



Internal Audit on the Cost Recovery Pre-Consultation Process

Audit Report – November 1, 2002



June 2003

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Audit and Evaluation Group

Approved by Audit and Evaluation Committee, February 4, 2003

Purpose

The CNSC Audit and Evaluation Group was asked in Spring 2002 by the Executive Director (ED), Office of Regulatory Affairs (ORA) to provide an independent assurance opinion on the adequacy of the CNSC external stakeholder pre-consultation process for its cost recovery initiative. The ED of ORA leads the CNSC cost recovery initiative, with support from a manager in Finance, a project team of finance, legal, communications and policy staff, a steering committee of CNSC management stakeholders, and operational senior management champions. Audit and Evaluation Group is the CNSC internal audit, evaluation and consulting group, reporting to the CEO.

Note on terminology

An internal audit assurance engagement is a review assignment to offer an opinion on the extent to which management can be assured that a selected area is operating well. The Internal Audit policy of the Government of Canada, April 2001, refers to assurance opinions being useful in such areas as the robustness of a corporate management framework, the existence of a functioning entity risk management strategy, and the availability of good information for executive decision-making. Where there are limitations to the level of audit assurance that may be given, good audit practice requires that these limitations be stated (a qualified opinion). It is also possible to give negative assurance – a negative opinion, after analysis.

Summary Assurance Opinion

Based on an examination of available records and interviews of involved CNSC staff and senior managers in August and September, 2002, Audit and Evaluation Group concluded that the pre-consultation phase of the CNSC Cost Recovery initiative was well planned and executed and that CNSC management has effectively integrated feedback received from external stakeholders into its planning for this initiative.

Background

In spring 2002, Mike Taylor, the Executive Director, Office of Regulatory Affairs, and Cost Recovery executive leader, requested an internal audit assurance opinion on the adequacy of the cost recovery initiative pre-consultation process then underway. This document reports on that requested internal review role.

Methodology

In carrying out this review, the Audit and Evaluation Group (AEG) reviewed the consultation requirements of the federal government's cost recovery policy, and assessed the general achievement of these. The approach taken by AEG was two-fold: a review of related government policy requirements and relevant internal and external CNSC reports; and, interviews with CNSC executives involved in pre-consultation, members of the CNSC Executive Committee, and other knowledgeable staff about the project. Those interviewed are indicated in the Appendix. This simple methodology was chosen given the narrow scope of the project.

Analysis

The CNSC has on occasion in the past been observed by its external stakeholders to be somewhat naïve about its external consultation practices, and its ability to integrate new information from outside parties. In January 2001, the current Chief Executive Officer of the CNSC made it clear to all senior managers that it is expected that they will know what their external stakeholders believe and that they will be responsive to such needs to the extent that independent and effective regulation permit.

Another challenging factor influencing the success of this project is the extent of the changes required in terms of the level of costs to be recovered. The CNSC's current fees are based on 1992 costs and must be updated. Regulatory costs have increased \$31 million over the past ten years primarily because of inflation, new regulatory responsibilities and increased salary.

The new cost recovery regime is planned to be in place effective April 1, 2003. CNSC management's ability to accurately predict the level of regulatory activity required over a two year forward period will strongly influence its success in terms of delivering a regulatory program without unplanned cost increases to external stakeholders. Management acceptance of the imperative to consider costing issues and to plan and manage work to achieve regulatory outcomes has improved, particularly over the past year. Operations Branch Management has initiatives underway relating to modern management, including improvement initiatives to develop and implement core regulatory processes and to articulate regulatory expectations. The CNSC has also turned its attention to developing an integrated approach to planning and managing its regulatory work.

It has been a challenge for CNSC to introduce the cost recovery proposal when central government agencies are in the process of revising the federal cost recovery policy. The CNSC has consulted with TBS and PCO, who have confirmed that, despite the upcoming revision of the federal policy, central agencies will not likely permit federally funded

“public good” areas to grow; accordingly the policy expectation to recover costs will continue. Current CNSC plans for fee exemptions appear reasonable in this context.

Much has been invested to make this major cost recovery project a success. The work to implement integrated and effective CNSC time accounting and cost accounting methodologies took a long time and much effort, but they are the necessary building blocks for such a huge venture. The team of finance, policy, communications and legal staff working collaboratively on this project has been cost-effective and successful. A new CNSC-wide managed process for work planning, priority-setting and course correction will be required for the new regime to perform as intended once implemented.

The decision to make CNSC regulatory operations senior management responsible for the consultation face-to-face meetings with the regulated and external stakeholder communities was an effective consultation strategy, and a necessary precondition to success. The commitment of CNSC senior management has also been instrumental in the project’s success to date. As well, the CNSC strategic pillars on transparency and openness and effectiveness and efficiency have helped align this project.

Audit Findings

This CNSC pre-consultation process breaks new ground, as it was well planned, well executed and the results were effectively integrated into plans.

The pre-consultation process was found to be what an informed, independent third party would expect of a Canadian federal government regulatory agency in 2002. The process was well designed and managed. The technical work on time accounting and cost coding that formed the foundation for the pre-consultation with external stakeholders was extremely well done. Senior management has provided clear objectives, vision and strategy for the project. The number of consultation sessions, and their able organization and conduct, contributed to successful outcome. Having regulatory operations champions lead the pre-consultations was an effective approach. The chosen costing and charging methodology clearly has credibility with licensees, and so does the rationale for fee exemptions. The senior CNSC management consideration of feedback issues since the pre-consultation process has been tough and timely. CNSC has demonstrated in this project that it understands the policy imperatives, and intends to be attentive to the concerns of its licensed community. Creation of the Cost Recovery Advisory Group is an excellent idea because it permits ongoing stakeholder consultation during and after implementation of the new fees regulations. This consultation process sets a new benchmark for future CNSC relations with its external stakeholders. The Commission as CNSC’s regulatory tribunal has been well briefed and appears well prepared to carry out its role in approving new fees regulations early in 2003.

APPENDIX: Interview List

Kelly Gillis
Peter Elder
Phil Webster
Jim Blyth
Cait Maloney
Tom Viglasky
Ian Grant
Daniel Chaput
Garry Schwarz
Chuck McDermott
Ivy Taudien
Mark Dallaire
Laurel Herwig
Bernie Shaffer
Irene Gendron
Marc Leblanc
Mike Taylor
Ginette Bergeron
Ken Pereira
Denys Vermette
Ken Wagstaff
L.J. Keen