

Annex to the
Statement of Management Responsibility
including Internal Control over Financial Reporting of

Transport Canada

For fiscal year 2019-20
(Unaudited)

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1. Introduction

This document provides summary information on the measures taken by Transport Canada (TC) to maintain an effective system of internal control over financial reporting (ICFR), including information on internal control management, assessment results and related action plans.

Detailed information on Transport Canada's authority, mandate and program activities can be found in the [2019-20 Departmental Results Report](#) and [2020-21 Departmental Plan](#).

2. Departmental System of Internal Control over Financial Reporting

2.1 Internal Control Management

Transport Canada has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal control management framework, approved by the Deputy Minister, is in place and includes:

- Organizational accountability and oversight structures to support sound financial management, including roles and responsibilities for senior departmental managers (Transport Executive Management Committee (TMX) members and others);
- A Values and Ethics Office to provide awareness, educational activities and administration of TC's Code of Values and Ethics, as well as a Senior Integrity Officer to provide advice, guidance and oversight on internal disclosures;
- Ongoing communication and training on statutory requirements, policies, and procedures for sound financial management and control;
- Leveraging the work of Audit and Advisory Services for internal audits on the effectiveness of risk management, control and governance processes, where appropriate;
- Monitoring and regular updates at least semi-annually on internal controls over financial management (ICFM) including assessment results and action plans to the Deputy Minister, Resource Management Committee (RMC) members and the Departmental Audit Committee (DAC), as applicable;
- Advice and feedback from DAC to the Deputy Minister on the adequacy and functioning of the Department's risk management, control and governance frameworks and processes; and
- Annual validations of internal control management implementation through TMX members' sign-off on internal control management for their areas of responsibility.

2.2 Service Arrangements Relevant to Financial Statements

Transport Canada relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows:

Common Arrangements:

- Public Services and Procurement Canada (PSPC) centrally administers the payments for salaries and the procurement of goods and services, as per the Department's Delegation of Authority and provides accommodation services.
- Treasury Board Secretariat (TBS) provides the Department with information used to calculate various accruals and allowances, such as the accrued severance liability.
- The Department of Justice provides legal services to the Department.
- Shared Services Canada (SSC) provides information technology (IT) infrastructure services to Transport Canada in the areas of data centre and network services. The scope and responsibilities are addressed in Shared Service Canada's Information Technology General Control Framework in relation to internal controls over financial reporting.

As a result, Transport Canada relies on the effective system of internal control over financial reporting in place at these service providers.

Specific Arrangements:

- Through memoranda of understanding with Infrastructure Canada, Transport Canada provides some program management and administrative services under the Canada Strategic Infrastructure Fund and the Border Infrastructure Fund (project implementation), as well as the Building Canada Fund (major infrastructure component).
- On a cost recovery basis, Transport Canada provides financial management, accounting services and reporting, in addition to some information technology and management services to the Administrator of the Ship-Source Oil Pollution Fund and the Fund for Railway Accidents Involving Designated Goods.

3. Departmental assessment results for fiscal year 2019-20

At the end of 2017-18, the Department completed its first full cycle of ICFR ongoing monitoring as outlined in Transport Canada's ICFR Framework for Risk-Based Assessment and Monitoring. A new cycle of ICFM ongoing monitoring, including new financial management areas, commenced in 2018-19.

In 2019-20, Transport Canada completed its assessment of the following business processes based on its ongoing risk-based monitoring plan:

- Revenue and Receivables – Airport Rent from National Airports System (NAS) Airports

The key financial controls for the above-mentioned business processes were found to be operating effectively to ensure the production of reliable financial information. There were no control weaknesses identified.

The assessment of Revenue and Receivables – Common Business Processes for Accounts Receivable and Aircraft Services as well as the assessments for Payroll Administration and Grants and Contributions

(G&C) could not be fully completed during the year due to management and staff departures, limited capacity and competing priorities of the Human Resources Compensation team. The Covid-19 pandemic also affected deliverables as workload increased for the Centre of Expertise for G&Cs and staff where reassigned to mission critical activities during year-end.

In addition, the Department continued to monitor:

- The completion of the period-end and year-end sign offs as part of the Financial Close and Reporting business process; and
- Compliance with the TBS *Directive on Delegation of Spending and Financial Authorities* through Transport Canada's National Sampling Plan (NSP) of expenditure payments as part of its ongoing oversight of key controls.

4. Departmental Action Plan

4.1 Progress during fiscal year 2019-20

During 2019-20, Transport Canada continued the execution of its ongoing risk-based monitoring plan and strategy, including ICFM implementation, as follows:

Key Control Areas	Status
Payroll Administration	<ul style="list-style-type: none"> • Ongoing monitoring assessment of operating effectiveness is ongoing and completion is expected in 2020-21.
Revenues and Receivables	<ul style="list-style-type: none"> • Ongoing monitoring assessment of operating effectiveness for Airport rent was completed as planned. • Ongoing monitoring assessments of operating effectiveness for Common Business Processes Related to Accounts Receivable and Aircraft Services are in progress and are expected to be completed in 2020-21.
Grants and Contributions (Transfer Payments)	<ul style="list-style-type: none"> • Ongoing monitoring assessment of operating effectiveness is in progress and is expected to be completed in 2020-21.

In 2019-20, Transport Canada also followed up on the status of remedial plans from previous years. Sixteen management action plans were still outstanding and related to Entity Level Controls (two), Financial Budgeting and Forecasting (one), Procurement (one), IT General Controls (four), Capital Assets and Assets Under Construction (five) and CFO Attestation of Cabinet and Treasury board Submissions (three). These action plans remediate weaknesses from low-medium to medium risk impacts, and one remedial plan of high risk impact with a revised target completion

date of November 2020. Progress is closely monitored until the remediation plans are be fully implemented.

4.2 Status and action plan for the next fiscal year and subsequent years

Transport Canada's rotational ongoing risk based monitoring plan over the next five years is endorsed by management and based on an annual validation of the high-risk processes and controls and related adjustments as required, is shown in the following table:

TRANSPORT CANADA

Annex to the Statement of Management Responsibility including Internal Control over Financial Reporting (Unaudited)
For Fiscal Year 2019-2020

Rotational Ongoing Risk-Based Monitoring Plan					
Key Control Areas	Fiscal Year 2020-21	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24	Fiscal Year 2024-25
Entity Level Controls					
Entity Level Controls			X		
Information Technology (IT) Controls					
IT General Controls (ITGC) ⁱ		X			
Business Process Controls					
Revenues and Receivables	X				X
Grants and Contributions (Transfer Payments)	X				X
Financial Budgeting and Forecasting		X			
Accruals and Other General Entries	X				
Travel and Events	X				
Procurement (Operating Expenditures, Contracting and Commitments)		X			
Environmental Liabilities			X		
Financial Close and Reporting			X		
Capital Assets and Assets under Construction				X	
Pay Administration				X	
CFO Attestation of Cabinet and TB Submissions				X	
<i>Internal Control over Financial Management Areas for Initial Assessment</i>					
Investment Planning	X				
Costing		X			

ⁱ In-scope IT systems include: Oracle EBS (including iTravel, Government Acquisition Cards, Departmental Travel Expense Account and Transport Canada Billing System), Transport Integrated Personnel System / Leave and Extra Duty, Salary Management System, Hyperion, Business Intelligence, and Marine Safety Dispatch and Tracking System. Some relevant Oracle application controls are assessed in an integrated manner within the associated business process testing that will occur as per the Ongoing Monitoring Plan.