Research on the Construction of Carbon Audit Supervision Mechanism in China

Ya-Mei GUAN¹,*, Rui ZHAO²

¹,²Nanjing University of Finance and Economics, Nanjing City, 210023 China
guanyamei@sina.com
*Corresponding author

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Abstract. The development of China's carbon audit business is not yet mature and the audit institutions of the regulatory system is not perfect, which makes the quality of carbon audit can’t be guaranteed. The perfect carbon audit supervision system is helpful to improve the service quality of the audit institutions and the accuracy of carbon emissions data, and help to promote the construction of carbon trading market. This paper analyzes the status quo of China's carbon audit supervision, and combined with the experience of the development of foreign carbon audit market to provide recommendations for the construction of China's regulatory system.

Introduction

Carbon audit is a branch of environmental audit. It is a behavior that the audit subject audits and identifies the environmental impact caused by greenhouse gas emissions brought by relevant organizations or individuals consuming carbonaceous natural resources in the process of production and life with audit methods according to national laws, regulations and policies independently, objectively and justly. China's carbon emissions audit improves the credibility of carbon disclosure. However, China's carbon audit business is in the beginning stage with immature development and imperfect supervising system, which makes the quality of carbon audit can’t be guaranteed.

Supervisory Subject and Type of Carbon Audit in China

Carbon Audit Supervisory Subject

At present, China's carbon audit supervision organization is the National Development and Reform Commission. The NDRC is the administrative departments of the lack of carbon trading experience, daily management and technical management. So, the work group is set up to deal with climate change and energy-saving emission reduction in Beijing and Chongqing. The carbon emissions trading pilot work leading group is be organized respectively in Shanghai, Tianjin, Hubei, Guangdong and Shenzhen. The leader of the work group is the regional administrator and the work group is led by NDRC to coordinate the various departments and exert corresponding functions. At the same time, the Development and Reform Commission in combination with carbon trading experts in universities, consulting and certification bodies and other fields carry out carbon audit and related research to provide advice and suggestions for the NDRC and the working group.

Carbon Audit Supervisory Method

The National Development and Reform Commission carries on proactive supervision, Pro-SEO regulation and postmortem supervision as a carbon audit supervision department. It establishes carbon audit market access mechanism and sets audit authority work guidelines and inspects audit report to ensure the quality of carbon audit. The NDRC releases supervisory regulation about audit institutions, auditors and reports. It implements dynamic management such as rechecking and sampling audit reports, establishing audit institutions blacklist and other credit system. The NDRC also punishes strictly the illegal institutions and persons.
The Problems of Carbon Audit Supervision in China

The Power of Carbon Audit Supervision is Weak

Carbon audit supervision requires someone who has both audit experience and environmental knowledge to supervise. In China, the NDRC and carbon audit experts develop regulatory documents and are responsible for implementation. But the government regulation, both in terms of strength and technology, are different from the real needs. The NDRC as the carbon audit supervision department is not the carbon audit professional certification body and has some defect such as lack of institutional qualification assessment experience, incomprehension of carbon audit practice. It can’t guarantee the independence of regulatory work and increases the difficulty of supervision.

The Methods of Carbon Audit Supervision are Imperfect

The carbon audit document issued by the NDRC is the main basis for the implementation of carbon monopoly supervision. The inspection agency management of the Interim Measures, verification guidelines and other relevant documents issued by 7 pilot areas announces the verification agency for filing conditions, the verification report review and other relevant information, but many documents on the proactive supervision, Pro-SEO regulation and postmortem supervision of the state is not clear.

The Independence of Carbon Audit Supervision is Lacking

In China, there are few requirements for carbon audit in carbon audit supervision documents. The documents lack an assessment of the conflict of interest and the audit independence can’t be effectively monitored. In addition, the regulatory authorities lack the response, when the audit institutions and audited institutions found that there is a conflict of interest, the corresponding provisions have not yet been dealt with. The lack of carbon audit supervision has increased the likelihood of misstatement of carbon audits and reduced the reliability of carbon audit reports.

Regulation on Audit Fees is Lacking

At China's carbon audit implementation of the initial stage, carbon audit costs borne by the enterprise itself in Beijing and Shenzhen, which exacerbated the competition between carbon auditors. To attract customers, audit institutions continuously improve the quality of service and use price advantage to occupy the audit market.

The Experience of Carbon Audit Supervision in Western Countries

The qualification and supervision of carbon audit subject and personnel is cleared in the implementation of the carbon audit process in the United States. Only through training and examination can applicant institutions and personnel obtain carbon audit qualifications. Examination is also required to select qualified carbon auditors through in Canada. In addition, the carbon auditors need to submit a report on the conflict of interest report before the audit begins. Third party auditors should continue to focus on issues related to the interests of the audited entity during the carbon audit work. When a potential conflict of interest or conflict is raised, the third party audit institution shall promptly disclose the conflict of interest and report the measures about eliminating conflict. Within one year of the end of the carbon audit, the audit agency will still monitor the issue of conflict of interest. The auditors will report to the regulatory authorities on the 30th day of the occurrence of the conflict of interest. The regulatory body adopts different ways of reviewing the carbon audit report according to the conflict of interest. Carbon audit supervision is organized and implemented by the specialized agencies In Hong Kong, China, the United States and Canada. Hong Kong Certification Office is a subsidiary of Hong Kong Innovation and Technology which is responsible for certification work of Hong Kong institutions and products, with a wealth of experience in certification and supervision. The US Air Resources Committee focuses on climate change and other issues, with more understanding on the carbon audit. The Canadian Standards
Association has developed a number of standards for the industrial sector, laying the foundation for the preparation of carbon audit regulatory documents.

China should learn from the experience of Hong Kong, the United States and Canada. For example, professional certification bodies or environmental protection departments and other institutions should be responsible for China's carbon audit supervision and management work to enhance the regulatory power. China should improve the supervision of carbon auditor and personnel, and increase the content of the field investigation of the audit institutions, while using examination methods to select carbon auditors, rather than only in individual areas to implement the selection test. China should increase its independence requirements for carbon auditors, auditors and audited units. China should increase the auditing procedure of internal management system of the carbon audit institution, establish an internal risk control system, combine the external supervision and internal supervision, and make a detailed supervision plan to ensure the smooth development of carbon audit work.

The Construction of Carbon Audit Supervision System in China

Strengthening the Power of Carbon Audit Supervision

With the development and expansion of the carbon audit market, China should set up an independent carbon audit supervisory department composed of institutional certification personnel and experts in the field of carbon auditing, responsible for the management of carbon auditing standards, third party institutions and personnel. Regulatory departments have professional carbon auditors who can review their own third-party institutions and carbon audit reports, no longer commissioned fourth party carbon audit institutions.

Improving the Carbon Audit Supervision

First, the pre-regulatory procedures should be increased. In addition to reviewing the relevant documents submitted by the third-party organization, the supervisory department shall assess the ability of the applicant organization to carry out the carbon audit work on the basis of the site inspection of the applicant organization. China should implement the nationwide carbon auditor qualification examination system to reduce the ability to practice due to carbon audit fraud through rigorous knowledge assessment to select auditors.

Second, the supervision of carbon audits should be strengthened. For example, developing carbon auditing standards, providing work guides for auditors and regulating carbon auditing methods are effective ways to reduce the risk of misstatement of audit data.

Third, the methods of after-event supervision should be increased. China should implement the same industry supervision system. It means carbon auditors should supervise the audit reports implemented by other institutions in the industry to avoid the defect on regulation of outside of the carbon audit industry because it can’t be in-depth inspection. China should adopt audit rotation system. The audited entity should regularly change the audit institution to avoid collusion between the audit institution and the audited entity hiding existing problems for a long time without being discovered.

Enhancing Independence of Carbon Audit

China should clearly stipulate that existence of the situation of effecting conflict of interest is not allowed among the carbon audit institutions, auditors and audited units. When a third party applies for the qualification of carbon audit, it is necessary to disclose to the supervisory authority the conflict of interest with the audited entity. During the audit process and after completion of the audit service, the carbon audit institutions should continue to disclose whether there is a conflict of interest. When there is a conflict of interest between the auditing institution and the audited entity, measures such as the replacement of the auditing subject should be adopted to ensure the independence of the carbon audit work.
Developing Carbon Audit Fee Supervision System

Regulators should develop detailed carbon audit fee standards and provide a strong basis for auditors to choose audit institutions. Regulators should learn from the financial audit fee supervision mode, and issue a mandatory carbon audit fee disclosure system to prevent the behavior of buying out the audit opinion between audited units and audit institutions. Clarify the legal obligations of the auditors under different audit fees and the risks they bear, and reduce the irrational charges of the carbon audit market. China should establish a compensation system for auditing fees, and strictly punish the audit institutions and personnel who violate the law.

Conclusion

China has far to go about work of carbon audit supervision, so we should increase the enforcement of carbon audit supervision. China should be engaged in all aspects of business before, in and after all aspects to protect the quality of carbon audit. We should regulate the carbon audit market to promote the development of China's carbon audit and we should reduce greenhouse gas emissions to achieve emission reduction targets and develop low-carbon economy.

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