Annex to the
Statement of Management Responsibility
including Internal Control over Financial Reporting
Transport Canada
Fiscal year 2016-17

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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 *2016-17 Departmental Performance Report* and *2017-18 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 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, 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;
- 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 and the Fund for Railway Accidents Involving Designated Goods.

3. Departmental assessment results for fiscal year 2016-17

In 2014-15, the Department commenced 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 2016-17 ongoing risk-based monitoring plan:

- Entity Level Controls (14 out of 43 points of focus under the 2013 COSO Framework);
- Financial Budgeting and Forecasting; and
- Procurement (Operating Expenditures, Contracting and Commitments).

The assessment of Procurement could not be fully completed during the year due to staff departures and the resources required to complete two assessments from 2015-16. Reporting of the Procurement assessment results to the Resource Management Committee (RMC) will be Fall 2017.

The key financial controls for the above-mentioned business processes were generally found to be operating effectively, or in place but requiring improvement, to ensure the production of reliable financial information. There were no control weaknesses identified with a high risk impact. Approved Management Action Plans (MAP) are in place or in progress to address the identified weaknesses. These MAP have been signed off by the accountable Directors General and are actively monitored and reported to senior management and the DAC on a semi-annual basis.

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

Entity Level Controls

- Align the departmental integrated planning and reporting process with new policy requirements in support of TC's transition to the TB *Policy on Results*, including documentation of the approved approach and update of relevant policies, frameworks and tools to support the timely collection and use of quality performance data (financial information).

Financial Budgeting and Forecasting

- Update and implement department-specific guidance and financial training on the full budgeting cycle, including the tracking of funding allocations and declared surpluses and forecasting techniques to increase financial management capacity and improve the consistency of budget management and forecasting practices across the Department;
- Strengthen the attestation of responsibility centre managers and the functional oversight related to the timely review and update of year to date expenditures and commitments in the financial system to better support their annual forecasts;
- Assess long-term funding strategies to establish a sustainable source of funds at the departmental level for project-related operating and maintenance costs;
- Strengthen the validation process of financial information attested by senior departmental managers; and
- Enhance the financial information presented to senior management to include multi-year financial risks related to salary projections, revenue fluctuations and funding pressures, as well as segregated reporting by short-term versus long-term funding sources relative to spending plans, to provide better insight over the sustainability of departmental programs and operations beyond the current year.

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 expenditure payments as part of its ongoing oversight of key controls.

4. Departmental Action Plan

4.1 Progress during fiscal year 2016-17

During 2016-17, Transport Canada continued the execution of its ongoing risk-based monitoring plan and strategy as follows:

Key Control Areas	Status
Entity Level Controls – Year 2 (14 out of 43 points of focus under the 2013 COSO Framework)	• Ongoing monitoring assessment of operating effectiveness was completed as planned. • Remedial plan is in progress and expected to be completed by April 2018.
Financial Forecasting and Budgeting	• Ongoing monitoring assessment of operating effectiveness was completed as planned. • Remedial plans are in progress and expected to be mostly completed in 2017-18 with a few in early 2018-19.
Procurement (Operating Expenditures, Contracting and Commitments)	• Ongoing monitoring assessment of operating effectiveness is substantially complete and the results will be reported to RMC in Fall 2017.
Entity Level Controls – Year 1 (7 out of 43 points of focus under the 2013 COSO Framework) ** carried forward from 2015-16 **	• Ongoing monitoring assessment of operating effectiveness was reported to RMC in January 2017. • Remedial plans are in progress and expected to be completed in 2017-18.
Travel and Events ** carried forward from 2015-16 **	• Ongoing monitoring assessment of operating effectiveness was reported to RMC in January 2017. • Remedial plans are in progress and expected to be completed in 2017-18 (one completed in 2016-17).

In 2016-17, Transport Canada also followed up on the status of remedial plans from the previous year. Sixty-seven percent (67%) of those remedial plans are complete. Twelve management action plans related to Entity Level Controls, Revenues and Receivables and Travel and Events with low-medium and medium risk impacts are in progress and will be closely monitored until the remediation plans can be fully implemented in 2017-18.

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.

In June 2017, a second full integrated ICFR risk assessment was performed with key stakeholders to risk prioritize the key control areas (the first ICFR risk assessment was completed in 2014-15). Based on the validation of higher 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 2017-18**	**Fiscal Year 2018-19**	**Fiscal Year 2019-20**	**Fiscal Year 2020-21**
Entity Level Controls				
Entity Level Controls[1]	X	X	X	X
Business Process Controls				
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		
Revenues and Receivables[3]		X	X	
Financial Budgeting and Forecasting			X	
Procurement (Operating Expenditures, Contracting and Commitments)			X	
Accruals and Other General Entries				X
Travel and Events				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			X

Transport Canada will also reassess the controls related to any significant changes in key processes that are introduced during the year.

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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 the TC Pay System and Leave and Extra Duty, which 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 are assessed in an integrated manner within the associated business process testing that will occur as per the Ongoing Monitoring Plan.