have the financial capacity to underwrite the guarantee, i.e. Contractual Financial Guarantee; or b) you have put in place Contractual Appropriate Safeguards ¹³ to minimise the requirement for replacement and protect the guarantee?		<p>11a) Effective balance sheet solvency¹⁴ with an adequately sized and priced replacement liability on the balance sheet, by reference to statutory financial statements, management accounts and financial projections.</p> <ul style="list-style-type: none"> - List of projects underwritten - Assessment of project risk <p>11b): Management accounts</p> <ul style="list-style-type: none"> - Buffer account (using VCS AFOLU as a guide) - List of projects underwritten - Project risk assessment.
12	Major	If a Contractual Financial Guarantee or Contractual Appropriate Safeguards have not been provided, are Appropriate Safeguards in place to minimise the risk of project under performance?		<ul style="list-style-type: none"> - Assessment of project risk - Buffer accounts (using VCS AFOLU as a guide). - List of projects underwritten - The sum of a member's total guarantees, i.e. list of sales or list of projects

9 **Reductions sold in advance of verification:** this term is applicable for all offset credits, that have been contracted and sold to the customer and that have not yet been verified. (This definition does not apply to unverified credits within a members' internal portfolio that have not yet been contracted or sold).

10 **Timely:** Time of validation depends on the DOE's schedule as the DOE has control over time of validation and verification. Timely is defined as contracted as promptly as possible unless reasonable issues have been identified and presented.

11 **Independent Third Party:** DOE/verifier accredited by the standards bodies of standards permitted by the ICROA Code of Best Practice. (i.e. Gold Standard, VCS, CAR, CDM/JI, Climate Leaders).

12 If the answer to Question 1. 5.11 is yes, then Question 1.5.12 is not applicable and the member will not be penalised for not answering this question (and vice versa for question 1.5.12)

13 "Appropriate Safeguards" shall mean the minimization of and insurance against risks by reserving a portion of the project portfolio as a buffer to the extent and as long as reasonably required to safeguard performance adequately. Members using such safeguards shall adjust their reservation practices based on experience and industry best practice where available. *ICROA Programme and Policy Framework 2009.*

14 The member will need to identify whether or not reductions have been sold in advance of verification, and how the reductions have been guaranteed and the risks associated with the reductions sold in advance of verification have been mitigated, together with the total financial guarantee provided or the buffer provided by the member. For financial reporting purposes any financial guarantees provided by members will be contingent liabilities and need to be disclosed in the statutory accounts. The primary auditor can apply the total of financial guarantees in the internal database to the most recent management accounts of the member to ensure that the crystallisation of the guarantees would not result in the member being insolvent.

	Level	Objectives	Response	Examples of suggested evidence
13	Major	<p>At point of sale, have the necessary disclosures¹⁵ been made reasonably publically¹⁶ available regarding:</p> <p>a) If delivery is guaranteed?</p> <p>b) Measures that have been put in place to minimise the risk of project under performance?</p> <p>c) (If applicable) What sources of reductions or removals are suitable replacements?</p> <p>d) Current development or operational status of the project?</p> <p>e) Expected date or dates of future verification and issuance?</p>		<ul style="list-style-type: none"> - Recorded communication with client - Reasonably publically available Terms and Conditions¹⁷ of sale) - Website - Publically available project registry.
14	Major	<p>Regarding reductions sold in advance of verification, have the relevant disclosures¹⁸ been made reasonably publically available about the following:</p> <p>a) Actual dates of verification?</p> <p>b) Actual dates of issuance?</p> <p>c) Any deficiency in the verified volume?</p> <p>d) Sources of any replacements?</p>		<ul style="list-style-type: none"> - Web pages and marketing material - Annual reports - Recorded communications with client - Verification report¹⁹
15	Major	<p>Have the offsets been confirmed as an obligation to a customer within your systems/database?</p>		<ul style="list-style-type: none"> - Forward purchase contract²⁰ - Data capture sheets/systems

15 **Necessary Disclosures:** for bespoke contracts, ICROA members may use specific terms and conditions that are agreed between the member and its client. ICROA Audit Process applies to publically available terms and conditions. Relevant disclosures may be available online for online customers and/or off-line for off-line customers.

16 **Reasonably publically available;** i.e. by medium of a website. **Please see Guidance Notes for further information.**

17 **Terms and Conditions:** "Technical terms and conditions" to be rendered in plain language, comprehensible to consumers where appropriate. "Plain language": to be understood by a typical consumer, as per consumer facing pages of ICROA members' websites.

18 **Relevant disclosures:** Extra information includes but is not limited to: Name of offset project. Location. Standard used. Validation and Verification DOE. Status. Project type. Serial Numbers as applicable.

19 Customers will only be contacted individually if there a discrepancy between what was initially promised and what was delivered.

20 I.e. It is the forward contracts for offsets that are recorded as an obligation to a customer.

1.6 Communication

ICROA's membership requirements include the promotion of ICROA's fundamental principles and an expectation that members will encourage and help their customers to communicate, accurately, a wide spread of information relating to their carbon status. The audit questions and acceptable evidence will be as follows:

	Level	Objectives	Response	Examples of suggested evidence
1		Do you encourage business customers to publicise their carbon status in respect of the services purchased from the member?		<ul style="list-style-type: none"> - Web pages and marketing material - Customer proposals and reports
2	Major	Do you specify the conditions under which your name can be used by customers?		<ul style="list-style-type: none"> - Relevant contractual details - Examples of customer marketing materials that include the member's name (such as links to customer websites, or correspondence)
3		Do you advise customers about what they could and should communicate with respect to their carbon status?		<ul style="list-style-type: none"> - Web pages and marketing material - Customer proposals and reports - Examples of customer disclosures, where available
4		Does your advice include the items specified in the ICROA Code of Best Practice?		<ul style="list-style-type: none"> - Web pages and marketing material - Customer proposals and reports
5	Major (Self-certified)	Do you check what your business customers are claiming and their use of your name?		<ul style="list-style-type: none"> - List of checks (Internal check of system will be sufficient)
6	Major (Self-certified)	Do you have a process in place to take action where claims are inappropriate?		<ul style="list-style-type: none"> - Examples of action taken (evidence of communication, in order to redress inaccuracy, with the customer is sufficient) - Inappropriate claims policy
7		Do you encourage and enable customers for whom you have undertaken an organisational footprint to be clear about what emissions they have offset, including 'Scope 3' and 'other indirect' emissions?		<ul style="list-style-type: none"> - Web pages - Customer proposals and reports
8	Major (Self-certified)	Have the relevant and appropriate communications materials for reductions sold in advance of verification been made reasonably publically available ²¹ and provided to clients?		Communication materials provided for clients.

²¹ See definition in footnote 16.

1.7 Compliance with the ICROA Code of Best Practice:

The ICROA Code of Best Practice has provisions for how members should report any instances of non-compliance with the ICROA Code of Best Practice and how issues of non-compliance should be addressed.

	Level	Objectives	Response	Examples of suggested evidence
1 ²²		Has your organisation failed to meet the requirements of the ICROA Code of Best Practice during the reporting period?		Communication with Secretariat. (In line with the non-compliance reporting requirements in section 3 of the ICROA Code of Best Practice 2009)
2	Major	If your organisation has failed any requirements of the ICROA Code of Best Practice, what action has been taken to resolve this failure?		Communication with Secretariat, (in line with the non-compliance reporting requirements in section 3 of the ICROA Code of Best Practice 2009)

²² If the answer to 1.7.1 is no, audit question 1.7.2 is not applicable and the ICROA member is not penalised for failing to answer 1.7.2.