

Annex to the
Statement of Management Responsibility
including Internal Control over Financial Reporting
Transport Canada
Fiscal year 2013-14

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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 and assessment results and related action plans.

Detailed information on Transport Canada's authority, mandate and program activities can be found in the *2013-14 Part III-Departmental Performance Report (DPR)* [TC DPR 2012-13](#), and *Report on Plans and Priorities* [TC RPP 2014-15](#).

2. Departmental System of Internal Control over Financial Reporting

2.1 Internal Control Management

The department has an 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 which includes:

- Organizational accountability and oversight structures to support sound financial management, including roles and responsibilities for senior departmental managers (TMX members and others);
- An updated TC Code of Values and Ethics framework;
- On-going communication and training on statutory requirements, policies, and procedures for sound financial management and control;
- Monitoring and regular updates at least semi-annually on internal control management for ICFR plus assessment results and action plans to the Deputy Minister, TMX executive 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 Works and Government Services Canada (PWGSC) centrally administers the payments of 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; and
- 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 the interdepartmental arrangement between SSC and Transport Canada.

Specific Arrangements:

- Transport Canada performs financial management, accounting and reporting, as well as payroll administration services on behalf of the Transportation Appeal Tribunal of Canada (TATC).

3. Departmental assessment results during fiscal year 2013-14

During 2013-14, the Department completed all design and operating effectiveness testing of remaining key control areas in accordance with the risk-based assessment approach as outlined in Transport Canada's ICFR Framework for Risk-based Assessment and Monitoring. On-going monitoring was implemented according to plan.

3.1 Design effectiveness testing of key controls

In 2013-14, the Department completed design effectiveness testing of Financial Close and Reporting, the last remaining key business process.

As a result of the design effectiveness testing, the Department concluded that key controls were effective and identified no deficiencies for which corrective action was required.

3.2 Operating effectiveness testing of key controls

In 2013-14, the Department completed all planned operating effectiveness testing and remediation of planned entity level controls, key business process controls, and IT general and application controls as detailed below:

- Entity Level Controls;
- Financial Budgeting and Forecasting;
- Payroll and Salary Benefits;
- Capital Assets and Work In Progress (WIP);
- Travel Procurement;
- Accruals and Other General Entries;
- Revenues and Receivables;
- Contracting and Commitments;
- Financial Close and Reporting;

- IT General controls for Oracle E-Business Suite Release 12 (EBS R12) and feeder systems; and
- IT Application controls for Oracle EBS R12.

As a result of the operating effectiveness testing, the Department determined that key financial controls for significant or high risk accounts are generally working effectively to prevent or detect a material misstatement to the Financial Statements. There were no business process findings with a high risk impact. Medium risk impact findings have been remediated, or will be remediated as soon as possible with appropriate monitoring and tracking, and low risk items are being addressed over a longer period of time based on priorities of implementation plans.

Management Action Plans have been signed off by the accountable Director General for the above key processes and are being actively monitored and reported to senior management and the DAC.

The Department identified the following remediation required:

Capital Assets and Work In Progress (WIP):

- Strengthen roles and responsibilities and procedures for WIP project monitoring and timely project close and reconciliation to the asset module.

Travel Procurement:

- Strengthen roles and responsibilities for Section 32 through a department-wide review and update of blanket travel authorities and implementation of enhanced electronic travel approval levels;
- Increase monitoring of travel expenditures through a review and update of the National Sampling Plan.

Accruals and Other General Entries:

- Implement a standard record keeping system or process to store journal entry documentation electronically and ensure ongoing monitoring;
- Communicate clear guidance on journal and coding corrections to staff and confirm appropriate access; and
- Strengthen controls to ensure that all journal entries are properly reported and to increase efficient and proper use of manual GL journal entries.

Revenues and Receivables:

- Strengthen controls and improve process standardization and efficiencies for manual invoicing, receipts handling and collection processes;
- Improve process design for specific revenue streams and strengthen oversight in monitoring and taking action on aged receivables; and
- Enhance information and performance metrics in support of strategic analysis and management decision-making for revenue and receivables.

Contracting and Commitments:

- Reinforce and strengthen roles and responsibilities for Commitment Control during procurement expenditures initiation and improve documentation of Section 32 approvals.

Financial Close and Reporting:

- Ensure the consistent application of period and year-end sign-off and monitoring procedures;
- Identify opportunities to reduce manual manipulation in the production of annual financial statements; and
- Implement a Corporate Accounting year-end closing status report.

IT Application controls for Oracle EBS R12:

- Strengthen specific Purchase and Payables and Revenue and Receivables related controls pertaining to access to certain functions, segregation of duties in processes, and improvements to system configurations.

3.3 On-going monitoring of key controls

During 2013-14, the Department updated its on-going monitoring plan and confirmed planning and scoping for 2013-14 assessments. The Department completed planned ongoing monitoring of Management Procurement (Operating Expenditures) and ITGC general controls of Oracle EBS and feeder systems.

As a result of ongoing monitoring, the department identified the following required remediation:

Procurement (Operating Expenditures)

- Continue to reinforce policies to support compliance with Section 32 requirements.

IT General controls for Oracle EBS R12 and feeder systems:

- Strengthen controls over access to programs and data by reviewing and improving the user access review processes and procedures for Departmental systems; and
- Perform and document a periodic review of access to the Departmental network and Oracle.

In addition, the Department conducted on-going monitoring of key controls as follows:

- Monitoring the completion of regional and national capital region accounting services and corporate accounting period-end sign-off process to improve control of the period-end monitoring;
- Updating the ICFR Risk-based Assessment and Monitoring Strategy to incorporate an ICFR senior management sign-off process to confirm internal controls for their respective areas of responsibilities; and
- Continuing to monitor compliance with the directive on account verification through TC's National Sampling Plan.

4. Departmental Action Plan

4.1 Progress during fiscal year 2013-14

During 2013-14, the Department made significant progress as it completed its remaining initial ICFR assessments and improved its key controls framework. A summary of the main progress made by the Department, based on the plans identified in the previous fiscal year's annex, is presented below and is further highlighted in section 4.2 (see table):

Element in previous year's action plan	Planned work	Status
Entity Level Controls		
Entity Level Controls	<ul style="list-style-type: none"> Remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> The remaining remediation was completed as planned in 2013-14.
Business Process Controls		
Financial Budgeting and Forecasting	<ul style="list-style-type: none"> Remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> The remaining remediation was completed as planned in 2013-14.
Payroll and Salary Benefits	<ul style="list-style-type: none"> Remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> The remaining remediation was completed as planned in 2013-14.
Capital Assets and WIP (work-in-progress capital expenditures)	<ul style="list-style-type: none"> Remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> For Capital Assets, the remaining remediation was completed as planned in 2013-14. WIP operating effectiveness testing and remediation was completed as planned.
Travel Procurement	<ul style="list-style-type: none"> Operating effectiveness testing and remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> An operating effectiveness re-assessment and remediation was completed in 2013-14.
Procurement (Operating expenditures)	<ul style="list-style-type: none"> On-going monitoring to be completed in 2013-14. 	<ul style="list-style-type: none"> Operating effectiveness testing was re-assessed in 2013-14 as part of the on-going monitoring rotation, due to a change to centralize the payables process. Remediation plans are substantially implemented and will be fully completed as planned in 2014-15.

Element in previous year's action plan	Planned work	Status
Accruals and Other General Entries (PAYES, JEs) and Environmental liabilities	<ul style="list-style-type: none"> Operating effectiveness testing and remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> Operating effectiveness testing was completed as planned in 2013-14. Remediation plans are substantially implemented and will be fully completed in 2014-15.
Revenue and Receivables	<ul style="list-style-type: none"> Operating effectiveness reassessment and remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> Operating effectiveness re-assessment was completed during 2013-14 and encompassed all significant revenue streams. Remediation plans are in progress and will be, for the most part, completed in 2014-15.
Contracting and Commitments	<ul style="list-style-type: none"> Operating effectiveness testing and remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> Operating effectiveness testing was completed as planned in 2013-14. Remediation plans are substantially implemented and will be fully completed in 2014-15.
Financial Close and Reporting	<ul style="list-style-type: none"> Design and operating effectiveness testing and remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> Design and operating effectiveness testing were completed as planned in 2013-14. Remediation plans are substantially implemented and will be fully completed in 2014-15.
Information Technology (IT) Controls		
IT General Controls (ITGC) Oracle ERP (include iTravel)	<ul style="list-style-type: none"> Operating effectiveness reassessment and remediation to be completed in 2013-14, per on-going monitoring rotation plan. 	<ul style="list-style-type: none"> The operating effectiveness reassessment as part of the on-going monitoring plan was completed during 2013-14 following implementation of Oracle R12. Remediation plans are substantially implemented and will be fully completed in 2014-15.
ITGC Oracle Government Acquisition Card (GAC), Transport Canada Billing System (TCBS), Transport Pay System (TIPS), Leave and Extra Duty (LEX), Salary Management System (SMS), Hyperion (Corporate reporting)	<ul style="list-style-type: none"> Remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> The remaining remediation was completed as planned in 2013-14.

Element in previous year's action plan	Planned work	Status
IT Application Controls (ITAC) Oracle EBS R12 (including iTravel)	<ul style="list-style-type: none"> Remediation to be completed in 2013-14. 	<ul style="list-style-type: none"> The remaining remediation was completed as planned in 2013-14.

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

Building on progress to date, Transport Canada completed the initial full assessment of its system of internal control over financial reporting in 2013-14.

During 2013-14, the Department completed updated financial reporting risk assessments for key business processes and substantially completed remediation of noted deficiencies.

The Department also undertook a detailed review and update of its ICFR risk assessment methodology which confirmed that TC's approach is:

- Structured, rigorous and consistently applied;
- In alignment and integrated with TC's corporate risk assessment methodologies; and
- Appropriate and sufficient to meet Treasury Board and Policy on Internal Control (PIC) requirements.

Lastly, Transport Canada also conducted an ICFR risk assessment of key departmental financial accounts, enabling key stakeholders to provide input to the annual ICFR assessment process, while validating/updating TC's Ongoing Monitoring Plan.

Based on these considerations, the Department has updated the planned timing of future on-going monitoring activities as indicated in TC's 2014-15 ICFR Ongoing Monitoring Plan as follows:

Internal Controls over Financial Reporting (Key Control Areas)	Assessment Elements		
	Design Effectiveness Testing and Remediation	Operational Effectiveness Testing and Remediation	On-going Monitoring Rotation
	As of Mar 31, 2014	As of Mar 31, 2014	
Entity Level Controls			
Entity Level controls (Design and Operating Effectiveness)	Complete	Complete	2015-16
Business Process Controls			
Capital Assets and WIP (Capital Expenditures)	Complete	Complete	2014-15
Grants & Contributions Transfer Payments	Complete	Complete	2014-15
Payroll and Salary Benefits	Complete	Complete	2014-15
Travel Procurement	Complete	Complete	2015-16
Accruals and Other General Entries (PAYEs, Pay accruals, Environmental Liabilities and other Journal Entries)	Complete	Complete	2015-16
Revenues and Receivables	Complete	Complete	2015-16
Financial Close and Reporting	Complete	Complete	2016-17 (updated)
Procurement (Operating Expenditures, Contracting and Commitments)	Complete	Complete	2016-17 (updated)
Financial Budgeting and Forecasting	Complete	Complete	2016-17 (updated)
Information Technology (IT) Controls			
IT General Controls (ITGC) Includes: Oracle ERP (including iTravel), Oracle Government Acquisition Card (GAC), Transport Canada Billing System (TCBS), Transport Pay System (TIPS), Leave and Extra Duty (LEX), Salary Management System (SMS), Hyperion (Corporate reporting)	Complete	Complete	2016-17
IT Application Controls Oracle EBS R12	Complete	Complete	To remove¹

¹ 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.