

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

Transport Canada

For fiscal year 2021-22
(Unaudited)

Table of Contents

1. Introduction	3
2. Departmental System of Internal Control over Financial Reporting	3
2.1 Internal Control Management	3
2.2 Service Arrangements Relevant to Financial Statements	3
3. Departmental assessment results for fiscal year 2021-22	4
4. Departmental Action Plan	6
4.1 Progress during fiscal year 2021-22	6
4.2 Status and action plan for the next fiscal year and subsequent years	6

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 [2021-22 Departmental Results Report](#) and [2022-23 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 Transport Canada.
- 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 and Canada Strategic Infrastructure Fund.
- 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 2021-22

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 2021-22, Transport Canada completed its assessment of the following business processes based on its ongoing risk-based monitoring plan:

- Travel, Hospitality and Events
- Revenue and Receivables – Aircraft Services
- Procurement to Payment – Expenditures
- IT General Controls – Scoping

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 2022-23.

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

Travel, Hospitality and Events

- Remind officers responsible for the management of travel authorization numbers to verify the occurrence and validity of section 32 certification prior to issuing a travel authorization number to a traveler.

Revenue and Receivables – Aircraft Services

- Review internal processes to shift away from the paper-based workflow and automate the manual data manipulations by leveraging the work done in other sectors within the Department.

Procurement to Payment

- Remind all responsibility center managers of the importance of respecting the delegation of financial signing authorities and for the Department to improve the monitoring activities surrounding Section 32 certification.
- Perform an in-depth review of the information contained in the specimen signature card database to correct irregularities with regards to links and inconsistencies with the specimen signature cards themselves.
- Contemplate the option to centralize the low dollar value purchase documentation
- Improve documented evidence of peer reviews.
- Review the relevant chapters pertaining to the government acquisition card within TC's Financial Policies to ensure consistency.
- Review the system functionalities to restrict access to the “non-contractual financial commitments” contract type in the financial system or implement a monitoring process for contracts entered using this classification.

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 2021-22

During 2021-22, Transport Canada continued the execution of its ongoing risk-based monitoring plan and strategy, including ICFM implementation, as follows:

Key Control Areas	Status
Travel, Hospitality and Events	<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 completed in 2022-23.
Revenues and Receivables – <u>Aircraft Services</u>	<ul style="list-style-type: none"> Ongoing monitoring assessment of operating effectiveness of Aircraft services was completed as planned. Remedial plans are in progress and expected to be completed in 2025-26
Procurement to Payment	<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 completed in 2022-23
ITGC - Scoping	<ul style="list-style-type: none"> Scoping exercise was completed, and the ongoing monitoring assessment of operating effectiveness is planned in 2022-23.
Costing	<ul style="list-style-type: none"> Design and operating effectiveness assessment is substantially complete and the results will be reported in the fall of 2022.

In 2021-22, Transport Canada also followed up on the status of remedial plans from previous years. Eighteen management action plans were still outstanding related to Entity Level Controls (one), IT General Controls (two), Capital Assets and Assets Under Construction (two), Accruals and Other GL Entries (three), Grants and Contributions (five), and Pay Administration (five). 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:

Rotational Ongoing Risk-Based Monitoring Plan					
Key Control Areas	Fiscal Year 2022-23	Fiscal Year 2023-24	Fiscal Year 2024-25	Fiscal Year 2025-26	Fiscal Year 2026-27
Entity Level Controls					
Entity Level Controls		X			
Information Technology (IT) Controls					
IT General Controls (ITGC)	X			X	
Business Process Controls					
Revenues and Receivables				X	X
Grants and Contributions (Transfer Payments)			X		
Financial Budgeting and Forecasting	X				
Accruals and Other General Entries			X		
Travel, Hospitality and Events				X	
Procurement to Payment (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	
Costing					X