Canadian Space Agency

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

Fiscal year 2017-2018

1. Introduction

This document provides summary information on the measures taken by the Canadian Space Agency (CSA) 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 the Canadian Space Agency Act, its mandate, and program activities can be found in the *Departmental Results Report* and in the *Departmental Plan*.

2. Departmental system of internal control over financial reporting

2.1 Internal control management

The CSA has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control which promotes continuous improvement. The CSA Framework for the internal control management, which indicates the objective, the expected results, the principle and approach as well as the roles and responsibilities in regards to internal controls, was approved by the President.

The CSA internal control management framework includes the following:

→ Organizational accountability structures as they relate to internal control management to support sound financial management, including the roles and responsibilities of senior managers in their areas of responsibility for internal control management;

→ A CSA Value and Ethics Code;

→ On-going communication and training on statutory requirements, policies and procedures in order to ensure sound financial management and reliable controls to manage risks;

→ Monitoring and updating internal controls management which are carried out by communicating the annual internal control plan to senior management and by communicating the evaluations results and action plans to the Directors General responsible for the process targeted by the tests and to the Chief Financial Officer. Furthermore, the evaluation results and action plans are communicated twice a year to the Audit Committee.

The CSA established an Audit Committee (AC) in 2010. The AC is composed of the CSA President and three external members, one of whom chairs the Committee. In addition, the Vice-President, the Chief Financial Officer and the Chief Audit and Evaluation Executive attend all meetings. The AC provides advice to the President on the adequacy and functioning of the Agency's risk management, control and governance frameworks and processes. It examines among other things, CSA's internal control system, in particular by reviewing evaluations results and action plans related to ICFR system as well as by reviewing financial reports. In 2017-2018, the AC had four meetings and participated in three teleconferences.

2.2 Service arrangements relevant to financial statements

The CSA relies on other organizations for the processing of certain transactions that are recorded in its financial statements:

Common Arrangements:

→ Public Services and Procurement Canada (PSPC) 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 CSA the necessary information to calculate various accruals and allowances, such as the accrued severance liability;

→ The Department of Justice provides legal services to the CSA;

→ Shared Services Canada (SSC) provides IT infrastructure services to the CSA in the areas of data centers and networks.

Specific Arrangements:

→ The department of Agriculture and Agri-Food provides the CSA with a SAP financial system platform to capture and report all financial transactions.

→ The department of Transport Canada provides support services for the human resources management system at the CSA.

3. Departmental assessment results for fiscal year 2017-2018

3.1 New or significantly amended key controls

In the current year, no new process has been developed and no key controls in existing processes were significantly amended that would have required a reassessment of design and operating effectiveness tests.

3.2 On-going monitoring program

In 2017-2018, the CSA performed, in accordance with the on-going monitoring plan, the reevaluation of key controls under the following processes: budgeting, forecast performance, payroll, as well as general IT controls.

The key financial controls evaluated for the above processes, were found to be operating effectively to prevent any significant misstatement to the Financial Statements. There were no control weaknesses identified with a high risk impact. As for noted findings, corrective measures have already been or will be implemented in 2018-2019 to rectify them.

The CSA identified the following improvements to strengthen its control environment.

Budgeting

→ Involve a second person in the financial data validating process in order to minimize the possibility of errors in the Annual Reference Level Update (ARLU) exercise as well as in the financial monthly review.

Corrective measures are being developed in this control sector.

Payroll

→ Provide a complete audit trail to demonstrate that transactions generated by the payroll system have been verified and use the same signature as the one on the delegated financial authority specimen of signature.

→ Raise awareness of responsible employees on the importance of validating the delegations required to process the payroll transactions.

→ Recover a low value overpayment and correct an insufficient payment of low value for the bilingual bonus of employees that are no longer public servants.

Corrective measures are being developed in this control sector.

4. Canadian Space Agency's Action Plan

4.1 Progress during fiscal year 2017-2018

The CSA has maintained the on-going monitoring for the ICFR system according to the previous fiscal year's plan. The activities carried out by CSA according to this plan are summarized below:

Elements in previous year's action plan identified for 2017-2018		
Key Control Areas	**On-going monitoring**	**Progress Status**
ENTITY LEVEL CONTROLS		
Budgeting	X	On-going monitoring testing w as conducted and w eaknesses have been identified. Corrective measures are still being developped.
Forecast performance	X	On-going monitoring testing w as conducted. No w eaknesses w ere found.
GENERAL IT CONTROLS		
General IT Controls	X	On-going monitoring testing w as conducted. No w eaknesses w ere found.
PROCESS LEVEL CONTROLS		
Payroll	X	On-going monitoring testing w as conducted and w eaknesses have been identified. Corrective measures are still being developped.

In addition to conducting on-going monitoring activities, we analyzed and submitted quarterly, to the Office of the Comptroller General, outstanding overpayments and underpayments resulting from the implementation of Phoenix. Furthermore, we raised problem cases to the CSA Compensation Group for their analysis and correction.

4.2 Action plan for the next fiscal year and subsequent years

The three year cycle plan for on-going monitoring focusing on the CSA's risks is presented in the following table. It is established annually following the validation of our risks, the results of tests and the audit plan.

Risk-based rotational ongoing monitoring plan [1]				
Key Control Areas	**2018-2019**	**2019-2020**	**2020-2021**	**2021 and up**
ENTITY LEVEL CONTROLS				
Organizational Risk Management		X		
Mandatory Training		X		
Performance Appraisal			X	
Delegation Instrument and Assignment of Delegated Authority			X	
Budgeting		X		
Forecast performance				X
GENERAL IT CONTROLS				
General IT Controls	X	X	X	X
PROCESS LEVEL CONTROLS				
Payroll [2]	X	X	X	X
Operating Expenditures - Travel and Hospitality			X	
Operating Expenditures - Procurement to payment	X			
Write-Off and Disposal	X			
Work in Progress - Capital Assets				X
Transfer Payments			X	
Month / Year-End procedures and Financial Reports				X

(1) The frequency of the on-going monitoring of key control areas is based on risks and may occur over a multi-year cycle.

(2) Several procedures related to Payroll will be evaluated on a multi-year cycle.

In addition to the rotational ongoing monitoring plan, the CSA will track improvements based on the findings listed in section 3 Departmental assessment results for fiscal year 2017-2018.

The CSA will also continue to review the payroll process in accordance with the Guideline on Financial Management and Pay Administration published on October 18, 2017 and will continue to analyze problems related to the Phoenix system for the Agency's employees payroll. We will also analyze and prepare a management action plan to implement the Office of the Auditor General recommendations on pay management following their 2017 audit of the consolidated financial statements of the Government of Canada.

During the year 2018-2019, we will also conduct the design and the operational effectiveness testing for two new processes: Costing and Chief Financial Officer Attestation.