Energy

SUMMARY

DEPARTMENT

Matters from the current audit

The Department of Energy should implement an enterprise risk management process.

Matters from prior audits

See Energy Royal Review Systems—see page 65.

We repeated our recommendation to the department to ensure bioenergy grant recipients comply with the terms of their grant agreements.

The department has implemented our recommendation to improve controls over royalty adjustment disclosure to ensure the amounts are complete and accurate.

FINDINGS AND RECOMMENDATIONS

Matters from the current audit

Implement an enterprise risk management system

Background

Enterprise risk management (ERM) is a continuous, proactive process to understand and communicate risks from an organization-wide perspective. Risk management involves assessing the risk of uncertain outcomes, ranking them based on likelihood and potential impact, and then implementing appropriate risk mitigation responses.

A risk assessment should consider industry and regulatory factors, applicable laws and regulations, economic indicators, industry trends, business relationships and fraud and error.

RECOMMENDATION 6: IMPLEMENT AN ENTERPRISE RISK MANAGEMENT SYSTEM

We recommend that the Department of Energy design and implement an effective enterprise risk management system to ensure relevant risks are identified, tracked and appropriately mitigated.

Criteria: the standards for our audit

A formal risk assessment should be documented and updated regularly.

Effective risk management should:
- clearly define roles and responsibilities, including clearly identifying who is responsible for enterprise risk management
- identify and document the risks associated with achieving objectives
- assess and rank the risk, including likelihood and potential impact of specific risks
- develop and implement programs or procedures for identified risks

- update risk assessments as changes occur
- monitor and evaluate programs/processes to identify potential risks
- report risks and actions to senior management

KEY FINDINGS

- The department does not have a formalized enterprise risk management process.
- The department does have a variety of processes to continuously identify and manage significant issues and risks as they arise.

Our audit findings

As part of our financial statement audit, we examined the organizational risk management process at the department. We found that senior management receives information and meets regularly to discuss issues and risks pertinent to the department. Further, the department has various processes throughout the organization to assess risks as they arise, consider potential future risks, and identify risk mitigation strategies. Risk management processes also exist at the business level, including information technology, finance and strategy.

However, an overarching and cohesive risk management process does not exist. The department does not have a defined enterprise risk management process to track risks identified, assess and rank those risks and develop and implement processes to respond to and mitigate the identified risks to ensure department's objectives are achieved. Also, without an enterprise risk management process, it is less likely that interrelationships among risks will be identified. For example, the ability to assess the impact of risks across various areas of the department like information technology, finance, human resources and royalty operations is much more difficult without an overall risk assessment process.

A more comprehensive, formal risk management process will help senior management determine if:

- the risk appetite implicit in the department's business plan is appropriate
- the systems implemented are effective to manage, monitor and mitigate risk, and that the risk management implemented is appropriate given department's business plan and strategy

It also would allow senior management to be certain that:

- the risk management system informs the senior management of the major risks facing the department
- an appropriate culture of risk-awareness exist throughout the department
- there is a recognition that management of risk is essential to the successful execution of department's business plan

Implications and risks if recommendation not implemented

Without an effective enterprise risk management system, the department may not identify and manage risks efficiently and effectively and senior management might not be able to effectively oversee the department's risk management processes.

Matters from prior audits

Ensuring compliance with terms of bioenergy grant agreements—recommendation repeated

Background

In 2012[1] we recommended that the department ensure that recipients under the bioenergy producer credit grant program are complying with their grant agreements. We are repeating this recommendation because we continued to find multiple instances where the requirements of the grant agreements were not being met.

The bioenergy producer credit program is provided to industry to encourage the development of bioenergy products, including renewable fuels, electricity and heat. For the year ended March 31, 2013, $44 million was paid for biofuel initiatives. The funds received by recipients are based on the amount of reported fuel and electrical output. Bioenergy producers who qualify for the credit submit production information, along with an invoice, in order to receive payment. Additionally, all grant recipients are required to provide annual reporting on a number of items, including the energy product produced and sold, the production capacity, greenhouse gas emissions, as well as the feedstock, water and external energy consumed.

RECOMMENDATION 7: ENSURE COMPLIANCE WITH TERMS OF BIOENERGY GRANT AGREEMENTS—REPEATED

We again recommend that the Department of Energy ensure that recipients under the bioenergy producer credit program are complying with their grant agreements.

Criteria: the standards for our audit

The terms and conditions of grant agreements should be enforced to ensure compliance and to verify objectives of the program are being met.

KEY FINDINGS

- Bioenergy credit recipients are not submitting assurance reports as required by their grant agreements.
- Annual reports from prior periods have still not been received from all grant recipients.

Our audit findings

Assurance reports are required to be submitted by credit recipients within the timeline stipulated in their individual agreements. Based upon our examination of four recipients, we found that three of them had not submitted an assurance report within the agreed upon timeframe. At the time of our examination in early May 2013, the assurance reports had still not been received. We did not find any evidence that the reports had been requested or followed up on by the department.

We also followed up on our audit findings from last year, when we identified that the annual reports for five out of six recipients selected were not received by the department for the reporting period of 2010–2011. During our audit we found that three of the six recipients still have not submitted their annual reports for the 2010–2011 reporting period.

Of note, the department has recently contracted with an external firm to assist with improving their processes and to collect the necessary information from bioenergy grant recipients.

[1] *Report of the Auditor General of Alberta—October 2012*, no. 14, page 96.

Implications and risks if recommendation not implemented

Without timely receipt and review of the required reports from bioenergy producers the department may not be receiving the information it requires to assess compliance with grant agreements and to assess whether the objectives of the bioenergy producer credit program are being met.

Improve controls over royalty adjustments note disclosure—implemented

Our audit findings

The department implemented our 2012 recommendation[2] to improve its controls over the royalty adjustment disclosure to ensure the amounts are complete and accurate. Based on our examination of the process to compile and calculate the amounts disclosed in the royalty adjustment note, we found that the controls have improved. The process includes a more thorough review to ensure the amounts disclosed are complete and accurate. Additionally, we did not identify any significant errors during our audit of the note disclosure.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendation is outstanding and not yet ready for a follow-up audit:

Ensuring compliance with terms of bioenergy grant agreements—October 2013, no. 7, p. 89 (Originally October 2012, no. 14, p. 96)
We again recommend that the Department of Energy ensure that recipients under the bioenergy producer credit program are complying with their grant agreements.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Improving processes to recognize royalty revenue estimates in the financial statements —October 2012, no. 15, p. 97
(Originally November 2011, no. 13, p. 89)
We again recommend that the Department of Energy improve its controls to ensure consistent application of methodology used to calculate bitumen royalty estimates.

Establish adherence to nine-point bioenergy plan—bioenergy producer credit program —July 2013, no. 14, p. 111
We recommend that the Department of Energy require bioenergy producer credit grant program applicants to demonstrate their product's positive environmental impact relative to comparable non-renewable energy products.

Clarify reporting guidelines for grant recipient reporting—July 2013, no. 15, p. 112
We recommend that the Department of Energy clarify its guidelines for annual reporting by bioenergy grant recipients to ensure it has the information required to appropriately assess and estimate bioenergy project emissions.

[2] *Report of the Auditor General of Alberta—October 2012*, no. 13, page 95.