

**Annex to the**  
***Statement of Management Responsibility***  
***including Internal Control over Financial Reporting***  
**Transport Canada**  
**Fiscal year 2014-15**

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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 [2014-15 Departmental Performance Report](#) and [2015-16 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;
- 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 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.
- 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.

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.
- During the year, Transport Canada performed financial management, accounting services and reporting, as well as payroll administration services for the Transportation Appeal Tribunal of Canada (TATC). As part of the 2014 Economic Action Plan, these services will be provided by the Administrative Tribunals Support Service of Canada (ATSSC) on a going forward basis.

### **3. Departmental assessment results for fiscal year 2014-15**

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 its assessment of the following business processes in alignment with its 2014-15 ongoing risk-based monitoring plan:

- Capital Assets and Work In Progress;
- Grants and Contributions (Transfer Payments); and
- Payroll and Salary Benefits.

The key financial controls for the above-mentioned business process examined 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 2015-16.

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.

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

Capital Assets and Work-in-Progress

- Improve clarity and awareness of departmental policy and mandatory tools, as well as streamline the asset reporting process, where applicable.
- Conduct annual cyclical physical asset counts.

Grants and Contributions (Transfer Payments):

- Enhance departmental standardized processes and tools in the development and approval of funding agreements and amendments.
- Improve the currency of commitment information in the Oracle Enterprise Resource Planning (ERP) system to better support the budgeting and reporting process.
- Strengthen departmental guidance and tools to better support employees in certifying Sections 34 and 33 under the Financial Administration Act (FAA).

Payroll and Salary Benefits:

- Continue to reinforce the roles and responsibilities of managers and the HR oversight function with respect to exercising and validating Sections 32 and 34 under the FAA.
- Enhance evidence of HR peer review in performing checks and balances before pay processing.

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 as part of its ongoing oversight of key controls.

**4. Departmental Action Plan**

**4.1 Progress during fiscal year 2014-15**

During 2014-15, Transport Canada fully implemented its ongoing risk-based monitoring plan and strategy for the first year of its three-year rotational plan as follows:

Key Control Areas	Status
Capital Assets and Work-in-Progress	<ul style="list-style-type: none"> <li>• Ongoing monitoring assessment of operating effectiveness was completed as planned.</li> <li>• Remedial plans are in progress and expected to be completed in 2015-16.</li> </ul>

Key Control Areas	Status
Grants and Contributions (Transfer Payments)	<ul style="list-style-type: none"> <li>Ongoing monitoring assessment of design effectiveness and operating effectiveness was completed as planned.</li> <li>Remedial plans are in progress and expected to be completed in 2015-16.</li> </ul>
Payroll and Salary Benefits	<ul style="list-style-type: none"> <li>Ongoing monitoring assessment of operating effectiveness was completed as planned.</li> <li>Remediation plans are in progress and expected to be completed in 2015-16.</li> </ul>

In 2014-15, Transport Canada also followed up on the status of remedial plans from the previous year. Eighty-five percent of those remedial plans are complete. Two management action plans related to Information Technology General Controls with high risk impact are in progress; however, an interim mitigating control activity is in place to reduce this risk until the remediation plans can be fully implemented in 2015-16.

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

Transport Canada's ongoing risk-based monitoring plan over the next three years, based on an annual validation of high-risk processes and controls and related adjustments, is shown below:

Rotational Ongoing Risk-Based Monitoring Plan			
Key Control Areas	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
<b>Entity Level Controls</b>			
Entity Level Controls <sup>1</sup>	X	X	X
<b>Business Process Controls</b>			
Accruals and Other General Entries (PAYEs, Pay accruals, Environmental Liabilities and other Journal Entries)	X		
Travel Procurement	X		
Revenues and Receivables	X		
Financial Budgeting and Forecasting		X	
Financial Close and Reporting		X	
Procurement (Operating Expenditures, Contracting and Commitments)		X	
Capital Assets and WIP (Capital Expenditures)			X
Grants & Contributions Transfer Payments			X
Payroll and Salary Benefits			X

<sup>1</sup> A three-year risk-based rolling ICFR assessment of the operating effectiveness of Entity Level Controls was approved by TMX.

<b>Rotational Ongoing Risk-Based Monitoring Plan</b>			
<b>Key Control Areas</b>	<b>Fiscal Year 2015-16</b>	<b>Fiscal Year 2016-17</b>	<b>Fiscal Year 2017-18</b>
<b>Information Technology (IT) Controls</b>			
<b>IT General Controls (ITGC)<sup>2</sup></b> 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 by significant changes in key processes such as the introduction of an automated billing interface between the Marine Safety Dispatch and Tracking System and the Accounts Receivable module within Oracle ERP. Implementation of this interface in fiscal year 2015-16 will streamline the invoicing process through improved data collection and billing timeliness, as well as enhance monitoring and reporting activities.

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<sup>2</sup> 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.