

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

# **Transport Canada**

For fiscal year 2020-21  
(Unaudited)

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## 1. Introduction

This document provides summary information on the measures taken by Transport Canada 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 [2020-21 Departmental Results Report](#) and [2021-22 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 SSC'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 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 2020-21**

In 2018-19, the Department commenced its new cycle of ICFM ongoing monitoring, which includes the addition of new financial management areas, as outlined in Transport Canada's ICFR Framework for Risk-Based Assessment and Monitoring.

In 2020-21, Transport Canada completed its assessment of the following business processes based on its ongoing risk-based monitoring plan:

- Revenue and Receivables – Common Business Process
- Accruals and General Ledger (GL) entries
- Pay Administration
- Grants and Contributions
- Investment Planning

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 ensure the production of reliable financial information. Recommendations for improvement were noted in some areas with a low to medium risk impact. There were no control weaknesses identified with a high risk impact. Findings have been remediated, or will be remediated in 2021-22 and 2022-23.

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

Revenue and Receivables – Common Administrative Process:

- Fill vacant position in the collection team;
- Limit system access to customer creation in order to improve segregation of duties.

Accruals and GL Entries:

- Improve evidence of journal voucher review and documentation supporting the entry creation;
- Improve evidence of payable at year end approval;
- Review system access within the accounts payable module to eliminate incompatible functions (segregation of duties).

Pay Administration:

- Improve and modernize assurance work to support Section 33 approval;
- Undertake emergency salary advance collection initiative;
- Reconcile discrepancies between the Leave and Extra Duty Pay System (LEX) and the Transport Integrated Pay System (TIPS) systems to identify potential errors;
- Remind stakeholders of:
  - Their responsibilities concerning pay and human resources including letters of offer and departure forms;
  - The importance of documentation for employee files;
- Undertake extensive analysis of the compensation function to ensure it is well resourced over the long term to sustain a productive and healthy work environment and prepare for the next generation HR to Pay system.

Grants and Contributions:

- Improve the timeliness of the initial commitment recording, along with regular review and updates throughout the year;
- Ensure payments meet all terms and conditions of the funding agreement;
- Ensure consistency of all claims processing and supporting documentation by leveraging the Surface Infrastructure System (SIS);
- Ensure all payables at year-end have the proper supporting documentation and are paid in a timely fashion in the following year.

Investment planning:

- No control weaknesses were identified.

Other activities in support of ICFM:

- The office of Audit, Evaluation and Advisory Services conducted an assessment of the governance and key processes during COVID-19 pandemic. No concerns were raised.

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 2020-21

During 2020-21, Transport Canada continued the execution of its ongoing risk-based monitoring plan and strategy, including ICFM implementation, as follows:

Key Control Areas	Status
Revenues and Receivables	<ul style="list-style-type: none"> <li>• Ongoing monitoring assessment of operating effectiveness for the Common Business Process was completed as planned. The assessment of Aircraft Services is in progress and is expected to be completed in 2021-22.</li> <li>• Remedial plans are in progress and expected to be completed in 2021-22.</li> </ul>
Accruals and GL entries	<ul style="list-style-type: none"> <li>• Ongoing monitoring assessment of operating effectiveness completed as planned.</li> <li>• Remedial plans are in progress and expected to be completed in 2021-22.</li> </ul>
Pay Administration	<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 2021-22 and 2022-23</li> </ul>

Key Control Areas	Status
Grants and Contributions (Transfer Payments)	<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 2021-22.</li> </ul>
Investment Planning	<ul style="list-style-type: none"> <li>Initial design and operating effectiveness assessment for this new financial management area completed as planned.</li> </ul>
Travel and Events	<ul style="list-style-type: none"> <li>Ongoing monitoring assessment of operating effectiveness is in progress and is expected to be completed in 2021-22.</li> </ul>

In 2020-21, Transport Canada also followed up on the status of remedial plans from previous years. Nine management action plans were still outstanding related to Entity Level Controls (two), IT General Controls (two), Capital Assets and Assets Under Construction (two) and CFO Attestation of Cabinet and Treasury board Submissions (three). These action plans remediate weaknesses from low-medium to medium risk impacts. Progress is closely monitored until the remediation plans are fully implemented.

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

Transport Canada's rotational ongoing risk based monitoring plan over the next five years, endorsed by management and based on an annual validation of the high-risk processes and controls and related adjustments as required, is shown in the following table:

<b>Rotational Ongoing Risk-Based Monitoring Plan</b>					
<b>Key Control Areas</b>	<b>Fiscal Year 2021-22</b>	<b>Fiscal Year 2022-23</b>	<b>Fiscal Year 2023-24</b>	<b>Fiscal Year 2024-25</b>	<b>Fiscal Year 2025-26</b>
<b>Entity Level Controls</b>					
Entity Level Controls		X			
<b>Information Technology (IT) Controls</b>					
IT General Controls (ITGC)	X				X
<b>Business Process Controls</b>					
Revenues and Receivables				X	X
Grants and Contributions (Transfer Payments)				X	
Financial Budgeting and Forecasting		X			
Accruals and Other General Entries				X	
Travel and Events	X				X
Procurement (Operating Expenditures, Contracting and Commitments)	X				
Environmental Liabilities		X			
Financial Close and Reporting		X			
Capital Assets and Assets under Construction			X		
Pay Administration			X		
CFO Attestation of Cabinet and TB Submissions			X		
Investment Planning					X
<b>Internal Control over Financial Management Areas for Initial Assessment</b>					
Costing	X				