

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

Transport Canada

For fiscal year 2018-19
(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 [2018-19 Departmental Results Report](#) and [2019-20 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 2018-19

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 2018-19, Transport Canada completed its assessment of the following business processes based on its ongoing risk-based monitoring plan:

- Capital Assets and Assets under Construction ; and
- Chief Financial Officer (CFO) Attestation of Cabinet and Treasury Board (TB) Submissions.

The assessment of Payroll and Salary Benefits could not be fully completed during the year due to staff departures, and the limited capacity and competing priorities of the Human Resources Compensation team. Reporting of Payroll and Salary Benefits assessment results to the Resource

Management Committee (RMC) will be winter 2020. Ongoing monitoring assessments of the Revenues and Receivables business process is progressing as planned over a two-year period.

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. Medium and low-medium risk impact findings have been remediated, or will be remediated in 2019-20 and 2020-21.

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

Capital Assets and Assets under Construction

- Streamline the asset reporting process to improve the timeliness in recording capital-related activities in the financial system;
- Enhance departmental guidance, tools and training to improve clarity and awareness of asset reporting requirements for key stakeholders;
- Incorporate TC-owned assets held and/or managed by all third parties into the departmental cyclic physical count process; and
- Implement a process to ensure better alignment between the applied amortization rate and betterments to existing capital assets.

CFO Attestation of Cabinet and TB Submissions

- Enhance the process for updating cost estimating tools and documenting applied rates, where applicable;
- Ensure cost estimate tables for initiatives with no request for incremental funding are also reviewed by Finance to support the corresponding CFO attestation; and
- Establish a service standard (minimum time required) for Finance to perform its quality due diligence review of Cabinet and TB submissions.

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 2018-19

During 2018-19, Transport Canada continued the execution of its ongoing risk-based monitoring plan and strategy, including ICFM implementation, as follows:

Key Control Areas	Status
Capital Assets and Assets under Construction (Capital Expenditures)	<ul style="list-style-type: none"> Ongoing monitoring assessment of operating effectiveness was completed as planned. Remedial plans are in progress and expected to be mostly completed in 2019-20 with a few in 2020-21.
CFO Attestation of Cabinet and TB Submissions	<ul style="list-style-type: none"> First design and operating effectiveness assessment of this new financial management area was advanced from 2020-21 and completed in 2018-19. Remedial plans are in progress and expected to be completed in 2019-20 and early 2020-21.
Payroll and Salary Benefits	<ul style="list-style-type: none"> Ongoing monitoring assessment of operating effectiveness is substantially complete and the results will be reported to RMC in winter 2020.
Revenues and Receivables	<ul style="list-style-type: none"> Ongoing monitoring assessments of operating effectiveness is being conducted over a two-year period and is expected to be completed in 2019-20 as planned.

In 2018-19, Transport Canada also followed up on the status of remedial plans from previous years. Sixty-nine percent (69%) of those remedial plans are complete. Ten management action plans related to Entity Level Controls, Environmental Liabilities, Financial Budgeting and Forecasting, IT General Controls and Procurement with low-medium and medium risk impacts, and one remedial plan of high risk impact with a revised target completion date of October 2019, are in progress and will be closely monitored until the remediation plans can be fully implemented.

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

Based on a full integrated ICFR risk assessment conducted in June 2017 and subsequent update, the approved five-year ICFM ongoing monitoring plan is shown below:

TRANSPORT CANADA

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For Fiscal Year 2018-19

Rotational Ongoing Risk-Based Monitoring Plan					
Key Control Areas	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24
Entity Level Controls					
Entity Level Controls				X	
Information Technology (IT) Controls					
IT General Controls (ITGC) ¹			X		
Business Process Controls					
Revenues and Receivables ²	X				X
Grants and Contributions (Transfer Payments)	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
Payroll and Salary Benefits ³					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		

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

¹ 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.

² The Revenues and Receivables business process is being examined over a two-year period given its extensive scope of revenue sub-streams and related key controls commencing in fiscal year 2018-19.

³ 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.