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Internal Audit of Governance and Financial Management of the Passport Revolving Fund

Audit & Evaluation Branch

Immigration, Refugees, and Citizenship Canada

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i [REDACTED] appears where sensitive information has been removed in accordance with the principles of the Access to Information Act and the Privacy Act.

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Background

Passport Program

Immigration, Refugees and Citizenship Canada (IRCC) is mandated by the Canadian Passport Order to issue, cancel, refuse, revoke and suspend Canadian travel documents. The Passport Program facilitates travel and contributes to a safe and secure travel sector by issuing Canadian travel documents that are internationally recognized and respected. IRCC has partnerships with Employment and Social Development Canada (ESDC) and Global Affairs Canada (GAC) for the delivery of passport services domestically and abroad, respectively. IRCC is responsible for issuing other travel documents, including diplomatic and special passports for official government travelers, refugee travel documents for protected persons residing in Canada, and certificates of identity for permanent residents who are unable to obtain a passport from another country.

What is the Passport Revolving Fund (PRF)?

The Passport Program operates under the Passport Revolving Fund (PRF), which was established in 1969 to fund the issuance of passports and other travel document services. The PRF has a continuing non-lapsing authority from Parliament, meaning the Minister of IRCC may spend any revenue from the PRF to make expenditures related to the delivery of passport and other travel document services in Canada and at posts abroad. However, the Program is still required to seek expenditure authority for certain projects related to the delivery of passport services. The PRF financial statements were audited annually prior to 2016-17 in accordance with the Policy on Special Revenue Spending Authorities. Audited financial

statements are no longer a requirement since the Policy was rescinded in 2017 and replaced by the Directive on Charging and Special Financial Authorities.

In general, the management of the PRF is complex due to the Program being delivered by multiple departments with varying responsibilities.

Effect of the COVID-19 Pandemic on the PRF

In January 2024, IRCC received \$25 million for fiscal year 2023-24, through an off-cycle funding request. The purpose of this request is to mitigate the risk of the PRF falling into a deficit, which would prevent the Program from making any expenditures for passport services. This situation arose due to travel restrictions in place during the COVID-19 pandemic, which resulted in less demand for passport services, and less revenues collected, while the Program maintained a vast majority of its workforce. As border restrictions began to ease throughout 2021-22, global travel rebounded, creating a sudden and sustained rise in demand for passport services. The sharp increase in applications occurred while domestic public health restrictions remained in place, constraining the Program's ability to return to full onsite service delivery, which reduced productivity and resulted in a significant backlog in applications.

To reduce the backlog, IRCC provided ESDC with \$188.2 million from the PRF in 2022 over and above their initial budget allocation. It was during a financial assessment of the funding request where the financial stability of the PRF was first called into question and deemed an emerging high risk. The combined impact of various financial pressures (pandemic-related closures, rapid return in applications, unchanged fees, and increased operating costs) reduced the balance of the PRF from a surplus of \$1.17 billion in 2019-20, to \$295.5 million on March 31, 2023.

Treasury Board's Concerns

[REDACTED]

The joint engagement examined efforts to improve transparency with Ministers and Central Agencies of decisions that were at high-risk of impacting the Program's financial sustainability. For efficiency purposes, while the departments worked collaboratively, each department's audit team conducted their own internal audit and developed separate audit reports.

Audit objective, scope and methodology

Audit Objective and Scope

IRCC's audit objective was to assess the effectiveness of existing governance structures and financial controls in ensuring transparency and accountability of the Passport Revolving Fund.

This audit was undertaken in collaboration with ESDC's Internal Audit function. Their audit objective was to assess whether their Department had adequate governance and financial controls in place for Passport Program costs charged to the PRF.

The audit scope covered the period from FY 2018-19 to FY 2024-25 and included an examination of the validity of the PRF's ten-year cycle and the funding model for Passport-related IT projects.

While the scope examined the processes in place to ensure expenditures were properly costed and revenues were forecasted and monitored, the audit did not validate the quality of the costing estimates (such as projected cost savings and productivity volumes).

Methodology

- Interviews were conducted with key stakeholders from the Citizenship and Passport Programs Branch (CPPB), Passport Program Policy Branch (PPPB), and Financial Partnership Branch (FPB);
- Detailed examinations were done on specific decisions that occurred prior to, during, and post the COVID-19 Pandemic; and
- Review and analysis of documentation such as legislation, policies, frameworks, service delivery agreements, memorandums of understanding, and records of discussion from various governance committees.

Statement of Conformance

This audit was planned and conducted in conformance with the Institute of Internal Auditors International Professional Practices Framework, as supported by the results of a quality assurance and improvement program.

Preamble – Distributed government structure and constraints related to fee adjustments

In the Gartner report *"Passport Program Governance Benchmarks; Governance Assessment and Recommendations"* prepared for IRCC's Passport Program in April 2021, it was highlighted that under the Government of Canada's distributed government structure, each Department is autonomous and guided by its own mandate and strategic priorities.

While the difference in departmental priorities did not result in major issues when both the revenue and expenditures of the PRF were relatively stable pre-pandemic, the issues became apparent when the entire service

delivery model was temporarily disrupted and created significant cash flow issues during and after the passport services disruptions.

The more prominent example of this difference in priorities is the emergency injections of \$188.2M into ESDC operations between the period of July 2022 and December 2022 due to its needs to meet service delivery requirements. As custodian of the PRF, allocations of funding of this size would normally be expected to undergo careful analysis and deliberation within IRCC to assess its immediate and long-term impact on the fund, especially given the drastic reduction of revenues during the pandemic. However, the budget was provided to ESDC relatively quickly due to the government's focus at the time on service delivery and the reduction of backlog in applications. The divergence in roles between the two departments related to the management of PRF, combined with pre-existing weaknesses in its governance of finance (which are the subjects of this audit), magnified the financial pressure brought on by the pandemic.

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While the audits did not focus on decisions related to environmental pressures during the pandemic, it is nonetheless an important context for readers to keep in mind when reading the findings from this report.

Findings and recommendations

Governance to Oversee PRF

Audit Finding 1: While documentation defined roles and responsibilities regarding the management of the Passport Program as a whole, the governance to oversee the PRF was not clearly defined.

Why does this matter?: Without defined governance to oversee the PRF, the Department faces the risk of not being able to proactively monitor the health of the Fund and to make timely financial decisions on the state of the PRF in light of changing operational priorities or circumstances.

The audit expected that:

1. Responsibility for overseeing impact of strategic decisions on the PRF is formally defined and communicated in the Terms of Reference (TOR) of governance and oversight bodies. The audit found that:

- There was documentation available that laid out the roles and responsibilities for the oversight and management of the Passport Program by its various stakeholders. However, the roles and responsibilities specific to the management of the PRF were not clearly defined. There was confusion as to which roles were current, and interviewees mentioned that some roles in the documentation needed to be updated.
- While the IRCC-ESDC Service Delivery Agreement (SDA) identified that IRCC and ESDC are to agree to regularly monitor and report on actuals costs of the Passport Program, there was no defined role within IRCC to monitor and coordinate sharing pertinent financial information of the PRF to all stakeholders on an ongoing basis. This limited the quality of information sharing between all stakeholders and resulted in a lack of insight into the current state of the PRF by all stakeholders to inform Program decision making.
- There was no escalation process in place in the event there were disagreements between departments on decisions made impacting the PRF. It was not clear how disagreements would be resolved, who or which committee to elevate their concerns to, nor

how it would be decided if there were disagreements in decisions made between departments.

2. Oversight bodies receive timely information to monitor the health of the PRF and provide strategic direction to maintain its long-term sustainability. The audit found that:

- A review of various committee records of discussion identified that committee meetings had a limited number of standing items and meeting schedules were not maintained. Prior to 2023, the meetings focused on the Passport Program as a whole, but did not have agenda items specifically to discuss or report on the health of the PRF.
- ESDC had asked to increase the frequency and duration of meetings, to allow for more fruitful discussion. There were some concerns noted by ESDC in terms of the possibility of requiring more time in Executive Management Board (EMB) meetings as well as the importance of maintaining the frequency of meetings and the need for a more regular cadence.

3. The PRF has appropriate accountabilities and controls in place to ensure compliance with Government of Canada and departmental legislation/policies/standards. The audit found that:

- In relation to service fees, adherence to the fee adjustment requirements pursuant to the Passport and Other Travel Document Services Fees Regulations have been addressed through a remission order. There continues to be gaps in the documented roles and responsibilities on which IRCC branch should monitor ongoing compliance with relevant regulations, legislation and policies.

Improvements since 2023

- Many of the documents laying out Passport Program roles and responsibilities were updated since the COVID-19 pandemic (such as the SDAs, the Business Plans, and the governance committees TORs) – however, there are still gaps within these roles specific to the management of the PRF.
- IRCC created a Passport Program Escalation Process which is meant to allow service-delivery partners, ESDC and GAC, to formally raise concerns to IRCC, such as concerns about Passport Program policy, financial matters, and issues related to passport modernization projects and associated IT improvements. The Process utilizes a tiered model, starting at the working level and then escalates up to the ADMs accountable for the Passport Program.

Recommendations

1. The Assistant Deputy Minister (ADM), Service Delivery Sector, in partnership with the Senior ADM, Strategic Policy, as well as ADM and Chief Financial Officer, Finance Sector, should consolidate and clarify roles and responsibilities specifically for the oversight and management of the PRF.
2. The Assistant Deputy Minister (ADM), Service Delivery Sector, in partnership with the ADM and Chief Financial Officer, Finance Sector, should strengthen the financial management and reporting within oversight committees to ensure that the long-term health of the PRF is sufficiently considered when Program officials make important Program decisions.

Management Responses

1. The Program agrees with the recommendation. Program governance Terms of References will be updated to further clarify roles and responsibilities specifically for the oversight and management of the PRF.
2. The Program agrees with the recommendation to strengthen “Program Finances” at oversight committees to support decision making and the long-term health of the PRF. The proposed Passport Program Governance Restructure has already put in place recommendations to provide greater oversight and consensus building for financial discussions and decisions.

The Financial Management Approach of the PRF

Audit Finding 2: The PRF’s financial management approach focused on annual budgets and forecasts but was not supported by sufficient Program planning to adequately consider long-term impacts of activities/decisions/projects on the PRF over its 10-year lifecycle due to limited ongoing monitoring to update projections of future cash flow.

Why does this matter?: Given the history of surplus situation pre-pandemic, the inability to accurately assess PRF’s cash flow in a longer term may once again lead to delays in identifying changes in patterns of revenue and expenditures and reducing stakeholders’ ability to balance the PRF within a 10-year cycle.

The audit expected that:

1. **An effective financial management process in place to identify activities, projects and other priorities as well as their impacts on the lifecycle management of the PRF. The audit found that:**
 - While IRCC looked at financial changes within the Passport Program’s service delivery model annually, consideration of the

longer-term financial impacts to the PRF was lacking. The financial plans sampled by the audit team lacked a cohesive approach for measuring the impact to the PRF over its ten-year business plan. For example, the impact of delays in the Passport Program Modernization Initiative (PPMI) to the projections of future costs was never formally assessed to inform other longer term Passport Program decisions in a comprehensive manner.

- IRCC stakeholders noted that long-term financial planning needs to be preceded by Program planning. The current Program planning approach does not adequately identify underlying financial assumptions which would facilitate better on-going monitoring and timely course correction.
- Contingency planning to manage surplus or deficit of the PRF was not established. Additionally, when considering the impact of the COVID-19 pandemic, the PRF may not have been the appropriate funding mechanism to ensure continuity of service given that the passport fee structure was not intended to cover a sudden increase in expenditures. It was also noted that IRCC has been advised by Treasury Board Secretariat (TBS) in the past to remove the contingency funding within the PRF which may have weakened the PRF's ability to absorb the shock brought on by the pandemic.

2. Effective financial controls are in place to forecast, and manage the flow of expenditures and revenues to and from the PRF. The audit found that:

- There were tools in place to manage and report on the PRF. However, the reporting mechanisms often include the PRF within IRCC's global financial position (as in, Initial Budget Allocations (IBA) or the Corporate Finance Committee (CFC) year-end) or embedded in Program-focused information (Passport Integrated Risk Management) which does not provide a comprehensive

picture of the state of the fund. It was not evident that the information reported was made available to all stakeholders.

- The PRF was included in the annual IBA process which referenced financial forecasts. As an example, the 2022-23 IBA Phase 1 presentation noted that, “year-end results are to be within 5% of the Financial Situation Report (FSR) P6 full-year forecast and within 3% of FSR P9 results”. The FSR does provide regular updates throughout the financial reporting cycle, but they are tied to the fiscal year and are not sufficient for multi-year budgeting or forecasting considerations.

3. There is a standardized process to regularly monitor and report on the progress of both in-year and multi-year expenditure management of the PRF. The audit found that:

- There was evidence that actions were taken to minimize the impact of financial deviations to the PRF; however, there was a lack of focus on monitoring the long-term health of the PRF within the oversight committee structure.
- IRCC and ESDC had joint oversight operational and Deputy Minister committees in place during the pandemic and the passport crisis. The meeting discussions were more focused on service delivery and operational priorities with limited discussions on the impacts of decisions on the long-term financial health of the PRF.

Improvements since 2023

Following the COVID-19 pandemic, IRCC has improved their budgeting and forecasting process for the PRF.

- In 2022, IRCC implemented a bi-annual reporting requirement to the CFC to provide updated advice on the fund balance.

- In 2023, the FPB has begun providing quarterly cashflow updates on the PRF to the ADM of the Citizenship and Passport Sector.
- IRCC refreshed the funding model with ESDC to:
 - a. Utilize a “Time and Motion” model for funding; and,
 - b. Introduce segregated funds for specific unanticipated events, such as, system outages, automation not performing as anticipated, and “Project” and “Operational” funds not being transferable across these two cohorts.
- Starting in the 2024-25 Q2 FSR, the presentations will include a 3-year financial outlook of the PRF and its assumptions in establishing forecasts.

Recommendation

The Assistant Deputy Minister (ADM), Service Delivery Sector, in partnership with the ADM and Chief Financial Officer, Finance Sector, should strengthen the reporting on the health of the Passport Revolving Fund.

Management Responses

The Program agrees with the recommendation to strengthen the reporting on the health of the Passport Revolving Fund and overall planning to ensure improved financial and program management outcomes.

Communication between Stakeholders

Audit Finding 3: Stakeholders often felt that there was a lack of visibility on the current state of the fund and/or decisions that had significant impact on its cash flow or long-term health during the passport crisis.

Why does this matter?: Without visibility on the current state of the Fund, the ability to make program decisions regarding the financial sustainability of the PRF in a timely manner will be limited.

The audit expected that:

- 1. The Passport Program has input from departmental and external stakeholders to provide strategic direction to oversee the management of the PRF. The audit found that:**
 - Both internal stakeholders (PPPB and FPB) and ESDC felt that they were not sufficiently embedded in the governance structure to be able to provide their insights before 2023. For example, Passport Policy did not have a seat on any formal governance committees. Additionally, ESDC had twice requested Passport Program Service Delivery Committee (PPSDC) to include their Executive Director of Financial Management Advisory Services in the committee as a core member, however, IRCC declined stating that “as IRCC is responsible for overall stewardship of the Passport Revolving Fund, ESDC could share updates internally”.
 - FPB did not have a direct purview on Program decisions and underlying assumptions related to and impacting the PRF. This may have limited their ability to ensure that financials information they prepared was as accurate as possible and to provide any course correcting advice.
- 2. TBS and Central Agencies are consulted or informed at appropriate times regarding decisions that impact the health of the PRF. The audit found that:**
 - Information was predominantly shared with TBS and Central Agencies through the Citizenship and Passport Program governance committees (mainly PPSDC, SPRB, EMB, and DMSC).

- TBS also received information through TB Submissions presented by IRCC. These submissions outlined the history that the Passport Program had faced, including pre, during, and post the COVID-19 pandemic. TBS representatives also received information through CPPB governance committee meetings, regular touchpoints, formal engagement, and through meetings/presentations as well as briefings to the Minister. In addition, it was noted that TBS was notified of major decisions, but there were instances where there was no record or confirmation that information was passed on to TBS.

Improvements since 2023

- CPPB proposed improvements to the Passport Program governance framework. The proposed governance structure aims to reduce structure complexity by creating theme-based streams for meetings, clarifying discussion versus decision-making bodies to eliminate duplication of effort, enabling timely decision-making delegated to the lowest appropriate level, and providing greater oversight and consensus building for financial decisions as teams continue to monitor the PRF.

Recommendations

Previous recommendations address the outstanding gaps identified from this finding.

Management Responses

N/A

Conclusion

The crisis resulting from the pandemic exposed areas for improvement in the governance and financial management of the PRF, such as:

Governance to Oversee PRF

- While the Service Delivery Agreement between IRCC and ESDC highlighted roles and responsibilities between departments regarding the management of the Passport Program, the governance to oversee the PRF was not clearly defined.
- There was no clear mechanism to oversee joint program decision making and their impact on the PRF.
- There was limited coordinating function to share pertinent financial information to all stakeholders on an ongoing basis.

The Financial Management Approach of the PRF

- The PRF's financial management approach focused on annual budgets and forecasts but was not supported by adequate Program planning to sufficiently consider long-term impacts of activities/decisions/projects on the PRF over its 10-year lifecycle due to limited ongoing monitoring to update projections of future cash flow.
- There were no triggers nor planning processes to proactively identify trends and issues of the PRF to oversight committees.

Communications between Stakeholders

- Both internal stakeholders (PPPB and FPB) and ESDC often felt that there was a lack of visibility on the current state of the fund and/or decisions that had significant impact on its cash flow or long-term health during the passport crisis. This potentially had an impact on

how decisions were made. For example, level of buy-in, and discussions of options and trade-offs.

There have been improvements made in each of the above areas, most noticeably related to communications between IRCC branches and between IRCC and ESDC. Additionally, regular ADM-level briefings are now setup to provide updates on the status of the PRF, incorporating risk monitoring and assessing impacts to the health of the PRF at a multi-year level. However, important gaps remain in terms of the governance and financial management approach to the PRF.

Management has accepted the audit findings and developed an action plan to address the recommendations.

Acronyms

ADM

Assistant Deputy Minister

CFC

Corporate Finance Committee

CPPB

Citizenship and Passport Programs Branch

DM

Deputy Minister

DMSC

Deputy Minister Steering Committee

EMB

Executive Management Board

ESDC

Employment and Social Development Canada

FPB

Financial Partnership Branch

FSR

Financial Situation Report

GAC

Global Affairs Canada

IBA

Initial Budget Allocation

IRCC

Immigration, Refugees and Citizenship Canada

MC

Memoranda to Cabinet

PPMI

Passport Program Modernization Initiative

PPPB

Passport Program Policy Branch

PPSDC

Passport Program Service Delivery Committee

PRF

Passport Revolving Fund

SDA

Service Delivery Agreement

SPRB

Senior Project Review Board

TB

Treasury Board

TBS

Treasury Board Secretariat

TOR

Terms of Reference

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