Annex to the
Statement of Management Responsibility
including Internal Control over Financial Reporting
Transport Canada
Fiscal year 2015-16

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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 *2015-16 Departmental Performance Report* and *2016-17 Report on Plans and Priorities*.

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 departmental Code of Values and Ethics framework;
- 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 control management for ICFR including assessment results and action plans to the Deputy Minister, TMX 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;
- Internal control measures in senior management performance measurement agreements; and
- Annual validations of internal control management results through TMX members' sign-off on controls 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 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.

3. Departmental assessment results for fiscal year 2015-16

In 2014-15, the Department commenced full implementation of its ongoing risk-based monitoring program of ICFR as outlined in Transport Canada's ICFR Framework for Risk-Based Assessment and Monitoring.

Transport Canada completed or substantially completed its assessment of the following business processes based on its 2015-16 ongoing risk-based monitoring plan:

- Entity Level Controls (7 out of 43 points of focus under the 2013 COSO Framework);
- Revenues and Receivables – consisting of six revenue sub-streams and two common administrative processes;
- Accruals and Other General Entries; and
- Travel Procurement.

The assessments of Entity Level Controls and Travel Procurement could not be fully completed during the year due to staff departures and the substantial work expended to execute the number of Revenues and Receivables assessments. Reporting of these two assessments to TMX will be fall 2016.

The key financial controls for the above-mentioned business processes were generally found to be operating effectively, or compensating control activities were in place, to prevent or detect a material misstatement to the Financial Statements. There were no control weaknesses identified with a high risk impact. Medium and low-medium risk impact findings have been remediated, or will be remediated in 2016-17.

Management Action Plans have been signed off by the accountable Directors General for the above key business processes and are actively monitored and reported to senior management and the DAC on a semi-annual basis.

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As a result of the ongoing monitoring, the Department identified the following required remediation to strengthen its control environment:

Revenues and Receivables

- Implement a formal standardized approach to identify and validate situations where exemptions for terminal charges are allowed under prescribed regulations;
- Establish and monitor service standards for the timely execution of lease agreements, including renewals, to facilitate the billing process;
- Improve monitoring controls over the timely completion of bank reconciliations and investigation of unreconciled variances;
- Strengthen the departmental approach and standardize the process for collection of receivables, including the engagement of program and regional management in collection activities; and
- Invest and/or reallocate resources to the centralized functional area responsible for invoicing, receipt of funds and receivables to perform key control activities and to strengthen collection capacity.

In addition, the Department continued to monitor:

- The completion of the period-end sign offs as part of the Financial Close and Reporting business process; and
- Compliance with the TB *Directive on Account Verification* through TC's National Sampling Plan (NSP) of procurement and salary and benefit payments as part of its ongoing oversight of key controls.

4. Departmental Action Plan

4.1 Progress during fiscal year 2015-16

During 2015-16, Transport Canada continued the execution of its ongoing risk-based monitoring plan and strategy as follows:

Key Control Areas	Status
Entity Level Controls (7 out of 43 points of focus under the 2013 COSO Framework)	• Ongoing monitoring assessment of operating effectiveness is substantially complete and the results will be reported to TMX in fall 2016.
Revenues and Receivables	• Ongoing monitoring assessment of operating effectiveness was completed as planned. • Remedial plans are in progress and expected to be mostly completed in 2016-17 with a few in early 2017-18.
Accruals and Other General Entries	• Ongoing monitoring assessment of operating effectiveness was completed as planned. • No remedial plans were required.

Key Control Areas	Status
Travel Procurement	• Ongoing monitoring assessment of operating effectiveness is substantially complete and the results will be reported to TMX in fall 2016.

In 2015-16, Transport Canada also followed up on the status of remedial plans from the previous year. Seventy-nine percent (79%) of those remedial plans are complete. Five management action plans related to Grants and Contributions (Transfer Payments), Capital Assets and Work-in-Progress and Payroll and Salary Benefits with low-medium and medium risk impacts are in progress and closely monitored until the remediation plans can be fully implemented in 2016-17.

In the fourth quarter of 2015-16, a special review of controls over financial budgeting and forecasting was performed by a Treasury Board external consultant when the Department identified a risk of exceeding its operating budget. The review resulted in recommendations to strengthen governance, financial planning and internal controls, and corrective actions by the Department are in progress. The changes to internal controls over financial budgeting and forecasting are considered as part of the scoping and planning of the 2016-17 ICFR assessments.

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

Transport Canada's ongoing risk-based monitoring plan was changed from three years to four years commencing in 2016-17 for Business Process Controls and IT General Controls. Entity Level Controls are assessed in accordance with a three-year rolling calendar. Based on an annual validation of high-risk processes and controls and related adjustments, the approved four-year ICFR ongoing monitoring plan is shown below:

Rotational Ongoing Risk-Based Monitoring Plan				
Key Control Areas	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20
Entity Level Controls				
Entity Level Controls[1]	X	X	X	X
Business Process Controls				
Financial Budgeting and Forecasting	X			
Procurement (Operating Expenditures, Contracting and Commitments)	X			
Environmental Liabilities		X		
Financial Close and Reporting		X		
Grants and Contributions Transfer Payments		X		
Capital Assets and WIP (Capital Expenditures)			X	
Payroll and Salary Benefits[2]			X	

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[1] An initial mapping of the Entity level controls to the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework was completed in 2015-16, including a stakeholder consultation exercise to assess risks and key controls and develop the three-year risk-based rolling ICFR assessment calendar. The consultation identified 43 COSO Points of Focus (PoF) to be evaluated: 7 PoF in 2015-16; 14 PoF in 2016-17 and 22 PoF in 2017-18.

[2] In April 2016, the Phoenix pay system was implemented at Transport Canada (TC) but not to the same extent as other federal departments and agencies. TC compensation services have not been transferred to Miramichi and TC is not using all of Phoenix's modules. For example, application controls remain in place for TC Pay System and Leave and Extra Duty, which

Rotational Ongoing Risk-Based Monitoring Plan				
Key Control Areas	**Fiscal Year 2016-17**	**Fiscal Year 2017-18**	**Fiscal Year 2018-19**	**Fiscal Year 2019-20**
Revenues and Receivables[3]			X	X
Accruals and Other General Entries				X
Travel Procurement				X
Information Technology (IT) Controls				
IT General Controls (ITGC)[4] Includes: Oracle ERP (including iTravel), Government Acquisition Cards (GAC), Transport Canada Billing System (TCBS), Transport Pay System (TIPS), Leave and Extra Duty (LEX), Salary Management System (SMS), Hyperion (Corporate reporting)		X		

Transport Canada will also reassess the controls affected if any significant changes in key processes are introduced during the year.

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interfaces with Phoenix to process pay and benefit transactions. As part of the NSP, these transactions are sampled and tested quarterly for authorization, accuracy and recording on a post-payment basis. In addition, pay transactions continue to be closely monitored to ensure all employees are properly paid.

[3] The Revenues and Receivables business process will be examined over a two-year period given its extensive scope of revenue sub-streams and related key controls.

[4] Relevant Oracle application controls will be assessed in an integrated manner within the associated business process testing that will occur as per the Ongoing Monitoring Plan.

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