

# Environment and Parks — Alberta Climate Change Office — Follow-up Audit on Managing the Specified Gas Emitters Regulation — Alberta Emissions Offset Registry

## INTRODUCTION

The *Specified Gas Emitters Regulation* requires Alberta's large industrial facilities<sup>1</sup> to limit their annual greenhouse gas emissions. If a facility exceeds its government-approved limit, it can compensate for the excess by purchasing emissions offset credits.<sup>2</sup> The revenue from the sales of offsets funds organizations that reduce their greenhouse gas emissions voluntarily, such as through renewable energy initiatives. Facilities can also compensate for excess emissions by purchasing emissions performance credits<sup>3</sup> or paying into a Climate Change and Emissions Management Fund.<sup>4</sup>

Emissions offsets are listed in the Alberta Emissions Offset Registry, where they can be bought and sold.<sup>5</sup> The Department of Environment and Parks, which administers the *Regulation*, has outsourced the operation of the registry to an external registry provider.

The department relies on the registry provider to check for duplicate offsets, which are invalid.<sup>6</sup> If a regulated facility uses an invalid offset to compensate for excess emissions, it must pay the department \$20 for each excess tonne. However, the department will only receive that money if the invalid offset is detected. The registry provider failing to detect a duplicate offset could, therefore, cost the department revenue.

The department also relies on the registry provider to list and track the offsets in the registry, manage transactions and maintain data security. Errors in these areas can also lead to invalid offsets, potentially meaning further lost revenue to the department.

Since the department has outsourced this important element of its systems to manage the *Regulation*, it needs assurance that the registry provider has effective controls to fulfill its responsibilities and that the

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<sup>1</sup> Large industrial facilities are facilities that emit 100,000 tonnes or more of carbon dioxide equivalent annually. Carbon dioxide equivalent is used to describe how much global warming a given type and amount of greenhouse gas may cause.

<sup>2</sup> Offset credits are emissions reductions generated by facilities and sectors not subject to the *Specified Gas Emitters Regulation* that reduce their greenhouse gas emissions according to a government-approved protocol and that meet the requirements of Section 7 of the *Regulation*.

<sup>3</sup> Emissions performance credits are reductions generated at regulated facilities that have reduced their emissions below their annual limit.

<sup>4</sup> Facilities pay into the Climate Change and Emissions Management Fund at \$20 per tonne of excess emissions. The monies are used to fund Alberta's efforts to reduce emissions and adapt to the effects of climate change.

<sup>5</sup> Alberta Emissions Offset Registry, <http://www.csaregistries.ca/albertacarbonregistries/home.cfm>.

<sup>6</sup> This check is specific to aggregated offset projects, a collection of small projects registered as a single project on the registry. The risk that these projects include duplicate locations or owners is higher than for non-aggregated projects.

data on the registry is credible and secure. In 2009 we found the department did not have this assurance. In addition, the department did not have a signed contract with the registry provider.

## AUDIT OBJECTIVE AND SCOPE

Our objective was to determine if management has implemented our 2009 recommendation to:

- obtain assurance that data hosted and processed by its registry provider is accurate, complete and secure
- formalize its relationship with the registry provider<sup>7</sup>

We conducted our field work between November 2016 and February 2017 and substantially completed our audit on February 14, 2017.

## WHY THIS IS IMPORTANT TO ALBERTANS

Because the department lacks adequate assurance over whether the offset registry data is accurate, complete and secure, the offsets that regulated facilities use to comply with the *Regulation* could be invalid. Invalid offsets that go undetected can result in loss of revenue to the department and undermine the credibility of the systems to manage the *Regulation*.

## WHAT WE EXAMINED

We examined the design, implementation and operating effectiveness of the department's controls to mitigate the risk that the registry data is not accurate, complete or secure. We interviewed the department's management and staff responsible for these functions. We also reviewed the department's contract with the registry provider.

## CONCLUSION

Because of the significance of the key findings described below, we conclude that the Department of Environment and Parks has not implemented our recommendation to obtain assurance that the data processed and maintained by the registry provider is accurate, complete and secure.

## FINDINGS AND RECOMMENDATIONS

### Assurance that registry data is accurate, complete and secure—recommendation repeated

#### CONTEXT

For an organization using a third party to provide services, a standard process to obtain assurance that the third party is appropriately performing the required functions is through a service auditor's report.<sup>8</sup> The report provides reasonable assurance on the design, implementation and effectiveness of the third party's internal controls relevant to the organization's objectives.

<sup>7</sup> *Report of the Auditor General of Alberta—October 2009*, page 49.

<sup>8</sup> The Canadian Standard for Assurance Engagements 3416 contains requirements for assurance engagements to report on controls at organizations that provide services to other entities. The associated report is commonly referred to as a service auditor's report.

In the case of the Alberta Emissions Offset Registry, the department relies on the external registry provider to:

- list offsets submitted by project developers
- track offsets using unique serial numbers
- review documents supporting offsets for completeness and adherence to the department's requirements
- process registry transactions
- ensure information is secure
- check annually that there are no duplicate offsets in the registry

#### CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The department should have reliable, secure and effective administrative systems to support the *Specified Gas Emitters Regulation*.

#### OUR AUDIT FINDINGS

##### KEY FINDINGS

- The department still lacks adequate assurance that the registry data is accurate, complete and secure.
- The department signed a contract with the registry provider in 2014. Over two years later, the department has not enforced the contract requirement that would provide assurance over the data.

Although the department has been continually improving its systems supporting the *Regulation*, we consider the department's progress in implementing the recommendation too slow.

The department does not have information on whether the registry provider's general computer environment is sound. Specifically, the department does not know if the registry provider has effective controls to ensure:

- registry data is protected from unauthorized access, is secure and is properly backed up and stored
- only authorized changes are made to information systems

Further, the department lacks ongoing assurance that the registry provider's process to detect duplicate offsets is effective. While the department has verified that the registry provider's check for duplicate offsets was effective for the 2014 calendar year, it has not done any verification beyond 2014. To have ongoing assurance that the registry is free of duplicate offsets, the department needs to continue its verification or have an independent auditor report on the registry provider's processes.

Under the 2014 contract with the department, the registry provider is required to obtain an annual service auditor's report, which would give the department the assurance it currently lacks. The department has not yet enforced this requirement but they plan to get the necessary assurance by December 2017.

**RECOMMENDATION 5: OBTAIN ASSURANCE ON THE REGISTRY PROVIDER'S DATA—REPEATED**

We again recommend that the Department of Environment and Parks obtain assurance that data hosted and processed by its provider of registry services is accurate, complete and secure.

**CONSEQUENCES OF NOT TAKING ACTION**

Without assurance that the registry data is accurate, complete and secure, there is a risk that offsets in the Alberta Emissions Offset Registry are invalid and are going undetected. Undetected invalid offsets can result in lost revenue that the department could use to fund Alberta's efforts to reduce emissions, and undermine the credibility of the systems to manage the *Specified Gas Emitters Regulation*.