



# ESDC Passport Revolving Fund Cost Recovery Audit

## Audit Report

January 2025





## **Audit of ESDC Passport Revolving Fund Cost Recovery**

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## 1. BACKGROUND

### 1.1 Context

Employment and Social Development Canada (ESDC) is responsible for delivering the Passport Program within Canada on behalf of Immigration, Refugees and Citizenship Canada (IRCC). IRCC has overall authority and responsibility for the Passport Program. The Service Delivery Agreement (SDA) signed in April 2023 (and formerly the Memorandum of Understanding on Financial Agreements from 2013) outlines the roles and responsibilities of both departments. The SDA authorizes ESDC, via Service Canada, to deliver passport services across Canada.

#### Passport Revolving Fund

The Passport Program (the Program) operates on a cost-recovery basis through the Passport Revolving Fund (PRF) that is managed by IRCC. The PRF uses passport processing fees to finance costs associated with the delivery of the Passport Program. If the fund were to enter a deficit, the Minister of IRC would no longer have the authority to make any expenditures for passport operations.

#### Passport Crisis

The demand for passports significantly decreased during the COVID-19 pandemic in 2020-21 (the pandemic) due to public-health enacted travel restrictions. A significant backlog in passport applications quickly accumulated (the passport crisis) when travel restrictions were lifted at the end of the pandemic in 2021-22. There was an accumulated surplus in the PRF that was initially sufficient to absorb the lost revenues and costs incurred during the pandemic and ensuing crisis. However, these events had a significant impact on the free balance of the PRF. The projected surplus decreased from \$1.17 billion in 2019-2020 to \$295.5 million as of March 31, 2023.

#### Treasury Board Secretariat – Audit Request

Due the significant reduction of the PRF over a relatively short time period, the Treasury Board Secretariat requested that Internal Audit from ESDC and IRCC work together to audit the Program's governance and financial controls, with a view to putting forward options to strengthen the Program oversight.

### 1.2 Audit Objective

The objective of the audit was to assess whether the Department had adequate governance and financial controls for Passport Program costs charged to the PRF.

### 1.3 Scope

The scope of this audit included passport costs charged by the Department to the PRF from the 2018 – 2019 fiscal year until August 2024, including the passport crisis after the pandemic. The audit scope did not include testing the accuracy of costs charged by ESDC to the PRF nor their eligibility.



## 1.4 Methodology

The audit was conducted using a number of methodologies including:

- Documentation review and analysis;
- Data analysis; and
- Interviews with management and staff.

## 2. AUDIT FINDINGS

### 2.1 Oversight Committees Focused on Service Delivery

#### **Governance Committees**

ESDC and IRCC have joint oversight operational and Deputy Minister-level committees in place. However, the meeting discussions focused on service delivery and operational priorities with a limited focus on cost impact. Including regular discussions on costs would foster more shared awareness of cost implications and strengthen oversight by senior management and joint governance.

#### **Passport Crisis Committees**

Management indicated that joint ESDC and IRCC crisis committees and working groups were established during the passport crisis in 2021-22 and 2022-23. However, the Terms of Reference or Records of Decisions for these committees were not documented.

#### **Recommendation**

1. ESDC (Integrated Services Strategy and Operations Branch), in collaboration with IRCC, should include passport cost monitoring as a standing oversight item on joint governance committee agendas.

#### **Management Response**

The ISSOB agrees with the recommendation.

### 2.2 Monitoring Mechanisms Limited to Forecasted Passport Program Costs

The previous IRCC-ESDC Memorandum of Understanding (2013) and the new Service Delivery Agreement (SDA) (2023) and related Annex/Appendices do not provide detailed requirements on establishing monitoring mechanisms over the actual passport costs charged to the PRF.

The Chief Financial Officer Branch (CFOB) challenged internal passport cost forecasts submitted by the business lines, that are responsible for submitting accurate and eligible passport costs to the CFOB.

While department-level monitoring of the actual costs charged to the PRF included comparisons to internal forecasted costs, budget authorities and financial coding verifications, there was no monitoring of the actual costs charged to the PRF to verify eligibility and accuracy.

**Recommendation**

2. ESDC (Chief Financial Officer Branch) should implement departmental-level monitoring activities to verify accuracy of the passport program forecasts and validate eligibility of the actual passport costs charged to the Passport Revolving Fund.

**Management Response**

The CFOB agrees with the recommendation. The CFOB has been conducting departmental level monitoring activities to verify the accuracy of the passport program forecasts through each period forecasting exercise led by Corporate Resource Management, understanding that additional activities could be undertaken.

## 2.3 Enhanced Collaboration Led to Improved Costing

While the Department has implemented oversight and financial controls over internal passport forecasts, the audit team had the following observations.

**ESDC Internal Forecasting**

The CFOB and Integrated Services Strategy Operations Branch have an established corporate callout process that provides guidance for identifying internal passport cost forecasts.

**Costing Model**

The new jointly ESDC-IRCC developed costing model (2024-25) allows for ESDC's input, addresses the old model's weaknesses, is based on reasonable key assumptions and uses relevant and flexible cost drivers to establish forecasted costs. ESDC now has increased input into the new costing model and as a result, the Program can more accurately assess the cost impact of changes in the passport service delivery activities.

**Costing Methodology**

While there is a costing approach that the ESDC business lines follow to charge passport costs to the PRF, a detailed costing methodology was not documented prior to 2024-25.

**Invoicing of Actual Costs and Fee Transfers to IRCC**

The CFOB has an adequate reconciliation of the passport costs incurred and recorded by the Department to ensure they are accurately invoiced to IRCC. The audit also confirmed that passport fees collected by ESDC were transferred to IRCC on a monthly basis during 2021-22, 2022-23 and 2023-24.

## 3. CONCLUSION

Enhanced collaboration between ESDC and IRCC beginning in 2023-24 has led to notable improvements in financial controls and governance. While the Department has implemented adequate governance and financial controls over passport cost forecasts, improvements could be made on by including cost discussions at joint governance committees as a standing item and instituting formalized monitoring of actual costs to better support the cost recovery process.

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the ESDC



Passport Revolving Fund Cost Recovery Audit. The evidence was gathered in accordance with the Treasury Board *Policy on Internal Audit* and the *International Standards for the Professional Practice of Internal Auditing*.



APPENDIX A: AUDIT CRITERIA ASSESSMENT

Audit Criteria	Rating
It is expected that the Department implemented adequate governance and oversight mechanisms that enabled inter-departmental communications and timely monitoring of Passport Program costs.	Controlled, but should be strengthened; medium-risk exposure
It is expected that the Department implemented adequate financial controls over forecasting, monitoring and reporting of Passport Program costs charged by ESDC to the PRF and over passport fees transferred to IRCC.	Controlled, but should be strengthened; medium-risk exposure





APPENDIX B: GLOSSARY

CFOB	Chief Financial Officer Branch
ESDC	Employment and Social Development Canada
IRCC	Immigration, Refugees and Citizenship Canada
PRF	Passport Revolving Fund
SDA	Service Delivery Agreement