

# Canadian Space Agency

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

Fiscal year 2018-2019

### 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 its program activities can be found in the [Departmental Plan](#) and in the [Departmental Results Report](#).

### 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 promoting continuous improvement. The CSA Framework for internal control management, which details the objective, the expected results, the principle, the approach as well as the roles and responsibilities in regards to internal controls, was approved by the President.

The CSA Framework for internal control management 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 Values and Ethics Code;
- On-going communication and training on statutory requirements, policies and procedures ensuring sound financial management and reliable controls to manage risks;
- The monitoring and updating of internal control management carried out through the communication of the annual internal control plan to senior management and through the communication of the evaluations results and action plans to the Directors General that are responsible for the processes targeted by the tests as well as to the Chief Financial Officer. Furthermore, the evaluation results and action plans are transmitted 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 relevance and performance of the Agency's frameworks and processes for risk management, control and governance. It examines among other things, CSA's internal control system, notably by reviewing evaluations results and action plans related to internal controls as well as by reviewing financial reports. In 2018-2019, the AC met three times, participated in five teleconferences and one e-mail consultation.

## **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;
- The 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 support services for the SAP financial system.
- The department of Transport Canada provides support services for the human resources management system at the CSA.

### **3. Departmental assessment results for fiscal year 2018-2019**

#### **3.1 New or significantly amended key controls**

Throughout the fiscal year, two new financial management processes have been developed and tested, namely the Chief Financial Officer attestation and the Costing. The key financial controls evaluated in the tests on design and operational effectiveness were found to be operating effectively to support decision making.

Although no high-risk control weakness was observed, the CSA has identified possible improvements to strengthen the control environment and corrective measures have already been or will be implemented in 2019-2020 to rectify the situation as follows:

##### **Chief Financial Officer (CFO) attestation**

- Keep, for future reference, the financial information available to the CFO during the due diligence exercise.

A corrective measure has been implemented.

##### **Costing**

- Develop a tool to effectively record and communicate to the CFO the relevant financial information and assumptions in support of decision-making.

An improvement is being developed in this area of control.

#### **3.2 On-going monitoring program**

In 2018-2019, the CSA performed, in accordance with the on-going monitoring plan, the reevaluation of key controls under the following processes: Write-Off and Disposal, Operating expenditures (Procurement to payment), Payroll as well as general IT controls.

The key financial controls evaluated for the above mentioned processes were found to be operating effectively to prevent any significant misstatement to the Financial Statements.

Although no high-risk control weakness was observed, the CSA has identified erroneous transactions that led to the proposal of improvements in order to strengthen the control environment. Corrective measures have already been or will be implemented in 2019-2020 to rectify the situation as follows:

##### **Operating expenditures (Procurement to payment)**

- Amend the proactive disclosure procedure to include the validation and verification of published data.
- Maintain complete documentation in the contracting file.
- Provide a complete audit trail as proof of account verification.

Corrective measures have been implemented

### **Write-Off and Disposal**

- Validate and verify required delegations for treatment of material disposals.
- Increase the use of financial system data to control assets according to disposed material information.

Corrective measures have been implemented.

### **Payroll**

- Verify pay action requests to confirm compensation eligibility. Also verify transactions generated by the payroll system to ensure payment accuracy.
- Add a control to the overtime request process to validate the employee's employment status. Communicate to the relevant employees and managers overtime compensation rules for part time employees.

Corrective measures are being developed in this control sector.

#### 4. Canadian Space Agency's Action Plan

##### 4.1 Progress during fiscal year 2018-2019

The CSA has maintained the on-going monitoring of its internal control system according to the previous fiscal year's plan. The activities carried out by CSA in accordance to this plan are summarized below:

| Elements in previous year's action plan identified for 2018-2019 |                     |  |
|--|---------------------|--|
| Key Control Areas  | On-going monitoring | Progress Status  |
| <b>CONTROLS OVER FINANCIAL REPORTING</b>                         |                     |  |
| <b>GENERAL IT CONTROLS</b>                                       |                     |  |
| General IT Controls  | X                   | On-going monitoring testing was conducted. No weaknesses were found.   |
| <b>PROCESS LEVEL CONTROLS</b>                                    |                     |  |
| Payroll  | X                   | On-going monitoring testing was conducted and weaknesses have been identified. Corrective measures are still being developed.            |
| Operating Expenditures - Procurement to payment                  | X                   | On-going monitoring testing was conducted and weaknesses have been identified. Corrective measures have been implemented.                |
| Write-Off and Disposal   | X                   | On-going monitoring testing was conducted and weaknesses have been identified. Corrective measures have been implemented.                |
| <b>CONTROLS OVER FINANCIAL MANAGEMENT</b>                        |                     |  |
| Chief Financial Officer attestation                              |                     | Design and Operational effectiveness tests were conducted and a weakness has been identified. A corrective measure has been implemented. |
| Costing  |                     | Design and Operational effectiveness tests were conducted and a weakness has been identified. An improvement is still being developed.   |

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've mentioned problem cases to the CSA Compensation Group for their analysis and correction.

We also analyzed and prepared an action plan to management to ensure that CSA implements the Office of the Auditor General recommendations on pay management, following their 2017 audit of the consolidated financial statements of the Government of Canada.

## 4.2 Action plan for the next fiscal year and subsequent years

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

| <b>Risk-based rotational ongoing monitoring plan <sup>(1)</sup></b> |                  |                  |                  |                    |
|---|------------------|------------------|------------------|--------------------|
| <b>Key Control Areas</b>  | <b>2019-2020</b> | <b>2020-2021</b> | <b>2021-2022</b> | <b>2022 and up</b> |
| <b>CONTROLS OVER FINANCIAL REPORTING</b>                            |                  |                  |                  |                    |
| <b>ENTITY LEVEL CONTROLS</b>  |                  |                  |                  |                    |
| Organizational Risk Management                                      | X                |                  |                  |                    |
| Mandatory Training  | X                |                  |                  |                    |
| Performance Appraisal   |                  | X                |                  |                    |
| Delegation Instrument and Assignment of Delegated Authority         |                  | X                |                  |                    |
| <b>GENERAL IT CONTROLS</b>  |                  |                  |                  |                    |
| General IT Controls   | X                | X                | X                | X                  |
| <b>PROCESS LEVEL CONTROLS</b>                                       |                  |                  |                  |                    |
| Payroll <sup>(2)</sup>  | X                | X                | X                | X                  |
| Operating Expenditures - Travel and Hospitality                     |                  | X                |                  |                    |
| Operating Expenditures - Procurement to payment                     |                  |                  |                  | X                  |
| Write-Off and Disposal  |                  |                  |                  | X                  |
| Work in Progress, Project investment - Capital Assets               |                  |                  |                  | X                  |
| Transfer Payments   |                  |                  |                  | X                  |
| Month / Year-End procedures and Financial Reports                   |                  |                  | X                |                    |
| <b>CONTROLS OVER FINANCIAL MANAGEMENT</b>                           |                  |                  |                  |                    |
| Chief Financial Officer attestation                                 |                  |                  |                  | X                  |
| Budgeting & Forecast performance                                    |                  |                  | X                |                    |
| Costing   |                  |                  | X                |                    |
| Investment planning   | 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 included in the internal control system, the CSA will track improvements based on the findings listed in section 3 Departmental assessment results for fiscal year 2018-2019.

The CSA will also continue to analyze problems related to the Phoenix system for the Agency's employees' payroll.