Horizontal Audit of Service Fees and Cost Recovery - Report

Audit and Evaluation Branch

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Contents

LIST OF ACRONYMS USED IN REPORT

AEB	Audit and Evaluation Branch
CFO	Chief Financial Officer
CMS	Corporate Management Sector
CPI	Consumer price index
FAA	*Financial Administration Act*
ISED	Innovation, Science and Economic Development Canada
SFA	*Service Fees Act*
TBS	Treasury Board Secretariat

1.0 Executive Summary

1.1 Introduction

In 2017, the Government introduced the *Service Fees Act* (SFA or the "Act") to modernize the administration of fees charged by the Government of Canada to individuals and organizations. This included new reporting requirements, annual adjustments based on the Consumer Price Index (CPI), the establishment of service standards, and the obligation to establish a remission policy for fees subject to service standards. These changes were intended to modernize the administration of services fees to bring greater government accountability, increase transparency and an improved stewardship of taxpayer dollars.

1.2 Audit Background

In fiscal year 2022-23, Innovation, Science and Economic Development Canada (ISED) had 539 service fees set under the authority of an act, regulation or fee notice and managed by seven different programs. A total of $622M was generated by these fees, with $241,056 remitted to fee payers for non-compliance with applicable service standards.

The objective of this engagement was to provide assurance that key controls are in place to support the compliance with the requirements of the SFA, *Financial Administration Act* (FAA), and Treasury Board regulations related to service fees.

The audit scope focused on fees set by Acts and regulations. The audit scope included seven programs and the oversight activities of the Corporate Management Sector (CMS) over service fees, for the period of April 1st, 2021, to March 31st, 2024. Specifically, the audit examined:

- The governance and oversight structure to support compliance.

- The business processes to track, measure, and report on service fees.

- The financial management process and compliance with the requirements of the SFA and the *Financial Administration Act*.

1.3 Overview of Audit Results

Strengths

Governance and oversight over service fees activities were executed through formal approvals by the CFO, and supported by the central coordinating and guiding activities by CMS. Responsibilities for managing service fees in the Department are clearly defined and communicated through ISED's *Service Fees Remission Policy*.

Additionally, all programs had either formally documented roles and responsibilities or documented processes for managing service fee activities. A well-defined process was in place for preparing the various reporting requirements.

Business processes such as fee proposals, fee reviews and fee adjustments were prepared in accordance with the requirements of the Act and the *Directive on Charging and Special Financial Authorities*, and performed by programs in cooperation with CMS. Each program has processes in place to measure service standards and issue remissions as required.

Financial management of service fees forecasting was supported by tools, systems, and processes such as the Financial Status Reports and Annual Reference Level Update. Controls and processes were in place as demonstrated through approval mechanisms, which ensured that remissions were paid in compliance with the requirements of the *Service Fees Act*, the *Financial Administration Act and* the *Directive on Charging and Special Financial Authorities*.

Recommendations

It was determined that the department would benefit from additional review processes to improve the accuracy of the data reported, as related to information received from programs to populate the Departmental Fees Report.

Additionally, as part of the fee review process, CMS should ensure that the cost recovery rates are calculated to ensure that fee prices are supporting the expected cost recovery level.

Finally, CMS should ensure that programs with material fees have appropriate procedures in place to ensure the quality of information collected for service standard tracking.

1.4 Audit Opinion and Conclusion

The audit has determined that ISED complied with the key requirements of the *Service Fees Act* during the engagement period for the high-risk areas assessed. All seven programs and CMS have established governance frameworks, business practices, and financial management activities to support these requirements.

However, the engagement also identified opportunities to enhance certain processes to improve the accuracy of collected and reported information. The decentralized management of fees across various systems, combined with manual data entry in some instances, introduces risks of errors in both reporting and performance measurement. Consequently, this engagement recommends implementing additional

controls to validate the information collected by programs regarding service standards, as well as by CMS for reporting purposes.

Looking ahead, ISED should also consider the various requirements related to service fee management when updating or replacing its systems. This will help ensure data accuracy, minimize the need for extensive data manipulation, and promote centralized reporting.

1.5 Management Response

Management has agreed with the findings included in this report and will take action to address all recommendations by Q4, 2025-26.

1.6 Statement of Conformance

This audit was conducted in accordance with Government of Canada's *Policy on Internal Audit* and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, as supported by the results of the Audit and Evaluation Branch's quality assurance and improvement program.

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Innovation, Science and Economic Development Canada

2.0 Background

2.1 Overview

2.1.1 The *Service Fees Act* and Directive

Since June 2017, fees collected by departments and agencies for services provided have been regulated by the *Service Fees Act* (SFA or the "Act"). The Act was introduced to increase transparency, accountability and predictability regarding service fees charged by the Government. Changes introduced by this Act include, but are not limited to, the following:

- the requirement to table an annual fees report in Parliament;

- an annual adjustment of fees based on the CPI;

- the establishment of service standards for each fee; and

- an obligation for all departments and agencies to establish a remission policy for fees subject to service standards.

A remission is the reimbursement to a fee payer of a fee or portion of a fee for which the department determines the service standard was not met. Some fees are exempt from remission, including fees set by contract, auctions, and fees with low materiality.

Service fees are also regulated by the *Directive on Charging and Special Financial Authorities* which establishes the responsibilities of Chief Financial Officers (CFO), senior managers and requirements regarding fee proposals, remissions, and annual reporting.

There are three primary fee-setting mechanisms used in the federal government:

1. Fees set by Act, regulation or fees notice. An Act of Parliament delegates the fee-setting authority to a department, Minister or Governor in Council.

2. Fees set by contract. Ministers have the authority to enter into contracts, which are usually negotiated between the Minister and an individual or an organization, and which cover service fees and other terms and conditions.

3. Fees set by the market rate or auction. The authority to set these fees is pursuant to an act of Parliament or regulation. The Minister, department or Governor in Council have no control over the fee amount.

2.1.2 Treasury Board Secretariat

The Treasury Board Secretariat (TBS) oversees service fee operations within the Government of Canada. TBS is responsible for the development of regulations and guidance, and supports departments and agencies by reviewing fee proposals for compliance and providing feedback. Under these responsibilities, TBS produces the annual President of the Treasury Board's Fees Report, consolidating information from federal governmental organizations that have the authority to charge fees.

2.1.3 Service Fees at ISED

At ISED, 539 different fees were reported during the fiscal year 2022-23 in the seven programs listed in Table 1, with their revenues for fees set by Act, regulation, or fees notice. During fiscal year 2022-23, ISED reported total revenues of $622 million for in that category of fees, while a total of $241,056 was reimbursed to fee payers in remissions.

Table 1 – Revenue and Remissions by Program set by Act, Regulation, or Fees Notice – 2022-23

Program	Number of Fees	Revenue ($)	Remissions ($)
Competition Law Enforcement and Promotion	15	15,073,917	62,609
Federal Incorporation	72	27,623,174	1,700
Insolvency	11	23,274,420	0
Intellectual Property	148	169,595,865	165,262
Spectrum and Telecommunication	80	299,746,847	112
Support and Financing for Small Business	2	86,184,972	0
Trade Measurement	211	650,555	11,373

Certain programs at ISED have the authority to spend some of the revenues they collect in accordance with their appropriation Act (Act authorizing spending of revenues) and funding authorities. There are two mechanisms in place to do so:

- Revolving Fund: A revolving fund is an ongoing funding authority for revenue re-spending that provides a financial management structure similar to a private business that must generate sufficient revenues to meet its expenses. This approach is used to finance continuing operations with less fiscal year limitations and to provide funding for specific purposes where there is continuous authorization by Parliament to make payments out of the Consolidated Revenue Fund. The Canadian Intellectual Property Office is managing its activities within a revolving fund.

- Vote Netted Authority: This authority, granted annually by Parliament, is a lapsing authority allowing entities to use revenues to offset related expenditures in the same fiscal year in accordance with their appropriation Act. The Competition Bureau, Corporations Canada and the Office of the Superintendent of Bankruptcy have these authorities.

2.1.4 Corporate Management Sector

Housed within the Corporate Management Sector (CMS), the CFO oversees compliance with the SFA and other applicable requirements within ISED. Various directorates within CMS are responsible for executing tasks related to service fees, including:

- executing the quality assurance review of fee proposals, ensuring their compliance with regulatory requirements, submitting the documentation for the CFO's approval, and ensuring coordination between programs and TBS;

- evaluating and validating cost estimates prepared by programs;

- preparing the reporting documentation for the annual Departmental Fees Report and the President of the Treasury Board's Fees Report;

- supporting programs in managing their vote-net-revenue authorities and cashflows; and

- overseeing revenues and remissions, and validating figures for internal and external reports.

2.1.5 ISED's Sectors and Programs

Sectors and their branches are responsible for the day-to-day management and administration of service fees. This includes:

- providing services to fee payers;

- preparing fee proposals and consulting with stakeholders when required;

- determining cost estimates and proposing fee levels and service standards;

- managing transactions in their information systems; and

- providing information for reporting requirements to CMS.

2.2 Previous Audit Engagements

Service fees have never been audited at ISED, but the Audit and Evaluation Branch (AEB) conducted the Horizontal Audit of Project Costing in 2019-20, assessing controls related to project costing activities. The costing team supporting project costing is also responsible for supporting the costing of service fees for fee proposals. The audit concluded that effective governance processes were in place for the approval of cost estimates and cost changes, but opportunities were identified to strengthen practices, tools, and guidelines related to the development of project cost estimates to ensure a rigorous and consistent approach across the Department. Following the audit, improvements were implemented which included a Costing Unit, a Costing Working Group, a Guideline on Project Costing, and a Project Costing Model.

2.3 Audit Objective, Scope, and Methodology

This horizontal audit of service fees and cost recovery activities is being undertaken by AEB in accordance with ISED's approved 2023–26 Risk-Based Audit Plan.

2.3.1 Audit Objective,

The objective of this engagement was to provide assurance that key controls are in place to support the compliance with the requirements of the SFA, *Financial Administration Act* (FAA), and Treasury Board regulations related to service fees.

2.3.2 Audit Scope

The audit focused on fees set by the Act, regulation, or fees notice. Fees set by contract, market values and auctions were excluded from the audit as, under the SFA, they are not subject to public consultations, remissions, and costing activities.

The audit scope included seven programs and the oversight activities of CMS over service fees, for the period of April 1st, 2021, to March 31st, 2024. Specifically, the audit examined:

- The governance and oversight structure to support compliance with the SFA, including roles and responsibilities.

- The business processes to track, measure, and report on service fees, including service standards and remissions. This also includes the processes to cost, propose and review fees.

- The financial management process, including the forecasting activities of re-spendable fees and compliance with the requirements of the SFA and the FAA.

2.3.3 Audit Methodology

The methodology used for this audit included performing various procedures to address the audit's objective. This included, but was not limited to, reviewing documentation, interviews, walkthroughs, mapping exercises and sample testing. Data analytics were also performed to guide the sampling strategy, in addition to providing additional observations to management. Sampling was used to assess remission payments, including compliance with the FAA. Based on the identified risks, AEB developed the audit criteria and sub-criteria linked to the overall audit objective (see Appendix A).

3.0 Findings and Recommendations

3.1 Governance and Oversight of Service Fees

<u>What we looked at</u>: The audit assessed whether the governance and oversight of service fees support compliance with the SFA.

<u>Why it matters</u>: Service fee management is a collaborative effort between the CFO, who oversees various functions as outlined in the TBS *Directive on Charging and Special Financial Authorities*, and the seven programs responsible for the day-to-day administration of service fees. Ensuring compliance with the Act requires effective coordination of these responsibilities across the department, including oversight and reporting, to support informed decision-making and sound financial management.

Roles and Responsibilities

The audit team assessed whether roles and responsibilities related to service fee administration were clearly defined and communicated.[1]

- Responsibilities for managing service fees in the Department are clearly defined and the duties of both CMS and programs are communicated in ISED's *Service Fees Remission Policy.*
- Within CMS, formal assignments have been made for key tasks such as fee reviews, processing remissions, tracking and reporting vote-netted revenue, and preparing the Departmental Fees Report and assisting with the preparation of the President of the Treasury Board's Fees Report.
- All programs had either formally documented roles and responsibilities or documented processes for managing service fee activities.

Oversight of Service Fees

The audit team evaluated whether the CFO and CMS are fulfilling their key oversight responsibilities to ensure compliance with the Act, and as outlined in ISED's Service Fees Remission Policy.

- During the scope period, the CFO formally approved fee proposals, fee adjustments, fee reviews, the fees report, and the departmental remissions policy.

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[1] Execution of roles and responsibilities was assessed as part of the assessment of business processes. See section 3.2.

- CMS supported this process by coordinating and guiding the service fee-charging programs. CMS facilitated and managed workflows by providing guidance documents, checklists, pre-filled templates, and financial data. They ensured that all requirements were met and that program submissions were reviewed.

After the enactment of the SFA, ISED established the Service Fees Act Implementation Project Steering Committee to provide oversight, strategic guidance, and advice for its implementation. This committee was active for several years prior to the scope period of this engagement. As of April 2024, CMS has reconstituted the committee as the ISED Service Fees Act Working Group, which is now responsible for ensuring compliance with the SFA. The working group includes all service fee-charging programs along with CMS directors responsible for costing and the oversight of service fees.

Reporting

The audit assessed the measures implemented by CMS to ensure accurate reporting for fiscal years 2021-22 and 2022-23. Pursuant to the *Directive on Charging and Special Financial Authorities*, the CFO is responsible for developing an annual report on service fees in the manner prescribed by TBS. CMS is responsible for collecting information from ISED's fee-charging programs to generate consolidated reporting of service fees for the annual report (the "Departmental Fees Report"), while also providing information to TBS to assist in the preparation of the President of the Treasury Board's Fees Report.

A well-defined process was in place for the department's reporting requirements.

- CMS sent information requests to the programs, including pre-filled templates to minimize errors.
- Each program was responsible for generating its own financial and performance data and completing the details for its individual fees. Senior departmental managers signed an attestation form confirming that they had reviewed and verified the accuracy of the information provided by their respective programs.
- CMS assessed and compiled the data from all seven programs to produce the annual Departmental Fees Report. The report was posted on the Department's website in accordance with reporting requirements.

The audit identified 54 minor reporting errors in 2021-22 over 533 fees (10% of entries), and 94 in 2022-23 over 539 fees (17% of entries), most of them were less than 1$ but a few were higher, up to $125. These errors included discrepancies in the displayed fee amounts, incorrect reporting of annual fee adjustments and

inconsistencies with program website information regarding the duration of performance/service standards. Although a checklist was used to review the completed template submissions, the audit team found no procedures in place to identify these errors effectively. This gap could result in larger reporting inaccuracies going unnoticed. Additionally, there was no evidence that the checklist was applied to each program's submission. For improved accuracy, the checklist should include specific steps for verifying information and documenting that all checklist components have been completed. Errors which the audit identified in the reports were a result of data being processed and compiled manually. Errors such as this can be reduced through a review and verification process.

Recommendation #1 (Medium Risk)

> CMS should establish a process to verify the accuracy of the data received from programs to populate the Departmental Fees Report to ensure that the information reported is accurate. Review and validation of data processes should be documented, and evidence of their completion should be retained.

3.2 Service Fees and Business Processes

What we looked at: The audit assessed whether business processes were in place and operated effectively to support the requirements of the SFA and Treasury Board directive and guidance.

Why it matters: In addition to supporting compliance requirements of the Act, robust business processes for managing service fees support effective stewardship, promote transparency and enhance the customer experience.

Fee Proposals

According to the SFA and the TBS *Directive on Charging and Special Financial Authorities*, departments must submit a fee proposal to TBS before introducing a new fee or modifying an existing one. The proposal process must include a comprehensive analysis covering specific requirements such as costs, fee amounts, pricing factors, impact assessments, and expected revenues. Unless exempt by regulation, fee proposals are required to include consultation with interested persons and organizations.

A total of five fee proposals were identified within the scope period of this engagement. The audit determined that:

- All fee proposals were prepared in accordance with the requirements of the Act and the directive.
- Oversight was effectively exercised, as each of the five proposals received approval from sector heads and the CFO, and were reviewed by ISED's Legal Services and TBS.
- Programs took public representation into account when developing their fee proposals, ensuring that all proposals were crafted in consultation with stakeholders and published in the Canada Gazette.
- The costing of fee proposals was generally consistent with the TBS *Guide to Costing* and the TBS *Fee Proposal Guidance Tool*.
- CMS challenged the cost estimates provided by programs.

However, among the five fee proposals tested, three lacked detailed cost information on an individual fee basis, and two did not include expected revenue details for individual fees, presenting the data only for groups of fees. For accuracy and alignment with TBS guidance, fee costing and revenue should ideally be detailed on an individual basis. While it may not always be feasible to collect information at the individual fee level due to grouping in program management systems, CMS and programs should try to address this requirement in future system modernization.

Fee Review and Costing

As per the *Directive on Charging and Special Financial Authorities*, departments are required to develop and implement a plan to periodically review fee-charging activities. This review also serves as an opportunity to ensure that fees charged are aligned with the program's expected cost recovery levels.

The audit team observed that:

- CMS established a fee review plan in 2020, assigning to sectors the responsibility for preparing and conducting their own reviews.
- During the scope period of the engagement, CMS provided templates for programs to submit information on their fees, including cost recovery rates (the percentage of service costs recovered by fees).
- Each program at ISED uses its own costing model to determine the direct costs of delivering services, with CMS supplying information on indirect costs. The audit found that CMS conducted limited validation of the direct costs, and in some instances cost recovery rates were not developed.

Due to the incomplete data on cost recovery rates, there is a risk that fee prices will not meet recovery expectations. Accurate cost recovery rates are crucial for ensuring that fee levels are set appropriately.

CMS should ensure that cost recovery rates are calculated and validate supporting information from programs during the fee review process. This will ensure that fee prices are supporting the expected cost recovery level.

Annual Fee Adjustments

In accordance with the *Directive on Charging and Special Financial Authorities* and the SFA, the CFO is responsible for implementing and charging annual and periodic fee adjustments as required, and for ensuring that updated fee amounts are reflected on all departmental websites. Fee adjustments are made on their anniversary date, based on the 12-month percentage change in the April All-items CPI. However, some fees are excluded from this adjustment process, such as those with low materiality, which are adjusted periodically through legislation other than the SFA.

The audit team assessed if fee adjustments were made as required. All programs were in compliance with requirements of annual fee adjustments as reported in the 2021-22 and 2022-23 Departmental Fees Reports.

Monitoring Performance, Services Standards and Remissions

The *Directive on Charging and Special Financial Authorities* requires senior departmental managers to establish service standards for fees, track performance against these standards, monitor compliance, and issue remissions as needed.

Each program employs its own processes and systems for managing service fees. The audit team performed walkthroughs with programs where remission payments were applicable to assess how service standards are calculated, tracked, and monitored. This involved examining twelve distinct lines of business across six programs, each with unique processes, and nine different software systems.

- All twelve business lines reviewed transactions that did not meet service standards leading to remission payments.
- Programs and CMS reviewed these transactions and associated payments to ensure the validity of all remission payments.

The audit team identified limited controls in some programs to ensure the accuracy of the data collected.

- For seven of the twelve business lines, manual entry was required to input start dates, end dates, or both for calculating service standards, while the remaining business lines were fully automated.

- For five of the seven manually entered processes, the audit team found no evidence of formal reviews to verify the accuracy of start and end dates at the transaction level, nor mechanisms to validate the quality of the collected information.

The high volume of manual transactions without proper validation increases the risk of errors and missed remission payments. Although the audit team did not perform a detailed analysis of data quality, errors were observed during walkthroughs of four of the twelve business lines; however, none of these errors resulted in inappropriate remission payments.

Recommendation #3 (Medium Level)

CMS should ensure that programs have developed and implemented a procedure to ensure the quality of the information collected in their systems, including for the calculation of program performance against service standards.

ISED's *Service Fees Remission Policy* requires that sectors monitor service performance and take corrective actions when needed. The audit team found that:

- Nine of the twelve business lines conducted periodic reviews of program performance against service standards, including trends for remission payments. The remaining three business lines are associated with a program currently undergoing a review of its fee structure.
- All programs could report their total remissions paid.

3.3 Financial Management

<u>What we looked at</u>: The audit team assessed two key aspects of financial management: first, whether programs had processes in place to forecast revenues from service fee activities; and second, whether remissions were paid in accordance with the SFA and the FAA.

<u>Why it matters</u>: Although precise forecasting of revenues and cost recovery for the upcoming year can be challenging, effective forecasting practices enhance strategic planning, budgeting, and operational efficiency. Additionally, robust controls to ensure compliance with the FAA bolster public confidence by ensuring that remissions are issued only when warranted.

Forecasting

The audit team assessed whether processes and controls are in place to support the forecasting of revenues and costs related to service fees.

ISED's consolidated Financial Status Reports (FSRs) provided a comprehensive view of financial forecasts and actual performance against the budget for re-spendable revenue across the organization. CMS supported programs with re-spendable fees in their forecasting activities through the FSR process and associated templates. The audit found that:

- CMS had established a clear methodology for collecting information, which facilitated effective financial management and decision-making. This included tracking revenue, full-time equivalents, salaries, non-salary expenses, operations and maintenance, and capital costs.
- Vote-netted revenue and associated expenditures were monitored and reported seven times annually, with amounts compared to forecasts to identify variances.
- When significant surpluses or deficits were detected, corrective actions were proposed to close out the fiscal year and ensure proper management of re-spendable funds.

ISED manages one program with a revolving fund authority, utilizing the Annual Reference Level Update (ARLU) to establish the expenditure baseline for program spending.

- The program employed a clear methodology, where business lines completed templates to generate forecasts for the fiscal year. The collected information supported both decision-making and financial management of the revolving fund.
- Financial statements were updated monthly, with actual figures compared against budgets.
- Forecasted data informed decision-making, as evidenced by a recent assessment of the revolving fund's business cycle. This assessment led to a program-wide adjustment of service fee prices to ensure the fund's self-sufficiency throughout its business cycle.

Remission Payments

The audit team assessed a random sample of 24 remission payments made to fee payers for the fiscal years 2021-22 and 2022-23 to verify payment eligibility and ensure compliance with the SFA and the FAA. The transactions were selected from the five programs that issued remissions during this period.

The audit found that:

- Programs and CMS had established processes to validate each remission payment.
- All sampled payments were made in accordance with the SFA and the FAA. The payments adhered to the requirements of sections 33 and 34 of the FAA and were processed within the timelines specified by the SFA.
- Payment requisitions were supported by certified documentation, and certification confirmed that the payees were eligible for or entitled to the payments.

4.0   Audit Conclusion

The audit has determined that ISED complied with the key requirements of the *Service Fees Act* during the engagement period. All seven programs and CMS have established governance frameworks, business practices, and financial management activities to support these requirements.

However, the engagement also identified opportunities to enhance certain processes to improve the accuracy of collected and reported information. The decentralized management of fees across various systems, combined with manual data entry in some instances, introduces risks of errors in both reporting and performance measurement. Consequently, this engagement recommends implementing additional controls to validate the information collected by programs regarding service standards, as well as by CMS for reporting purposes.

Looking ahead, ISED should also consider the various requirements related to service fee management when updating or replacing its systems. This will help ensure data accuracy, minimize the need for extensive data manipulation, and promote centralized reporting.

5.0   Appendix A: Audit Criteria

Audit Criteria	Sub-Criteria
Governance and Oversight	
1. A governance and oversight structure is in place to support compliance with the *Service Fees Act* and Treasury Board regulations.	1.1 Roles, responsibilities, authorities and accountability for service fees and revenue management are clearly defined, communicated and in place.
	1.2 Reporting and monitoring mechanisms are in place to support oversight of service fees and revenue management.
Business Processes	
2. Effective business processes are in place and operate effectively to support the requirements of the Service Fees Act and Treasury Board regulation.	2.1 Fee proposals and reviews, including costing methodologies, are compliant with the requirements of the *Service Fees Act*, Treasury Board policies and guidelines.
	2.2 Processes are in place to accurately measure, track and report on service standards and remissions.
Financial Management	
3. Effective processes are in place to support sound financial management of service fees and cost recovery.	3.1 Tools, systems and processes are in place to support the costing, forecasting and collection of revenues from service fees.
	3.2 Controls and processes are in place to ensure that cost is recovered and remissions are paid in compliance with the requirements of the *Service Fees Act*, the *Financial Administration Act and* the *Directive on Charging and Special Financial Authorities.*