

# *Implementing Shipping MRV Regulation*

## Verification Procedures

### Day 1 – 5 April 2016

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# *Agenda*

## *Identification of relevant verification rules*

1. Risk assessment to be carried out by verifiers
2. Elements for which further guidance is needed

# ***1 – Risk Assessment to be carried out by verifiers***

## ***Options presented***



Option 1:	The delegated act does not include rules for the execution of a risk assessment by the verifier. It will be to the discretion of the verifier how to execute the risk assessment.
Option 2:	The delegated act will set a basic framework for executing the risk assessment on an individual ship basis and that will be in line with Key guidance note no. II.2 that is applicable to EU ETS verifications
Option 3:	The delegated act will set a basic framework for executing the risk assessment on an individual ship basis and that will be in line with Key guidance note no. II.2 that is applicable to EU ETS verifications + additional guidance about carrying out the risk assessment with regard to site visits.

# ***1 – Risk Assessment to be carried out by verifiers***

## *Background of options*



Option 1:	No rules would be necessary, it is already required by ISO 14065. In addition, it is assumed under this option that all verifiers that will be active in verifying for the EU MRV Regulation have experience in data auditing for the purpose of providing reasonable assurance, for which a detailed risk assessment is common practice. <b>This is not a likely scenario.</b>
Option 2:	A basic framework will provide principles and a structure for verifiers which enables a level playing field, while at the same time it provides sufficient flexibility for verifiers to perform the risk assessment for individual ships in a way that suits them best.
Option 3:	Same as option 2. Additional guidance on site visits will provide verifiers with a tool to evaluate whether site visits are necessary.

# ***1 – Risk Assessment to be carried out by verifiers***

## *Pros and cons of presented options*



<b>Options</b>	<b>Pros +</b>	<b>Cons -</b>
1. No rules	Flexibility for verifiers in planning	Risk of reduced level playing field for ships Risk of inefficient verification of the emissions report
2. Basic framework in line with KGN II.2 for EU ETS	Level playing field for ships Contributes to efficient verification of the emissions report	KGN II.2 for EU ETS does not include maritime specific examples, includes non-relevant examples and refers to non-relevant legislation
3. Basic framework in line with KGN II.2 for EU ETS + guidance related to site visits	Level playing field for ships Contributes to efficient verification of the emissions report Helps verifiers evaluating whether site visits are necessary	KGN II.2 for EU ETS does not include maritime specific examples, includes non-relevant examples and refers to non-relevant legislation

# ***1 – Risk Assessment to be carried out by verifiers***

*Considerations and suggestions based on pros and cons*



- Basic framework seems to be necessary
- KGN II.2 contains relevant sections that could serve as basis for the MRV framework
- It would be recommended to develop examples that are maritime specific to help verifiers interpreting the basic framework correctly
- Additional guidance would help verifiers how to evaluate whether site visits are necessary in order to comply with the EU MRV Regulation and Delegated Act.

# *1 – Risk Assessment to be carried out by verifiers*

## *Suggested content of basic framework*



**The basic framework could consist of the following three elements:**

- **Inherent risk** (events which can cause errors in the information to be reported)
- **Control risk** (risks of errors in the information reported that are not prevented by internal controls)
- **Detection risk** (risk of errors in the information reported that are not detected by the verifier)

*The overall verification risk can be expressed in the following formula:*

**Verification risk** = Inherent risk \* Control Risk \* Detection risk

Practically, verifiers should:

- mainly focus on areas of high inherent risk;
- assess the extent to which they can rely on internal controls based on control testing by the verifier itself; and
- based on this outcome plan the nature and extent of substantive verification activities.

# 1 – Risk Assessment to be carried out by verifiers

## Suggested content of basic framework



### Examples of maritime specific inherent risks from an assertion point of view (1/2):

#### Completeness

Information that should have been reported has not been reported completely:  
Voyages, fuel consumption, emission sources, transport work o.e. are missing.

#### Accuracy

Information has not been reported appropriately:  
Fuel consumption figures or BDN are incorrect, mistakes in data flow etc.

#### Consistency

Information reported is inconsistent with prior year:  
Method for the determination of fuel consumption is changed from year to year or between fuel types without reason

#### Transparency

Information has not been disclosed in a clear manner:

- it is unclear whether the tare weight of containers or supporting equipment is included in the transport work reported
- the unit of reporting remains unclear (volume/mass etc.)
- it is unclear how the overall amount of CO<sub>2</sub> emissions has been determined (sub-aggregation level, main drivers and contributors)

# 1 – Risk Assessment to be carried out by verifiers

## Suggested content of basic framework



### Examples of maritime specific inherent risks from an assertion point of view (2/2):

<b>Relevance</b>	<p>Irrelevant information is reported: Other metrics that asked for by the MRV Regulation, additional information on voyages not in the scope of MRV</p>
<b>Occurrence</b>	<ul style="list-style-type: none"><li>• Information on voyages that didn't take place is reported (e.g. because they were planned but were cancelled or postponed to the next reporting period).</li><li>• Cargo reported based on planned instead of actual and not all planned cargo was loaded on the ship.</li></ul>
<b>Cut-off</b>	<p>Information isn't reported in the right period: MRV information for voyages that start in one reporting period and end in the next aren't assigned to the first period concerned as they should be according to Art. 3 (m) of MRV Regulation.</p>

# ***1 – Risk Assessment to be carried out by verifiers***

## ***Questions to be answered***



**Suggested option:**

**Option 3 but only take basic elements of the KGN II.2**

**1. Does everyone agree with the suggested option?**

## ***2 – Elements for which further guidance is needed*** *Principles and status / role of guidance*



### **Means of (non mandatory) guidance tools**

- Guidance note: Strong recommendation including interpretation of the legislation (*best practice is to obtain support from subgroup before implementation*)
- FAQ: Examples, clarification on elements to support general understanding (*to be implemented by the Commission without feedback from stakeholders*)

When considering elements for which further guidance is needed it is recommended to agree on the type of guidance that would be suitable to address the element appropriately.

## ***2 – Elements for which further guidance is needed***



### **Working paper: risk assessment to be carried out by verifiers**

**Topic:** how verifiers should use ship's tracking data from an external source and how the verifier should interpret the information for the purpose of the verification of the emissions report.

#### **Why further guidance?**

- It should be clear which source for ship's tracking data the verifier shall use and how the verifier can obtain this information
- It should be clear how meaningful the information is for the verifier to assess the risk of misstatements in the emissions report (based on the first draft prepared by the ship)
- It should be clear for verifiers how to interpret differences between the ships data and tracking data from an independent source in order to avoid meaningless verification procedures.

## ***2 – Elements for which further guidance is needed***



### **Working paper: site visits**

**Topic:** how on-board verification could be prevented.

#### **Why further guidance?**

- It should be clear for verifiers which information and level of understanding of the ships monitoring and reporting is required to evaluate how verification of the emissions report can be done effectively and cost efficient.
- It should be clear for verifiers in which cases a site visit would be inevitable and in which cases an on-board visit would be inevitable. In developing this guidance, cost efficiency should be considered

### **Working paper: recommendations for improvements**

**Topic:** the extent to which verifiers can make recommendations.

#### **Why further guidance?**

- To provide examples of what would be allowed and not, which serves as a preventive means in the MRV system to safeguard impartiality of verifiers, in the form of the risk of self review. In basis verifiers would be allowed to recommend on the “what”, but not on the “how” and verifiers cannot have any role in the implementation of the monitoring plan.

## ***2 – Elements for which further guidance is needed***



### **Working paper: recommendations for improvements**

#### **An example:**

##### *Acceptable recommendation:*

We noted the process for registration of number of passengers transported is highly depending on manual data entry. In addition, we noted that limited internal controls exist on the input of passenger data in the system used for reporting for EU MRV. Manual data entry is error prone. Therefore, we identified a high risk of errors in passenger data for EU MRV. We recommend Ship X to improve the internal controls around entry of passenger data in the system used for EU MRV to avoid errors in reported passenger data.

##### *Non-acceptable recommendation:*

We noted the process for registration of number of passengers transported is highly depending on manual data entry. In addition, we noted that limited internal controls exist on the input of passenger data in the system used for reporting for EU MRV. Manual data entry is error prone. Therefore, we identified a high risk of errors in passenger data for EU MRV. We recommend Ship X to use System X to register passenger data and use and export from the planning system to feed this system X. Furthermore we recommend the ship to apply certain settings in System X, we will provide these separately to you, in order to ensure data is being reported correctly for EU MRV.

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# *Thank you for your input*

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