AUDITING CARBON OFFSETS: INTEGRITY FAILURES IN THE VOLUNTARY CARBON MARKET

A Look at Structural Weaknesses in the Voluntary Carbon Market & What Must Be Done to Address Them

THE PROBLEM

The voluntary carbon market (VCM) plays a growing role in corporate climate strategies and public climate discourse, yet its auditing system is often structured in ways that create serious integrity and corruption risks. Namely, when auditors are financially dependent on the entities they are entrusted to scrutinize, oversight is predictably weakened, and private interests can distort outcomes intended to serve the public good.

A November 2025 Transparency International U.S. report, *Offsetting Accountability: Conflicted Governance in the Voluntary Carbon Market*, identifies conflicted governance and interdependent financial relationships as core weaknesses of the VCM, including in third-party auditing. Market players cite project auditing as evidence of integrity in the development and issuance of carbon credits. Yet overt financial interdependency among and between market participants as well as extensive audit failure undermines the credibility of such claims.

A 2025 study by University of Pennsylvania Carey Law School researchers (Coglianese and Giles, June 2025) examined 95 carbon offset projects registered with Verra, the world's largest and most influential voluntary carbon credit registry, that had previously been identified in the literature as significantly overstating their climate benefits. The study found that 64% of Verra-approved auditors that were still active as of December 2024 had validated one or more of these projects.

> ***[W]hen auditors are selected and paid by the organizations they are auditing, as happens with carbon offset credits, their auditing results too often support the interests of their clients.***
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> Coglianese and Giles, June 2025

EXAMPLES OF THE PROBLEM

- Auditors approved large wind and hydropower projects in China as eligible for carbon credits after determining that they met “additionality” requirements. However, many of these projects already had state-backed financing and were supported by renewable energy mandates. Later analysis showed that the projects would likely have been built anyway, meaning the credits did not represent real additional emissions reductions.

- The Coglianese and Giles study showed how U.S. livestock manure methane projects were credited under voluntary carbon standards in a system where auditors were selected and paid by project developers who stood to profit directly from credit approval. In these projects, auditors approved credits based on project documentation that relied on inflated assumptions about baseline methane emissions and future management practices that directly affected the number of credits issued. The study explains that this developer-paid verification structure incentivizes auditors to favor approval over scrutiny, increasing the risk of over-crediting.

WHY IT MATTERS

These failures allow private actors to profit from weakened oversight while presenting misleading claims of climate integrity. **When conflicted auditors repeatedly approve inflated or non-additional credits, the market enables misleading climate claims, shields pollution, and diverts climate finance away from effective solutions.** As carbon credits are increasingly referenced in net-zero strategies and regulatory frameworks, compromised auditing threatens climate credibility, public trust, and democratic accountability.

THE SOLUTION

Addressing these risks requires treating auditor conflicts of interest as a governance and corruption-risk problem, not some narrow technical flaw. Standard setters should pursue structural reforms that include:

- Ending the practice of project developers selecting and paying their own auditors by establishing independent auditor assignment mechanisms (e.g., random selection from a qualified pool) to sever financial dependence between auditors and the projects they review.
- Requiring full transparency around audit outcomes, including disclosure of failed verifications and repeat auditor-client relationships.
- Establishing enforceable accountability mechanisms, including professional sanctions, for auditors that repeatedly validate projects later found to be over-credited or non-compliant.

Without these reforms, the VCM will continue to offer the appearance of independent oversight while enabling the very abuses it is meant to prevent.

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