






# **A Brief Introduction to China's Auditing of Energy Conservation**

**National Audit Office of China**

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# **Overview of CNAO's Audit of Energy Conservation**

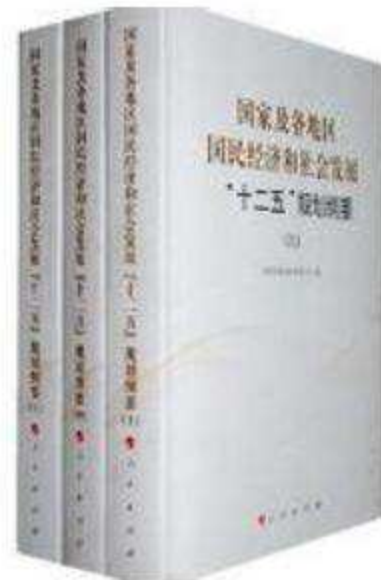
## **❖ Restraint on China's resources and environment has been tightened**

- limited domestic resources
- limited environmental capacity
- impact of global energy security efforts
- countermeasures against climate change

# Chinese government unveiled a series of energy conservation & emission reduction policies

- ❖ *Energy Conservation Law of the People's Republic of China*
- ❖ *Eleventh Five-Year Plan for National Economic and Social Development of the PRC (2006-2010)*
- ❖ *Comprehensive Work Plan on Energy Conservation and Emission Reduction in the "Twelfth Five Year Plan" Period (2011-2015)*
- ❖ *Opinion of the State Council on Accelerating the Development of Energy Conservation and Environmental Protection Industries*

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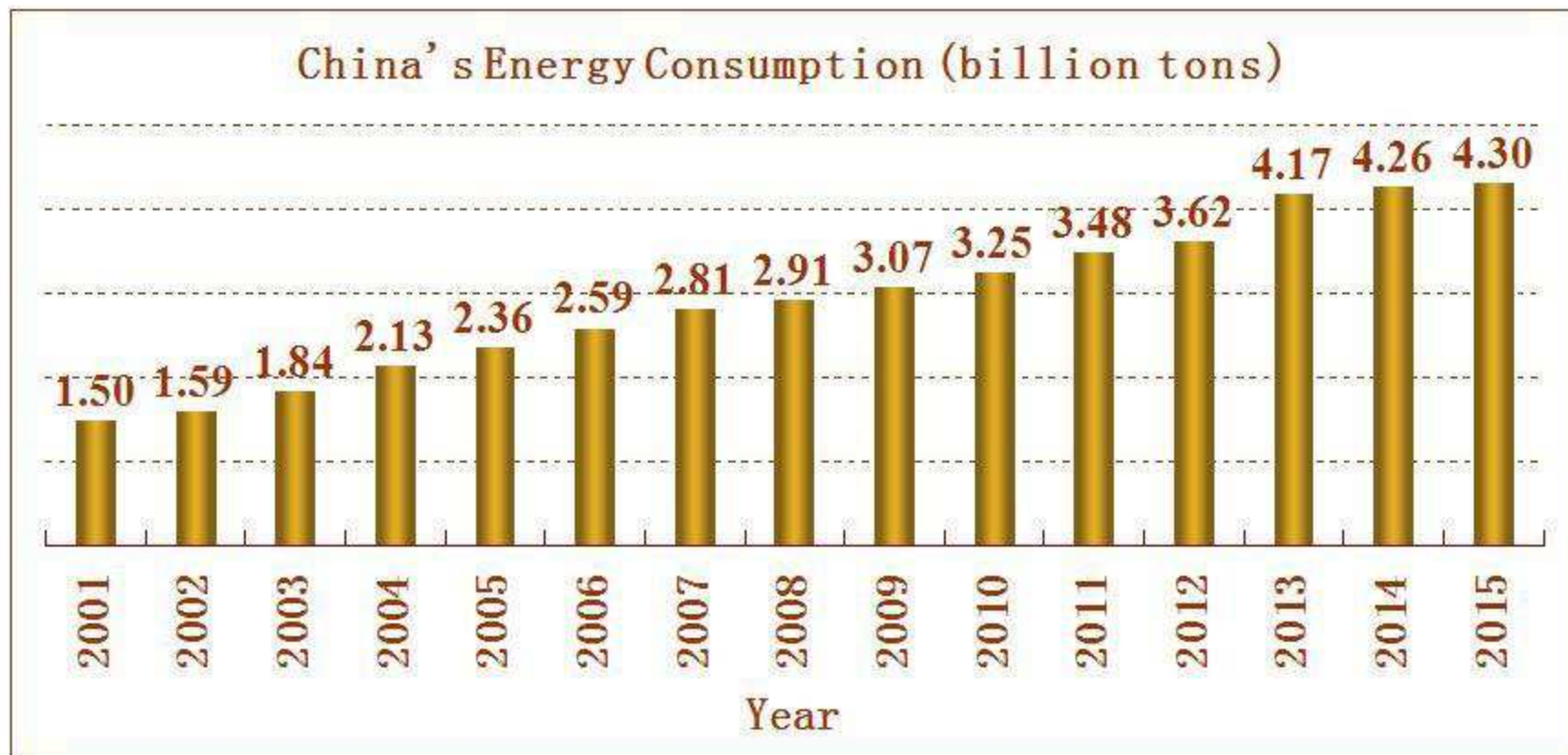




# **Central government continued to increase investment efforts**

- ❖ to support localities and enterprises to implement energy and resource conservation projects
- ❖ to encourage residents to buy energy-efficient products
- ❖ to play a positive role in guiding and promoting the implementation of energy conservation and environmental protection policy measures

# Energy-saving effects are conspicuous



# **CNAO attaches great importance to audit supervision on the protection of resources and environment**

- ▶ ***CNAO made active attempts to expand the audit scope of China's resources and environment, based on the historical background of nationwide energy conservation and emission reduction initiative which intermingle political, economic and environmental factors***
- ▶ **Since 2008 CNAO has organized and unfolded four special audits of energy conservation and emission reduction**




# **Audits of energy conservation and emission reduction conducted by CNAO**

- ◆ **Two performance audits of the management and use of funds in local governments' energy conservation and emission reduction**
- ◆ **Audit of the implementation of energy conservation & emission reduction policies in key enterprises in steel, electricity, and cement industries**
- ◆ **Audit combining performance audit of energy conservation policies with regularity audit of special funds for "conservation and utilization of resource and energy"**



# **Energy conservation is one of the most important audit content in a real-time audit**

- ❖ **CNAO has carried out a real-time audit of the implementation of policies to ensure stable growth, boost reform, adjust structure and benefit the people since August 2014**



**to promote the implementation of policy measures for the development of energy conservation and environmental protection industry**

# **Important content of the real-time audit**

- promoting high-efficiency boiler**
- popularizing new energy vehicle**
- upgrading of key energy-using equipment**
- accelerating the favorable policy for people purchasing energy conservation products, and for government procurement of energy conservation environment-friendly products**
- expanding energy conservation and environmental protection service industry, energy performance contracting (EPC) management**
- implementing environment-related fiscal & tax policy and setting up market-based financing model**

# **Local audit institutions' audit of energy conservation**

- ❖ In the second half of 2014, Shanghai Municipal Audit Office organized and unfolded special audit investigation on energy conservation of public buildings in the city**


**Audit investigation placed emphasis on implementation and enforcement of laws, policies and regulations concerning public building energy conservation, management of energy conservation in public buildings, management of special fund subsidy etc.**





# Auditing investigation results of energy conservation of public buildings in Shanghai

(Report 2015 No. 42 available at [www.sjj.sh.gov.cn](http://www.sjj.sh.gov.cn))

- 
- some public building energy conservation projects in 7 downtown districts spot checked
  - existing building energy conservation renovation projects completed between 2011 and 2013 totaling 3,738,100 sqm, building energy conservation projects with application of on renewable energy totaling 5,224,900 sqm spot checked
  - 236 building energy conservation projects receiving financial subsidy during the 3 years involved more than 100million yuan spot checked

# Audit Background and Auditing Program

- **Audit Background**

- ❖ **audit of funds under the accounting subject of "conservation and utilization of resource & energy"**

- **examine the implementation of conservation and utilization of resource and energy policies and assess the effectiveness of relevant projects besides performing the audit on funds allocation, management and usage**



# Auditing Background

- ❖ **By using innovative auditing model:**
  - **intended to accomplish overall evaluation of the performance of special funds and policies for energy conservation & utilization**
  - **intended to solve problems in past audits where only a small quantity of samples get spot checked due to scattered organization, limited labor and time**



# Auditing Program



# Audit coverage

- ❖ **two year's funds**
- ❖ **subject to budget arrangement and transfer payment by central government in energy conservation and utilization category**
- ❖ **in 18 provinces**

# Audit coverage

propelling energy conservation and consumption

**Industry & construction**



reduction in industrial and construction fields

**Products**



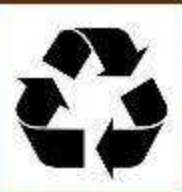
accelerating the favorable policy for people purchasing energy conservation products

**Policy Targets**

supporting development of renewable energy



**Renewable energy**

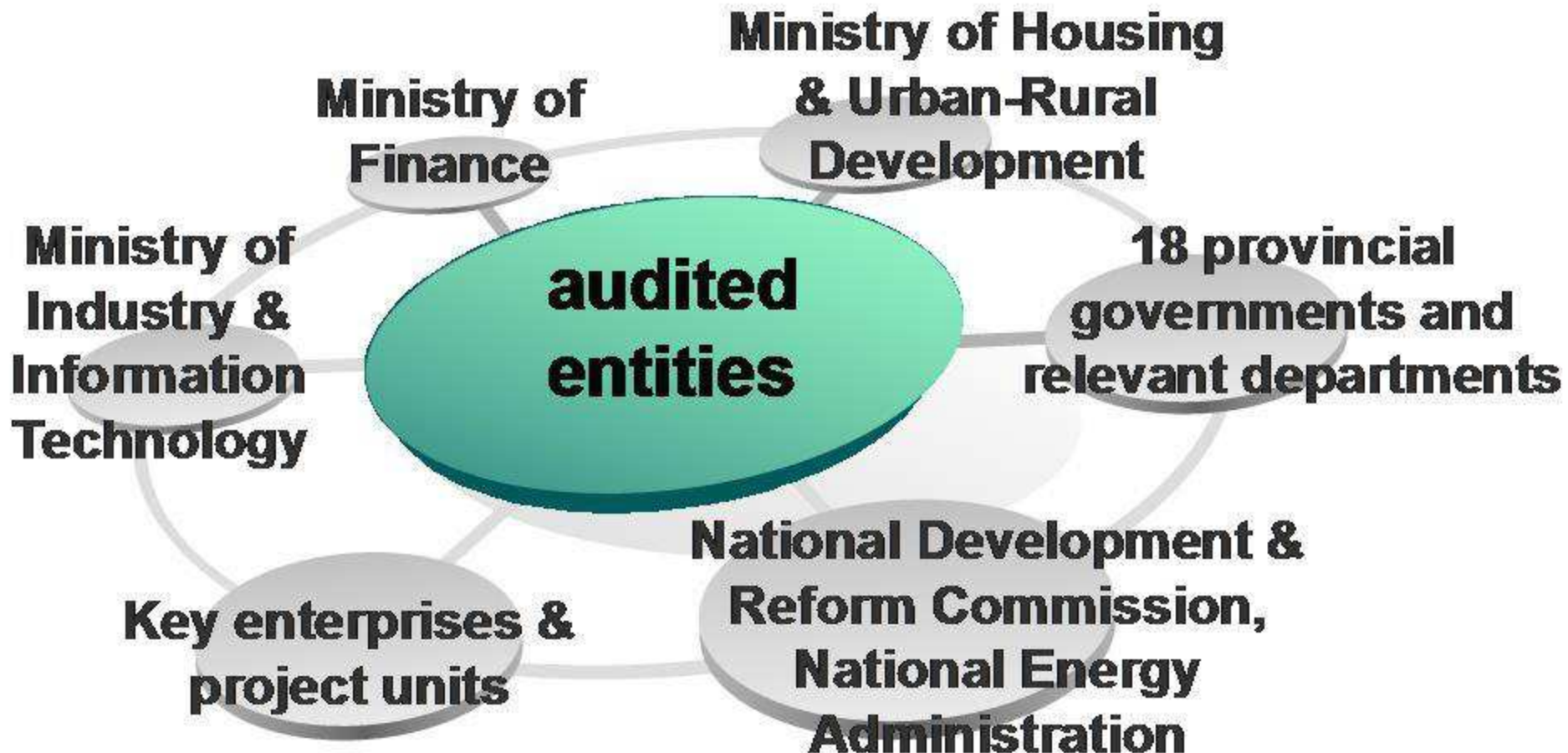


**Recycling**

improving integrated utilization of waste and discarded resources



# Audit coverage



# Audit focus

## Fund

allocation,  
management  
& utilization  
of the funds

## Project

construction  
of energy  
conservation  
& utilization  
projects

## Policy

fulfillment of  
policy  
targets, etc.

# Audit criteria

- ❖ Audit Law of the People's Republic of China
- ❖ Energy Conservation Law of the People's Republic of China
- ❖ Comprehensive Work Plan on Energy Conservation and Emission Reduction in the "Twelfth Five Year Plan" Period
- ❖ administrative regulations of relevant departments





# Audit Methodology and Problems Identified

## • Audit Methodology

**clarified the guideline and methodology for work, which laid down important foundation for accomplishing targets**

- IT application has facilitated full coverage of fund allocation
- all audit teams were requested to guarantee an average 60% of spot-checking and to follow operation guidance
- “easy-to-fill, quick-to-consolidate” auditing work forms have been designed

# Audit Methodology

**set up cross-department joint work group, which provided organizational guarantee for project execution**

- compiling audit work plan, worksheet and audit report outline, assembling & releasing work updates, coordinating audit in ministries
- answering questions from field audit teams
- consolidating electronic data and analyzing data
- compiling & distributing audit circulars, and consolidating & drafting audit report etc.







# Audit Methodology

**explored the application of IT audit for fiscal fund, so as to provide technical support to ensure the full coverage of fund allocation**

- several senior auditors were dispatched to some provinces, cities and counties to perform special survey and compiled the draft of standard data table before the audit began
- amendment survey forms were later distributed, discussed and amended by auditors to develop a template of standard form
- all auditing teams finished filling standard forms



# Problems Identified

-  some entities of energy conservation utilization projects fabricated fake application materials to fraudulently acquire and swindle relevant fund
-  some entities misappropriated or diverted relevant fund for production and operation, or for paying expenditure
-  some entities illegally obtained relevant fund through applying for big project but building small project, and repeated applications
-  some entities failed to meet the expected policy targets

# Audit Impact and Rectification

- ★ Some local departments and project entities have returned some of the misappropriated or diverted fund to the original fund channel, or recover some fund that were fraudulently acquired or swindled
- ★ The audit also transferred clues to a number of cases to the judicial organs
- ★ CNAO analyzed a number of existing problems in the current industrial policies for energy conservation with financially support, and drafted audit circulars, which received concern from relevant departments, generating concrete results

# Challenges and Difficulties

## ❖ Challenges

the audit of funds in energy conservation & utilization category lacks depth and breadth (the audit resources did not match the total fund size and the total workload)

## ❖ Difficulties

the complexity in software usage in the public financial sector increases the difficulty of the IT application during auditing





**Thank You !**